



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:

- a) 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;**
- b) what level of profit margin is taken into account.**

Damages for intellectual property ("IP") infringement (which are generally treated as statutory torts) are generally intended to be compensatory in nature to put the rightholder in the position which the rightholder would have been in had the infringement not been committed. Damages are recoverable if the loss is proven, the loss is caused by the infringement, the loss is foreseeable (not too remote) and the recovery of the loss is not excluded by public or social policy. The rightholder (plaintiff) bears the burden of proving the loss and the causal link between the loss and the infringement.

There are only a few reported decisions on the assessment (quantification) of damages in Singapore. Most lawsuits, including those for IP infringement are bifurcated, with the court determining issues of liability only after trial and the assessment of damages is undertaken in separate proceedings subsequent to the trial and court's decision on liability. Most litigants will attempt to reach an agreement on the quantum of damages to avoid the need for proceedings for an assessment of damages, if possible.

a) Where the effect of the infringement has been to divert sales from the rightholder to the infringer (defendant), the measure of damages will typically be the profit that the rightholder would have made if the sales had been made by him, or put another way, the loss of profits arising from the infringement.

There are no fixed methods used to determine this measure of damages because the methods adopted in determining the quantum of loss of profits depends ultimately on the specific facts of each case. The court will be guided by the overarching principle that whilst damages would be liberally assessed against the wrongdoer, the object is to compensate the plaintiff and not to punish the defendant. In terms of determining the quantum for diversion of sales, it is the net profit that will be awarded, in other words the revenue/sales less costs and expenses, rather than the revenue/sales *per se*.

The following methods have been adopted in reported cases to determine the quantum of damages for loss of profits:

1. Determining the net profit (sale price minus cost) that the rightholder would have made in relation to the number of infringing articles sold by the defendant (copyright infringement of software and manuals).

2. Loss of expected profit - computation of the difference between the rightholder's expected growth of business and actual growth of business during the period of infringement (trade mark infringement, passing off and copyright infringement through the website of the infringer, parties are in business of cord blood banking) by:

- Deriving the plaintiff's signups from customers for the equivalent period preceding the period of infringement (September 2012 to January 2013) as a percentage of the total number of childbirths for 2013 (Percentage X)
- Using Percentage X to determine the plaintiff's expected signup for the period of infringement based on the total number of childbirths for 2014 (the court made the generous assumption that the plaintiff would have retained the same market share) (Expected Signups Y).
- Determining the difference between Expected Signups Y and the actual number of signups (Difference in Signups Z)
- Applying Difference in Signups Z by the plaintiff's average contract price and profit margin, pro-rated to the percentage of potential Internet-based customers diverted by the infringing website, to determine amount of plaintiff's loss of expected profit caused by the diversion of Internet-based customers through the infringement.

(Note that eventually the plaintiff was only awarded nominal damages of S\$1,000 for the trade mark infringement and passing off, instead of the plaintiff's loss of expected profit after applying the calculation in item 4 because the plaintiff failed to prove the causal link between the loss of expected profit and the infringements.)

3. Determining the loss of profits using the licence agreement entered into between the 2 defendants (on the assumption that the revenue stream under the licence agreement could have been that of the rightholder's but for one of the defendant's offering of the infringing process to the other defendant) less the rightholder's potential costs and expenses (the court used the defendant's costs and expenses to measure the rightholder's costs and expenses since the rightholder lacked a physical presence in Singapore which made it difficult to assess its operating costs).

As can be seen from the above examples of methods that have been employed, the actual methodology used to determine the loss in profits is, to a large extent, dependent on the specific facts of the case and what the court considers to be an appropriate method to reach an objective assessment.

b) There is no fixed/set level of profit margin which is taken into account when computing damages. It would all depend on the evidence that is adduced by the litigants to demonstrate the appropriate profit margin that the court should take into account. This may be based on the litigants' profit margin or profit margins that are reflective of or in line with established or normal practices of the relevant industry.

2

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

In particular, please describe:

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

a) There are no set rules or methods for quantifying a reasonable royalty and much turns on the facts of the case and what evidence the rightholder is able to adduce to support a finding of a reasonable royalty.

Where a rightholder usually derives remuneration by licensing others to use their intellectual property rights, the royalty rate for the purpose of assessing damages would likely be based on the royalty rates that the rightholder has charged in other existing licences where the circumstances are the same or at least comparable with the situation in which the rightholder and the infringer are assumed to strike a bargain.

In situations where the rightholder cannot provide any evidence to show a normal or established licence fee or royalty rate, the rightholder would typically have to adduce evidence, in the form of an expert opinion or practice in the relevant industry or trade, to support a finding of a reasonable rate.

A reasonable royalty may also be determined by a hypothetical royalty that would have been negotiated by the rightholder and the infringer had they been willing parties to a licence agreement prior to the infringing acts was adopted.

In one reported decision (concerning copyright infringement of a website), the court regarded the availability of non-infringing alternatives as a

relevant factor in the calculation of a reasonable licence fee.

b) No definition for relevant comparables among license agreements have been discussed or offered in reported decisions in Singapore. The courts would be prepared to take into account comparable contracts at the material time of the infringement negotiated in similar situations. The courts have indicated that the rightholder must show that the circumstances surrounding the entering into of the license agreements, are comparable.

c) In the absence of relevant comparables, a reasonable royalty may be quantified through expert evidence or evidence as to practice in the relevant industry or trade as to what would be a reasonable royalty rate.

In one reported decision (concerning copyright infringement of a website), the court regarded the availability of non-infringing alternatives as a relevant factor in the calculation of a reasonable licence fee.

The Singapore courts have otherwise not identified a clear set of relevant criteria for determining a reasonable royalty. However, some of the factors which may be relevant (although these factors have not yet to be considered in detail by the Singapore courts) are:

- The royalties received by the rightholder for the licensing of the intellectual property right in suit.
- The commercial relationship between the licensor and licensee (e.g. whether they are competitors).
- The established profitability of the product and its commercial success.
- The opinion of qualified experts.
- The amount a willing licensor and a willing licensee would have agreed upon at the time of the infringement.

d) There is no fixed rule as to the nature of the royalty. This would depend on evidence of the nature of the royalty charged by the rightholder in other existing licences, or the established or normal practices of how royalty fees are structured by the rightholder or generally across the industry.

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.**

Unlike a case where the rightholder has elected for an account of profits in lieu of damages hence necessitating a quantification of the infringer's profits, there may or may not be a need to quantify the infringer's profit as part of the assessment of damages to the rightholder depending on the methodology adopted by the court in a particular case. As can be seen in the illustrative methods outlined in the response to Question 1a), the court does not always take into account the infringer's profits as part of quantifying damages.

Assuming the method adopted by the court in a particular case to assess damages involves the quantification of the infringer's profits, this is usually derived from evidence adduced in the course of proceedings to demonstrate (i) the infringer's profits, the prices charged by the infringer for the infringing product offering and the infringer's costs and expenses; and (ii) that the profits were as a result of the infringement (and not some other factor).

The profit margin of the infringer would be determined through evidence and the profit margin as determined through the evidence would generally be used unless there are some unique circumstances of the case that court considers it appropriate to apply a different profit margin in the assessment exercise.

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

There do not appear to be any reported decisions in Singapore where the courts considered the assessment of damages for IP infringements in relation to conveyed goods. However, in a case involving conveyed goods, the normal considerations of causation and remoteness will apply in the court's assessment of damages in quantifying actual loss and a reasonable royalty. The plaintiff must prove a causal link between the infringement and the damages (whether it is measured by loss of profit or reasonable royalties) and in the mind of the purchaser between his purchase of the infringing product and his purchase of one or more other specific products. The causal link will typically be established if the sale of the infringing product has also caused the sale of those other products (e.g. the products are typically sold as a package). If causation is proved, losses related to the sales of conveyed goods will be expected to satisfy the requirements of the law on remoteness

generally, following which the plaintiff will be granted damages for loss of sales of such goods.

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.

There do not appear to be any reported decisions in Singapore where the courts considered the assessment of damages for IP infringements where the facts involved infringing products forming part of a larger assembly. However, in such a case, the normal considerations of causation and remoteness will apply in the court's assessment of damages in quantifying actual loss and a reasonable royalty. The plaintiff must prove a causal link between the infringement and the damages (whether it is measured by loss of profit or reasonable royalties). If causation is proved, losses must be proven to satisfy the requirements of the law on remoteness generally.

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?

There do not appear to be any reported decisions in Singapore where the courts considered the assessment of damages for IP infringements where the IP rights found infringed were routinely licensed together with other IP rights as a portfolio. However, in such a case, the normal considerations of causation and remoteness will apply in the court's assessment of damages in quantifying actual loss and a reasonable royalty. The plaintiff must prove a causal link between the infringement and the damages (whether it is measured by loss of profit or reasonable royalties). If causation is proved, losses must be proven to satisfy the requirements of the law on remoteness generally. The courts have the flexibility to adopt methods which they consider appropriate to reach an objective assessment that satisfies the aforementioned criteria.

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?

There do not appear to be any reported decisions in Singapore where the courts considered the assessment of damages for IP infringements where the damage suffered by the rightholder is related to competing goods which do not implement the infringed IP rights. However, in such a case, the court will only award damages if the plaintiff proves a causal link between the infringement and the damages (whether it is measured by loss of profit or reasonable royalties). If causation is proved, losses must be proven to satisfy the requirements of the law on remoteness generally.

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?

No. As explained in the responses to Questions 1) to 4) above, the object of damages for IP infringements are compensatory and to put the rightholder or its licensee in the position it would have been in had the wrong not been committed. The same principles apply regardless of whether the court is assessing the damages suffered by the rightholder or its licensee. Further, as explained in the answers above, there are no fixed formulae or methods for assessing (quantifying) damages, whether it is the damage suffered by the rightholder or by its licensee.

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

- Documents to prove the volume of sales such as invoices and sale summaries.
- Documents to prove costs and operating expenses.

- Opinions or reports by experts who are well-versed with the rightholder's industry.

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

- Comparable licence agreements.
- General or hypothetical evidence in the form of expert opinion or practice in the trade.

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

Expert accounting evidence on past licensing practices would be accepted.

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

The rightholder may file interlocutory applications for discovery of documents which are in the possession, custody or power of the infringer such as sales records, business plans, records of costs and expenses, licences, etc, which may assist in the quantification of actual loss or reasonable royalties.

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

There is no distinction made between the quantification of damages for indirect/contributory infringement and the quantification of damages for direct infringement in terms of the applicable principles for assessing (quantifying) damages. Ultimately, what is crucial is that the plaintiff must be able to prove the causal link between the infringements whether direct or indirect and the losses suffered.

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 remedies of injunction and damages are not mutually exclusive. In the case of infringement of IP rights, it is not uncommon for rightholders to be awarded both injunction and damages. Forward-looking damages are available so long as the rightholder proves the loss, and the causal link between the loss and the infringement is established and the loss is foreseeable and not too remote.

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

No

Please Explain

Bad faith of the infringer may be taken into account in the assessment of additional damages (which are awarded at the court's discretion) *only* in the case of copyright infringement. Section 119(4) of the Copyright Act provides that in an action where copyright infringement is established, the court may award additional damages as it considers appropriate in the circumstances having regard to the flagrancy of the infringement (Section 119(4)(b)(i)), any benefit shown to have accrued to the defendant by reason of the infringement (Section 119(4)(b)(ii)) and all other relevant matters (Section 119(4)(b)(iii)). Section 119(4) thus allows the court to take into account the bad faith of the infringer (as part of all other relevant matters under Section 119(4)(b)(iii)) and the flagrancy of the infringement in exercising its discretion to award additional damages in assessing damages.

There are no equivalent provisions in the Patents Act, Registered Designs Act and the Trade Marks Act that provide for the court to have discretion to award additional damages for bad faith or exemplary damages and the better view would be that the courts will not take into account bad faith in assessing damages and will not award exemplary or punitive damages.

Section 69(1) of the Patents Act and div 39(1) of the Registered Designs Act respectively provide that damages shall not be awarded (and no order shall be made for an account of profits) against a defendant who proves that at the date of infringement, he was not aware and had no reasonable grounds for supposing that the patent or design existed or registered. Hence damages caused by innocent infringement of patent or registered design rights are not recoverable, but the infringer is only entitled to remedies for infringing acts from the date the defendant became aware or had reasonable grounds for supposing that the patent or registered design existed. A person will be taken to have been aware or have reasonable grounds for supposing that the patent or registered design existed if the application of the number of the patent or registered design accompanied by the words "patent" or "patented". It is however important to note that innocent infringement of patents and registered designs only affects the relief awardable, and does not operate to negate a finding of infringement. As such, it is possible to infringe a patent or a registered design in good faith.

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?

The court will only award damages for losses caused by the infringement. If during the period from the date of (commencement of) the infringing acts to the date of the award of the damages, the defendant has continued to infringe the intellectual property, damages may be sought for this entire period. However, the court will not award any compensation to the rightholder solely by reason of the time taken for the rightholder to be awarded damages.

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

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

The generally accepted measures of damages for IP infringements are:

1. Loss of profits for the rightholder
2. The royalties that the infringer would have paid to the rightholder
3. Where it is not possible to prove either that there is a normal rate of profit or a normal royalty, the price that could reasonably have been charged by the rightholder for permission to carry out the infringing acts.

While these measures of damages generally work well in putting the rightholder back in the position it would have been in had the wrong not been committed in situations where (i) the rightholder and the infringer are competitors and sales by one will very likely result in loss of sales for the other; and (ii) where the rightholder licenses the intellectual property rights to others in the course of business, these measures of damages may not be effective in properly compensating the rightholder where the rightholder has not exercised any of the exclusive rights conferred by the IP right whether himself or through licensing. These measures of damages may also not be effective depending on the nature of the IP right involved. For instance, the measure of damages based on royalties or a reasonable price for permission to carry out the infringing acts may not always be suitable for an infringement of a service mark where no goods are manufactured or sold and the trade mark owner would not have licensed the service mark to the infringer in the ordinary course of business. The application of these measures may lead to an over or under compensation to the rightholder and can also increase the uncertainty as to the awards of damages (uncertainty is one reason why some litigants attempt to reach an agreement over damages as opposed to proceeding straight for assessment of damages proceedings).

At the same time, it is also acknowledged that the methods of assessing damages are not fixed and hence, the court has flexibility to adopt

methodologies that it considers to be appropriate in the context of the specific facts of the case in reaching a fair and equitable award. This may assist to negate some of the challenges in applying the measures of damages in quantifying the damages.

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?

No

Please Explain

The Court should first reach a finding on the validity of the IP rights in the suit and infringement before determining a reasonable royalty by reference to a hypothetical negotiation. In the ordinary course of litigation, the court will make its findings on validity of the IP rights in the suit (if contested) and on infringement before it will go on to consider remedies and a reasonable royalty for the purposes of considering the remedies.

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?

Yes

Please Explain

In the ordinary course of litigation, the court will make its findings on validity of the IP rights in the suit (if contested) and on infringement before it will go on to consider remedies and a reasonable royalty for the purposes of considering the remedies. This should be maintained.

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?

Reference to a hypothetical negotiation is one of the means by which Singapore courts may determine a reasonable royalty rate.

Other factors that may be relevant in determining a reasonable royalty can include:

- Rates paid by licensees for use of other comparable IP rights to the IP right in question in the suit
- The commercial relationship between the licensor and licensee, including whether they are competitors
- The effect of sales of the product covered by the IP right in promoting sales of other products of the licensee or the existing value of the IP right to the licensor as a generator of sales of other items and the extent of such derivative or convoyed sales
- The established profitability of the product covered by the IP right, its commercial success and its popularity at the material time of the infringement
- The portion of the profit or of the selling price that is customary in the relevant business in comparable businesses to allow for use of the IP right or analogous IP right.

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?

From a rightholder's perspective, the quantification of damages should not depend on whether injunctive relief is granted. It is noted that there are views that injunctive relief, particularly in the context of patent infringements in certain industries, can have an adverse impact on the promotion of innovation and a competitive economy and in some cases, other remedies ought to be awarded in lieu of injunctive relief or

without injunctive relief.

In our view, the quantification of damages should not depend on whether injunctive relief is granted since the injunction is intended to protect the scope of exclusive rights conferred by the IP right while damages are intended to compensate the rightholder and put the rightholder in the position it would have been in had the wrong not been committed.

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.*

No

Please Explain

Although the harmonisation of the quantification of damages will provide certainty/assurance to rightholders in terms of having consistent outcomes across different jurisdictions, the view is that harmonisation is not desirable. The harmonisation of the quantification of damages may remove some of the flexibility that courts currently employ in determining the appropriate methodologies for assessing damages. Further, the heads of damage are not closed so long as the rightholder is able to establish, with evidence and to the satisfaction of the court, the type of loss suffered and that it was caused by the infringement, that it was not remote and there is no policy against such recovery. The harmonisation of the quantification of damages may potentially curtail some of the flexibility that the court may employ in assessing damages.

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

Principles that should be applied when quantifying actual loss are:

- Actual loss should be quantified based on objective economic considerations supported by evidence.
- The actual loss should be demonstrated to be caused by the infringement, as opposed as other factors such as market competition.
- The loss suffered that was occasioned by the infringement should be foreseeable and not too remote.

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

Principles that should be applied when quantifying reasonable royalties are:

- Reasonable royalties should be quantified based on objective economic considerations supported by evidence.
- The loss in terms of reasonable royalties should be demonstrated to be caused by the infringement, as opposed as other factors such as market competition.
- The loss suffered that was occasioned by the infringement should be foreseeable and not too remote.

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;

The hypothetical negotiation should be a relevant consideration in the quantification of reasonable royalties. The hypothetical negotiation should be on the basis that the IP rights are 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

Prior licensing practices and prior going rates for licensing the IP rights in suit, supported by evidence of such licensing practices, should be a relevant consideration for the quantification of reasonable royalties.

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

Where evidence of prior licensing practices and prior going rates for licensing the IP rights in suit are not available, it should be relevant to take into consideration evidence of prior licensing practices or prior going rates for licensing similar IP rights of third parties. It should not be relevant to consider prior licensing practices of dissimilar IP rights since there would not be any objective basis for comparing between the licensing practices of 2 dissimilar IP rights and reaching a reasonable royalty for what the rightholder would have charged the infringer for a licence. Further, expert opinion or evidence on what would be a reasonable royalty based on industry practice and trends should be a relevant consideration and if such evidence is available, may be viewed as an alternative or preferable basis to determining a reasonable royalty compared to using evidence of prior licensing practices or prior going rates for licensing similar IP rights of third parties.

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

The assessment of actual loss and reasonable royalties for the sale of conveyed goods should be determined in accordance with the same principles as discussed under the responses to the questions in Part I above, namely, the rightholder would have to prove a causal link between the infringement and the loss, the loss was foreseeable and not too remote and not precluded by any policy considerations. Damages should be awarded (whether in terms of loss of profits/sales or reasonable royalties) for conveyed goods where the rightholder would have sold the other products together with the good relating to the infringed IP right, it is industry practice for goods to be sold together as a package or it is common for consumers to buy the goods together as a package, or the component or part of the good that infringes the IP right is an essential and/or important component of the good.

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

Competing goods of the rightholder that do not make use of the patent should not be taken into account unless there is a clear causal link that is demonstrated between the loss relating to competing goods of the rightholder and the acts of infringement and such losses are foreseeable and not too remote.

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

Where the infringing product forms part of a larger assembly, damages should be determined with reference to the proportion of profit or sales

that would be credited to the use of the infringed IP right in comparison with the rest of the 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.

The assessment of damages for indirect/contributory infringement should be determined in accordance with the same principles as discussed under the responses to the questions in Part I above, namely, the rightholder would have to prove a causal link between the infringement and the damages sought for the loss, the loss was foreseeable and not too remote and not precluded by any policy considerations.

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

N.A.

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.