



Study Question

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Quantification of monetary relief

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I. Current law and practice

Please answer all questions in Part I on the basis of your Group's current law.

1 What rules and methods are applied when quantifying actual loss?

In particular, please describe:

- the method used to determine the diversion of sales, i.e. the part of the infringing sales that the rightholder would have made but for infringement;
- what level of profit margin is taken into account.

Damages are to put the injured party into the position they would have been in if no wrong had been done; i.e. they are compensatory. The injured party can recover loss that is foreseeable and caused by the wrong. That is, essentially the injured party's lost income less expenses saved.

In the simplest case, the foreseeable loss of the injured party is the sales lost to the infringer. However, often it is not the case that a sale made by the infringer is a sale lost to the plaintiff, and a more complex assessment may be required. For example, because of the unique nature of the New Zealand pharmaceutical market, a component of the loss of a patentee on the entry of a generic manufacturer to the market may be a permanent depression of the price at which the pharmaceutical product is reimbursed. In a trade mark or passing off case, there may be damage to reputation, or to the distinctiveness of the mark/get up.

The injured party will have to prove its actual loss with evidence. Sometimes expert accounting evidence will be needed. Information on sales etc of the infringer can be obtained via the discovery process.

2 What rules and methods are applied when quantifying a reasonable royalty?

In particular, please describe:

- the royalty base;
- how relevant comparables among licence agreements are defined;
- how a reasonable royalty is quantified in the absence of relevant comparables;
- the nature of the royalty, e.g. lump-sum, percentage of revenues or profit, a mix?

Different types of royalties are possible in the commercial setting, such as:

- an up-front licence fee
- ongoing lump sum licence fee payments
- rolling royalties.

A court may decide that one or more of these is reasonable in a particular case.

To determine what the royalty rate should be, the court may rely on evidence from the parties of what is a reasonable royalty rate in the relevant industry (the 'comparable market approach'). However, it can be difficult to find current, reliable data for deals and technologies that are truly comparable. Failing that, the rate may be determined using an alternative royalty valuation methodology.

A common royalty valuation methodology is the 'income approach'. This is where the royalty is calculated as a share of the profit the licensee will receive as a result of taking the licence and selling the licensed products.

Again, the parties will have to lead evidence to allow the court to determine reasonable royalty rate.

3 What rules and methods are applied when quantifying the infringer's profits, as part of quantifying damages?

In particular, please describe:

- a) the method to determine the profits resulting from the infringement, i.e. resulting from the use of the IP right;
- b) what level of profit margin of the infringer should be taken into consideration.

A plaintiff must elect either damages or an account of profits as a remedy. It is not possible to claim both.

An account of profits is an equitable remedy. Its purpose is to prevent unjust enrichment by stripping the infringer of profits obtained through infringement. The defendant is treated as if it made profits on behalf of the plaintiff.

The profit assessed is the gross profit with reductions for overhead attributable to the wrongdoing activity.

A party guilty of infringing an intellectual property right is only accountable for the profits which are attributable to that infringement. The court may order an apportionment of the profit to be accounted for, where the product/process at issue comprises both infringing and non-infringing parts.

As with damages, the parties must lead evidence to establish the basis for determining profits.

4.a What rules and methods are applied, both when quantifying actual loss and quantifying a reasonable royalty in relation to conveyed goods.

Patent cases have held that the foreseeable loss of a patentee is not only lost sales of the patented item but also lost sales of conveyed goods and lost profits on closely related things, like spare parts and servicing.

The same principle would conceivably also apply in industrial copyright and product passing off cases.

4.b What rules and methods are applied, both when quantifying actual loss and quantifying a reasonable royalty where the infringing product forms part of a larger assembly.

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4.c What rules and methods are applied, both when quantifying actual loss and quantifying a reasonable royalty where the IP rights found infringed are routinely licensed together with other IP rights as a portfolio?

Patent cases have held that the foreseeable loss of a patentee is not only lost sales of the patented item but also lost sales of conveyed goods and lost profits on closely related things, like spare parts and servicing.

The same principle would conceivably also apply in industrial copyright and product passing off cases.

4.d What rules and methods are applied, both when quantifying actual loss and quantifying a reasonable royalty when the damage suffered by the rightholder is related to competing goods which do not implement the infringed IP rights?

Patent cases have held that the foreseeable loss of a patentee is not only lost sales of the patented item but also lost sales of conveyed goods and lost profits on closely related things, like spare parts and servicing.

The same principle would conceivably also apply in industrial copyright and product passing off cases.

5 Are any of the rules and methods addressed in your answers to 1) to 4) above different when considering the damage suffered by the rightholder or by its licensee?

The rules and methodologies will not be different, but different factors will obviously feed into the consideration of actual loss in each case.

6.a What kinds and types of evidence are accepted for proving the quantum of actual loss.

Expert independent evidence is common in quantum cases. Expert accounting evidence on past licensing practices is accepted. Expert evidence on other matters such as analysis of parties' financial records and royalty valuation methodology would also be accepted. The parties will also typically provide direct evidence of their own financial records in terms of sales and profits.

6.b What kinds and types of evidence are accepted for proving the quantum of reasonable royalties.

Expert independent evidence is common in quantum cases. Expert accounting evidence on past licensing practices is accepted. Expert evidence on other matters such as analysis of parties' financial records and royalty valuation methodology would also be accepted. The parties will also typically provide direct evidence of their own financial records in terms of sales and profits.

6 For example, is expert accounting evidence on past licensing practices accepted?

Expert independent evidence is common in quantum cases. Expert accounting evidence on past licensing practices is accepted. Expert evidence on other matters such as analysis of parties' financial records and royalty valuation methodology would also be accepted. The parties will also typically provide direct evidence of their own financial records in terms of sales and profits.

7 What mechanisms (e.g. discovery) are available to the rightholder to assist with proving the quantum of actual loss or reasonable royalties?

Discovery would be the most common mechanism to obtain documents relevant to assessing quantum.

Another mechanism is interrogatories, which is a formal questioning process. Answers to the questions can be used as evidence at trial.

8 How, if at all, does the quantification of damages for indirect/contributory infringement differ from the quantification of damages for direct infringement?

The rules and methodologies are the same but, as with question 5) above, the factual considerations will be different.

9 Are forward-looking damages (e.g. damage in relation to an irreversible loss of market share) available

a) if an injunction has also been granted

Please explain your answer

The granting of an injunction does not prevent the award of damages to compensate for future loss. For example, damages of this kind may be awarded in case where a generic pharmaceutical that has entered the New Zealand market is found to infringe a patent. If the entrance of the generic pharmaceutical has permanently depressed the reimbursement price, that will be part of the quantification of the patentee's actual loss. The court will also make orders to prevent further infringing conduct.

10 Is the bad faith of the infringer taken into account in the assessment of the damage?

Yes

If so, how is bad faith defined and is it possible to infringe a patent in good faith?

Although the primary purpose of damages is to compensate, a court may award additional, punitive, damages where the infringement has been flagrant or the infringer's conduct particularly egregious.

A patent can be infringed in 'good faith', such as where there has been innocent infringement, or where the infringer considers there is no infringement/the patent is invalid.

11 How do courts take into account the damage suffered between the date of the infringing acts and the date of the award of damages?

In patent cases damages date from publication of the patent. In the case of other IPRs damages can only date from when the infringement began. If the infringement has continued during the course of the proceeding, the court will consider the whole period of the infringement when assessing damages.

Damages cannot be recovered against a defendant who proves that at the date of the infringement they were not aware and had no reasonable ground for supposing that the patent existed (Innocent infringement).

II. Policy considerations and proposals for improvements of your Group's current law

12 Are there aspects of these laws that could be improved?

3.a If the Court determines a reasonable royalty by reference to a hypothetical negotiation, should the Court's assessment of the hypothetical negotiation be under an assumption that all the IP rights in suit are valid and infringed?

3.b If the Court determines a reasonable royalty by reference to a hypothetical negotiation, should the Court first be required to find that all the IP rights in suit are valid and infringed?

14 If the Court does not determine a reasonable royalty by reference to a hypothetical negotiation, what factors and what evidence should be relevant in that determination?

15 Should the quantification of damages depend on whether injunctive relief is granted, e.g. should forward-looking damages for a loss of market share be available if an injunction is also being granted or only if an injunction is not granted?

III. Proposals for harmonisation

16 Is harmonisation of the quantification of damages desirable?
If yes, please respond to the following questions without regard to your Group's current law. Even if no, please address the following questions to the extent your Group considers your Group's current law could be improved.

Yes

Please Explain

New Zealand does not have a large body of case law on quantification of damages in IP cases. Our courts will tend to refer to and be guided by the principles in United Kingdom case law, as New Zealand's IP legislation is modelled largely on that of the United Kingdom. This results in a degree of de facto harmonisation, which is not undesirable.

17 Please propose the principles your Group considers should be applied when quantifying actual loss

18 Please propose the principles your Group considers should be applied when quantifying reasonable royalties

8.a Explaining in particular the relevance, if any, of a hypothetical negotiation and whether the hypothetical negotiation should be under the assumption that the IP rights being negotiated were or were not found valid and infringed;

8.b Explaining in particular the relevance, if any, of prior licensing practices or prior going rates for licensing the IP rights in suit

8.c Explaining in particular the relevance, if any, of prior licensing practices or prior going rates for licensing other IP rights of third parties that may or may not be similar to the IP rights in suit

9.a Please propose, in relation to actual loss and reasonable royalties how conveyed goods should be dealt with

9.b Please propose, in relation to actual loss and reasonable royalties how competing goods of the rightholder, not making use of the patent, should be dealt with

9.c Please propose, in relation to actual loss and reasonable royalties how damages should be determined when the infringing product forms part of a larger assembly

20 Please propose principles your Group considers should be applied when quantifying the damages for indirect/contributory infringement in circumstances where there is no direct infringement of the IP rights in suit.

21 Please comment on any additional issues concerning any aspect of quantification of damages you consider relevant to this Study Question.

Please indicate which industry sector views are included in part "III. Proposals of harmonization" on this form:

Please enter the name of your nominee for Study Committee representative for this Question (see Rule 12.8, Regulations of AIPPI). Study Committee leadership is chosen from amongst the nominated Study Committee representatives. Thus, persons not nominated as a Study Committee representative cannot be in the Study Committee leadership.

Not applicable