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The Battle for Reparative Claims in Copyright Law

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In its recent decision (4A_145/2024), the Swiss Federal Supreme Court has upheld the decision of the Commercial Court of Aargau in the "Fire Ring" case, which concerned claims for financial compensation in connection with previously established copyright infringements. The Federal Supreme Court confirmed that the assertion of reparative claims for copyright infringement was subject to strict requirements.

Background

The case concerns a sculptor and metal artist who designs and markets grills called "Fire Ring". The defendants create and sell similar products under the name "Grill Rings". After sending several cease and desist letters alleging intellectual property infringement, the plaintiff filed a lawsuit in March 2019, accusing the defendants of copyright infringement and demanding substantial compensation. In a partial decision issued in August 2021, the Commercial Court of Aargau acknowledged copyright protection of the "Fire Ring" and found that some of the defendants' products infringed the plaintiff's copyright – a ruling that was later confirmed by the Federal Supreme Court (BGE 148 III 305, see Swiss IP News No. 16).

Following this decision, the lower court resumed proceedings to address the financial compensation claims. Although the plaintiff's total claim was set at CHF 377,354, in January 2024 the lower court ordered the defendants to pay only CHF 50,581. This lower amount was based on a claim of unjust enrichment (Article 62 Swiss Code of Obligations, **CO**), while the plaintiff's claims for additional remedies under unauthorised agency (Article 423 CO) and tort law (Article 41 CO) were rejected due to the difficulty of proving bad faith or fault in copyright infringement cases.

To arrive at the CHF 50,581 figure, the lower court used a "licence analogy" approach. This method estimates what a fair licence fee would have been by applying a 10% rate (for luxury products) to the defendants' average net revenue per unit (approximately CHF 3,084) multiplied by the 164 units sold. The calculation thus disregarded the plaintiff's potentially higher sales of its original products.

The plaintiff appealed to the Federal Supreme Court, challenging both the dismissal of its claims for unauthorised agency and tort and the allegedly inadequate calculation of the hypothetical royalty.

Decision

The Federal Supreme Court (the **Court**) reviewed the following three main aspects:

The Court first looked at the **claim for disgorgement of profits under unauthorised agency** (Article 423 CO). It emphasised that, unlike patents or trademarks, copyrights are not registered in a public database, which makes it difficult to know whether a work is protected and to what extent. This is all the more true for works of applied art such as the "Fire Ring". Therefore, the Court explained that a cease and desist letter did not automatically imply that the

defendants were acting in bad faith. Consequently, the Court held that the lower court correctly rejected the claim for disgorgement of profits under unauthorised agency.

Next, the Court addressed the **claim for damages under tort law** (Article 41 CO). Here, fault is determined by whether the infringer was aware (or should have been aware) of the infringement, similar to the bad faith requirement. As the Court found no evidence of bad faith, it also concluded that there was no fault under tort law, also confirming the lower court's ruling.

Finally, the Court reviewed the **claim of unjust enrichment** (Article 62 CO), which dœs not require any element of bad faith or fault. In intellectual property cases, this claim is limited to compensating for the unauthorised use of the work – typically calculated as a reasonable licence fee. The Court has broad discretion to estimate this fee based on customary rates or what reasonable parties might have agreed. In this case, the evidence was insufficient to prove a higher rate, so using a 10% rate was deemed acceptable. Based on the defendants' average net revenue and the number of units sold, the lower court's calculation of CHF 50,581 was upheld.

Comments

This decision illustrates that securing financial compensation is particularly difficult when copyright protection and its scope is ambiguous – a common situation for works of applied art. Claims based on unauthorised agency or tort typically fall by the wayside due to the requirement of fault or bad faith, provided that the view that the original is not protected or that the scope of protection is not infringed is reasonable. As a result, the plaintiff is left with a claim of unjust enrichment that essentially mirrors what a valid licence would have yielded. This approach does not take into account the considerable effort and expense that the copyright owner often incurs in pursuing an infringer, or the possibility that the copyright owner may never have granted a licence in the first place.

This case illustrates the importance of obtaining an injunction as early as possible in copyright disputes, given the inherent challenges in enforcing reparative claims.