



## 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.**

The general rule is that the claimant is to be restored by monetary compensation to the position he would have been but for the defendant's infringement, provided that the loss was (i) foreseeable, (ii) caused by the wrong, and (iii) not excluded from recovery by public or social policy. The objective is to compensate the claimant for the loss, not to punish the defendant. In some special cases, damages will not be available where the defendant's infringement was innocent.

Regard also has to be had to the Intellectual Property (Enforcement, etc.) Regulations 2006 (which implement the IP Enforcement Directive. Regulation 3(1) (which reflects Article 13(1) of the Directive) provides that, for a knowing infringement, the damages awarded shall be appropriate to the actual prejudice he suffered as a result of the infringement. Regulation 3(2)(a) explains that all appropriate aspects shall be taken into account, including in particular: (i) the negative economic consequences, including any lost profits, which the claimant has suffered, and any unfair profits made by the defendant, and (ii) elements other than economic factors, including the moral prejudice caused to the claimant by the infringement.

1. In cases where the claimant and defendant are in competition with one another, making and selling competing products, the damages will include profits which the claimant can show that it has lost by reason of the wrong which has been committed. Thus:
  - (a) The claimant will normally receive lost profits on sales by the defendant to the extent that he can show that he would have made more sales if the defendant had not infringed.
  - (b) Damages may also be awarded to compensate for the reduction in the claimant's prices which had been made to counter the defendant's competition, and for continuing reduced sales and price depression for a period

after the infringement had been brought to an end by injunction.

(c) In relation to infringing sales where the claimant cannot show that the defendant's sale has caused him to lose the profit on a corresponding sale, the claimant may nevertheless recover a reasonable royalty.

1. Where the claimant exploits the IP right by licensing, he can recover the royalty that he would have charged the infringer, had he acted lawfully by seeking and obtaining a licence.
2. Where the claimant does not exploit the IP right either by manufacturing or by licensing, he can still recover damages by way of a licence royalty, although the amount would have to be worked out differently from that available to the claimant who is in the business of licensing.

In determining profit margin, revenue per product and the costs of sales are to be taken into account. Such costs may include material cost, freight and duty, marketing and development costs, warehouse and distribution costs, selling and admin expense, etc.

If there is any on-going disruption which has been caused by the infringement, then an additional sum can be also awarded. This is calculated by attributing a portion of lost business to this disruption for a limited time (as some lost business may have been caused by other factors, such as a general market decline).

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 reasonable royalty will be the basis for quantifying damages where either the intellectual property holder would have licensed the intellectual property in return for a royalty, or would not have been exploiting the intellectual property itself. Insofar as the infringer made sales than the intellectual property holder would not have made, a reasonable royalty will be recoverable for those sales. This approach was initially laid down for patents, but has been confirmed for copyright and trade marks.

The reasonable royalty is determined by reference to the outcome of a 'hypothetical negotiation', i.e. the sum that would have been determined by negotiation between the parties, provided that each party had made "reasonable use of their respective bargaining positions, bearing in mind the information available to the parties and the commercial context at the time that the notional negotiation should have taken place."

The hypothetical negotiation is deemed to have taken place on the date of the breach. Where a course of conduct over a period of time is the relevant breach, the relevant date will be the first date of such breach. However, negotiating damages are considered to be "quasi-equitable" and therefore where a judge considers there to be "good reasons" to select a different valuation date, he may do so.

The hypothetical negotiation is deemed to take place between a willing licensor and a willing licensee. Although it is irrelevant that one (or both) parties would not in practice have agreed to make the deal, the willing parties will generally have the attributes of the actual licensor and the actual licensee: "They bargain as they are, with their strengths and weaknesses, in the market as it exists." [1]

The hypothetical licence should accord with reality as far as possible - "The Court is not required to make... false assumptions as to the subject matter of the licence." [2] Thus it must be for the period of infringement, should be exclusive if the infringer enjoyed exclusivity in practice, and should also include the appropriate level of quality control provisions - for example, in the absence of quality control provisions, the royalty rate should increase to compensate the greater risk to the licensor of licensing a trade mark. Furthermore, if a licence in a given field is negotiated for a certain term, the court may award that licence fee, i.e. for the entire term as opposed to the shorter period of use.

#### (a) Royalty base

The royalty base is the number of infringing articles:

*"The court then takes the number of infringing articles, and multiplies that by the sum that would have had to be paid in order to make the manufacture of that article lawful, and that is the measure of the damage that has been done by the infringement. The existence of such a rule shows that the courts consider that every single one of the infringements was a wrong." [3]*

The royalty base will generally be the excess sales the infringer made which the intellectual property holder would not have made, but could be the entirety of the sales if:

- (a) the intellectual property holder is not in the business of selling the product - here there will be no basis for a claim for lost profits (as there will be no lost sales); or

(b) the lost profits are “*too speculative and too open to inaccuracy to provide a useful basis for calculating damages.*”<sup>[4]</sup>

(b) Relevant comparables

The comparison is not to a ‘fair’ rate, but to the rate that would actually have been paid in the hypothetical negotiation.

Where there have been licences arrived at by means of a free bargain between the intellectual property holder and a person desiring to use the product, then this can, *prima facie*, be taken as the price which the infringer should pay.

But care must be taken to ensure that the rate of royalty exacted under other licences is an appropriate comparable:

*“Before a ‘going rate’ of royalty can be taken as the basis on which an infringer should be held liable, it must be shown that the circumstances in which the going rate was paid are the same as or at least comparable with those in which the patentee and the infringer are assumed to strike their bargain.”*<sup>[5]</sup>

Where an existing licence restricts the licensee’s use of a patented article, the royalty paid under that existing licence is not a relevant comparable as it is too low an amount on which to base the damages. Likewise, the comparable rate must be based on the assumption that the patent is valid – a rate negotiated by way of settlement of litigation in which the patent’s validity was in doubt is not a relevant comparable.

(c) Calculating a royalty in the absence of relevant comparables

*“In some cases it is not possible to prove either that there is a normal rate of profit, or that there is a normal, or established, licence royalty. Yet clearly damages must be assessed.”*<sup>[6]</sup>

In such cases, it is for the plaintiff to adduce relevant evidence to guide the court:

*“It is for the plaintiff to adduce evidence which will guide the court. This evidence may consist of the practice, as regards royalty, in the relevant trade or in analogous trades; perhaps of expert opinion expressed in publications or in the witness box; possibly of the profitability of the invention; and of any other factor on which the judge can decide the measure of loss.”*<sup>[7]</sup>

Where comparable licences or other compelling evidence is not available, the royalty may be assessed by the ‘available profits’ method i.e. an assessment of the profits that would be available to the licensee absent a licence, and apportioning them between the licensor and the licensee. The infringer’s profits are calculated and it is then assumed that the parties could have accurately predicted this in advance and had it in mind when negotiating the hypothetical licence.

The split between the licensor and licensee will depend on the industry area. By way of example, in *Gerber Garment*, a patent case which concerns industrial fabric cutting machines, the court apportioned 15% of available profits to the patentee. In *Kohler Mira*, a design rights copyright case concerning shower units, the court settled on a split of 30% to the copyright holder, reflecting the fact that “*the designs for the...showers were something of a breakthrough in the industry and...the hypothetical negotiating parties would have been aware of that.*”

(d) Nature of the royalty

Royalties which have been awarded are a mixture of lump-sums and percentage of revenues. If the comparables approach is taken, the nature of the royalty will likely depend on the nature of the comparables. If the comparable is to a lump-sum, the royalty awarded will likely be a lump-sum, and vice-versa. Where the available profits method is followed, a percentage of revenues is more likely.

**Footnotes**

1. [^](#) *General Tire and Rubber Co v Firestone Tyre and Rubber Co* [1975] 1 WLR 819 (HL)
2. [^](#) *32Red Plc v WHG (International) Ltd & Ors* [2013] EWHC 815 (Ch)
3. [^](#) *Meters Ltd. v. Metropolitan Gas Meters Ltd.* (1911) 28 R.P.C. 157, 164–165
4. [^](#) *Kohler Mira Ltd v Bristan Group Ltd* [2014] EWHC 1931 (IPEC); *Gerber Garment Technology Inc v Lectra Systems Limited* [1997] RPC 443, p.486
5. [^](#) *General Tire and Rubber Co v Firestone Tyre and Rubber Co* [1975] 1 WLR 819 (HL)
6. [^](#) *General Tire and Rubber Co v Firestone Tyre and Rubber Co* [1975] 1 WLR 819 (HL)
7. [^](#) *General Tire and Rubber Co v Firestone Tyre and Rubber Co* [1975] 1 WLR 819 (HL)

- 3** What rules and methods are applied when quantifying the infringer's profits, as part of quantifying damages? In particular, please describe:
- the method to determine the profits resulting from the infringement, i.e. resulting from the use of the IP right;
  - what level of profit margin of the infringer should be taken into consideration.

The infringer's profits are potentially relevant to the calculation of damages in two instances: (i) the "available profits" method of calculating the reasonable royalty; and (ii) unfair profits or additional damages. However, the UK Group notes that the normal position under English law is that the level of an infringer's profit is only relevant to an account of profits, and that this issue is classed as being outside the scope of the Study Question under paragraph 12 of the Study Guidelines. The rest of this answer therefore deals with matters that are rarely considered under damages analyses in English courts (as opposed to account of profits).

Profits are calculated by reference to the total sums received or receivable from sales less costs.

The costs should not include a share of general overheads: in *Gerber Garment*<sup>[1]</sup> the court held that all fixed overheads and research costs should be disregarded and only marginal costs included. Likewise in *Kohler Mira* the court considered that the same approach should apply to the calculation of the infringer's profits for the purposes of reasonable royalty as the Court of Appeal laid out for calculating infringer's profits for the purposes of an account of profits in *Hollister*. It therefore doesn't incorporate selling and administrative expenses unless the defendant can show that the infringing business increased overheads.

Where the infringer sells a product which is made up of both protected parts and non-protected parts (e.g. a machine where only some of the components are infringing), then the profits should be calculated in reference to the complete, assembled product and not just the individual infringing parts.

Where exact figures for costs are unavailable, the infringer's profits may be worked out by reference to other royalties paid out of the same income (if available). Thus, where a record company has paid a royalty to another party (e.g. another copyright holder), the profits on which that royalty have been assessed can be used to calculate the royalty due to the injured party.

#### Unfair Profit

The Intellectual Property (Enforcement, etc.) Regulations 2006, which implement in the UK the EU Enforcement Directive (Directive 2004/48/EC), provides that, for infringements where the defendant knew, or had reasonable grounds to know, that it was infringing, unfair profits made by the defendant should be taken into account when awarding damages.

Unfair profit is not all profit made by the defendant from a knowing infringement:

*"If profits are automatically unfair because they have been derived from acts of knowing infringement, the defendant in such cases will virtually always have the benefit of unfair profits. This would imply that whenever knowledge is established, the claimant is almost bound to be entitled to a bonus on top of damages for loss of profit, the quantum of the bonus increasing presumably in proportion to the profit that the defendant has made – it is not easy to discern what the correct proportion would be. I do not believe that this would be consistent with the overriding aim in art. 13(1) of paying the rightholder damages appropriate to the actual prejudice suffered as a result of the infringement. Neither would it be consistent with the aim of avoiding punitive damages."* <sup>[2]</sup>

Instead, the court will consider that the defendant has made unfair profits and as such will increase the damages otherwise payable where it considers that a claimant will not be adequately compensated by reference to (a) lost profits, moral prejudice and expenses; (b) a reasonably royalty; or (c) an account of profits. This would apply where, for example, an infringer has made no direct financial profit from infringement, but has gained reputation on the back of loss-leader infringements. Such expansion, though not a profit in the usual direct sense, is to be treated as a contingent profit nonetheless.

#### Additional Damages

Under s97(2) of the Copyright, Designs and Patents Act 1988, in respect of breach of copyright only, the court may, having regard to any benefit accruing to the defendant by reason of the infringement, award additional damages as the justice of the case may require. By way of example, such an award was made in *Absolute Lofts*, where the defendant had wrongly passed off the claimant's photographs as being images of loft conversions which the defendant had carried out. The court found that the photographs had made a "more than negligible" contribution to the defendant's profits. Whilst the claimant was not adversely affected, justice required that additional damages were awarded to recognise the benefit which accrued to the defendant as a result of its misrepresentation.

In *Absolute Lofts*, the court held that a claimant can rely either on s97(2) of the Copyright, Designs and Patents Act 1988 or unfair profits (as discussed above), whichever would provide for greater damages. The court considered that "The route to estimating the quantum for additional damages is different [to unfair profits], though similarly inexact" <sup>[3]</sup> and awarded £6,000 in respect of both. Similarly, in *Pendle Metalwares*, the court considered that the defendants' profits, after stripping out the damages they were going to have to pay, were not an 'unfair profit' and did not justify any significant award of additional damages.

#### **Footnotes**

1. [Gerber Garment Technology Inc v Lectra Systems Limited \[1995\] RPC 383, p. 413](#)
2. [Henderson v All Around the World Recordings Ltd \[2014\] EWHC 3087 \(IPEC\) at \[79\]](#) note however, this is only one decision and does not address the degree to which the provision might also refer to an account of profits. We understand that in some other European jurisdictions it has been used to provide legal basis for introducing an account of profits as a remedy where there was not one before.
3. [Absolute Lofts South West London Limited v Artisan Home Improvements Limited, Darren Mark Ludbrook \[2015\] EWHC 2608 \(IPEC\) at \[60\]](#)

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

The approach towards compensation is to restore the wronged party to the position that it would have been had the wrong not occurred and by the application of the general rules and methods for the assessment of damage *i.e.* that a party proving a wrong "... can recover loss that was (i) foreseeable, (ii) **caused by** [our emphasis] the wrong, and (iii) not excluded by public or social policy..." Staughton L.J in Gerber Garment Technology Inc v. Lectra Systems Ltd [1997] R.P.C. 443.

Over and above these principles, there are no categories which automatically limit or prescribe the recovery of damages. The courts will simply apply these same rules for torts to the particular facts of the infringement cases.

In Gerber the Court of Appeal affirmed the decision that a successful claimant in infringement proceedings relating to a patent that covered machines or processes for the automatic cutting of fabric could also recover its loss of profits on the unpatented computer aided design CAD systems. These conveyed or 'fellow traveller' goods are sold commonly either as stand alone products or as a package in order to aid the use of the patented machines. Nevertheless, in order to demonstrate causation, the claimant had to demonstrate more than just that the CAD units tended to be sold alongside the patent machines. Staughton L.J. held that although it is not necessary that the tort be the sole or dominant cause of the loss, "... it is not enough that the loss would not have occurred **but for** [our emphasis] the tort; the tort must (for present purposes at any rate) be, as a matter of common sense, a cause of the loss ...".

Where a claimant has to prove a causal link between an act done by the defendant and the loss allegedly sustained, the court must determine such causation on the balance of probabilities. If on balance the act probably caused the loss, the claimant is entitled to be compensated (subject to foreseeability or social policy) in full for the loss. It is irrelevant whether the court concludes that the balance only just tips in favour of the claimant. The burden to prove this is on the claimant.

**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.

Where the item protected by patents or some other IP right forms part of a larger assembly, the general principles of causation and remoteness will still apply and there still has to be an assessment of the extent to which the protected item drove the sales by the infringer.

This arises most commonly in the context of patents with the statutory law on patents in div 60 (2) of the Patents Act 1977 (as amended) stating that in addition to direct infringement under div 60 (1), "... a person (other than the proprietor of the patent) also infringes a patent for an invention if, while the patent is in force and without the consent of the proprietor, he supplies or offers to supply in the United Kingdom a person other than a licensee or other person entitled to work the invention with any of the means, relating to **an essential element of the invention**, for putting the invention into effect when he knows, or it is obvious to a reasonable person in the circumstances, that those means are suitable for putting, and are intended to put, the invention into effect in the United Kingdom...". Section 60 (2) is qualified by div 60 (3) which reads "... Subdiv (2) above shall not apply to the supply or offer of a staple commercial product unless the supply or the offer is made for the purpose of inducing the person supplied or, as the case may be, the person to whom the offer is made to do an act which constitutes an infringement of the patent by virtue of subdiv (1) above ...". It then becomes a question of fact as to what extent the 'essential element' drives the overall sale. Thus a patent covering a part of a mobile handset would not lead to damages for the entire mobile handset due to a range of other factors driving the purchase. These other factors include both other IP rights (patents, design rights and trade marks) but also the fact that certain users may be tied in to the mobile manufacturer's platform and products. It is therefore highly fact specific.

**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?

In circumstances where the IP rights found to have been infringed are not generally exploited by the manufacturer but are instead routinely licensed together as a portfolio with other IP rights, the court will generally offer compensation on the basis of what royalties are normally sought by the IP owner. Faced with an existing licensing regime, the court has the advantage of direct and analogous evidence to assist it in making an apportionment between the infringed IP right and the other IP rights especially where previous licences by the IP owner already record such an apportionment and royalty rate. However, as Lord Wilberforce held in the House of Lords in *General Tire*, even in this type of scenario, there is no rule of law which prevents the court, even when it has evidence of existing licensing practice, from taking other general considerations into account. "... *The ultimate process is one of judicial estimation of the available indications ...*"

**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?

Where the allegation is that damage has been caused to the sales of other products not covered by the IP rights sold by the IP owner, then the court may refuse damages on the basis that these losses are too remote.

**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?

Save that the factual scenario and actual loss may be different, the legal principles and methods applied when considering the damage suffered are the same whether considering rightholder or licensee. However, English law includes the rule against double recovery which means that a party cannot recover for the same damage from multiple sources. Therefore if a licensee has claimed damage and passed some of this back to the rightholder (through their existing contractual relationship for example), then the claim of the rightholder will be reduced to reflect that they have already received some of the compensation due to them.

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

When proving the quantum of actual loss, the rightholder may submit evidence from its own officers and/or from expert accountants showing for example its market share, profit margin and any reduction in price/margin/sales/market share which are alleged to have been caused by the defendant's actions. This might take the form, for example, of witness statements or financial data.

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

For proving the quantum of reasonable royalties, the court will accept expert accounting evidence on past licensing practices. The rightholder may also disclose previous licences under an appropriate confidentiality regime, for example the rightholder might disclose only redacted copies of the licences, to a limited confidentiality club, on a 'legal eyes only' basis. A defendant is entitled to seek pre-action disclosure of existing licences in order to assess the value of the rightholder's claim.

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

The court will accept a broad range of evidence for proving both the quantum of actual loss and the quantum of reasonable royalties. There is no limit on what evidence could be used and it is assessed on a case by case basis.

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



Discovery (which is called disclosure in the UK) is available to the rightholder to prove the quantum of actual loss or reasonable royalties, although the court will control the scope of the disclosure ordered to ensure this is proportionate in light of the value of the claim and the costs of the exercise.

The rightholder may also seek an order from the court that the defendant provides further evidence relating to its infringing activities, for example by way of witness statements and/or disclosure of audited accounts or reports. The rightholder is entitled to ask for this information before electing for an assessment of damages or an account of profits.

The rightholder may additionally seek an order from the court for further information, such as the names and addresses of the defendants' customers.

## 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 effect on the principles applied. However, the ultimate amount awarded may be different from that of damages assessed for direct infringement. This is because the nature and surrounding facts of the liability are different. In turn, the economic impact of those acts may be different.

For example, in the patent context, a finding that a party is liable as an indirect infringer under 60(2) of the Patents Act means that they are supplying or offering to supply an "essential element of the invention" for putting the invention into effect. They, themselves, are not liable for actually putting the invention into effect which would be an act of direct infringement. In these circumstances, the patentee may not even know how many acts of direct infringement actually occurred. This raises the question of the number of direct infringing acts that may actually occur and whether there is a level under which no indirect infringing act could be held to have taken place (i.e., a *de minimus* threshold). The Court of Appeal in *Grimme Landmaschinenfabrik GmbH & Co KG v Scott* [2010] EWCA Civ 1110 recognized this potential. Although not expressly addressing the point, the Court Appeal seems to indicate that there is no *de minimus* threshold for indirect infringement. At paragraph 76 the Court held:

*"... [T]he extent of [modifying the machine so as to infringe] is a matter which at this stage is premature: it really arises on an inquiry as to damages. For present purposes, we proceed on the basis that [modifying the machine so as to infringe] sometimes happens."*

All that matters for establishing liability is that the defendant "knew that users would intend to make their devices infringing if it suited them and positively encouraged that intention" (see [128] of *Grimme*). The distinction between direct and indirect infringement may arise at a damages inquiry where the nature of the liability will impact the quantum. If a patentee chooses to pursue the defendant for its lost profits for supplying the whole product/process, then the question of the extent of direct infringement may be in issue. If the patentee chooses to pursue the defendant for an account of the defendant's profits, that amount would be limited to the defendant's profits in supplying the "essential element" (and any other profits made by reason of the infringement), as opposed to the whole product or process.

## 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

Forward looking damages are available irrespective of the presence of the injunction. A standard permanent injunction (as opposed to a springboard injunction, see below) is crafted so as to stop ongoing and future acts of infringement (i.e. the sale, copying, making of a product protected by an IP right), but it does not take into account the result of damage already caused by such acts. For this reason, the Courts can award forward-looking damages. Further, the House of Lords have been clear in ensuring that judges are not "tied down" in assessing and awarding damages and have ample discretion to exercise their judgment as best they can "so as to arrive at that which the plaintiff has lost by reason of the defendant's acts".<sup>[1]</sup>

Types of forward-looking damages include the following:

- after-sales (a type of "convoyed goods") which flow from a sale of an infringing product even if those products are themselves not infringing (e.g., upgrades, spare parts, servicing, etc)
- irreversible loss of market or on-going price depression

- so-called “springboard damages” which may be awarded after a patent has expired or after the infringing acts have ceased. This type of damage compensates for the secondary losses of the infringer being able to compete more effectively post-expiry. Such damages must still be shown to have arisen from infringements arising whilst the patent was in force. This is a highly factual exercise and are considered to be difficult not only to prove, but to quantify.

## Footnotes

1. <sup>▲</sup> see *Lord Wilberforce in General Tire & Rubber Co Ltd v Firestone Tyre & Rubber Co Ltd (No.2)* [1976] RPC 197

10

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

No

Please Explain

No – there is no concept of “bad faith”, per se, when assessing damages. Unlike the position in other countries, such as the US, the state of mind of an infringer is generally not taken into account when assessing quantum. There is a general common law principle that a Court may award exemplary damages where a defendant embarks upon infringing acts having calculated that such acts would make a profit that would exceed the compensation that may ultimately be ordered (see the House of Lords case of *Rookes v Barnard* [1964] AC 119). Such conduct is indicative of a cynical disregard of the claimant’s rights. However, such damages are rarely awarded given that it requires a very strong case and specific facts.

The position is different in the cases of copyright and unregistered design infringement where additional damages can be awarded. Additional damages can be awarded to take into account the “flagrancy” of the infringement. “Flagrancy” is not defined in statute but has generally applied where there is evidence of a party knowingly infringing copyright, i.e., an element of premeditation is usually at play. The factors that may be relevant include:

- Deliberate or reckless conduct
- Motivation of the defendant
- Previous dealings between the parties
- The harm caused – purely economic or distress
- The role of legal advice (i.e. was the defendant acting with the benefit of legal advice)

The Courts have noted that there is overlap between these provisions and Article 13(1) of the Enforcement Directive. Recent case law suggests an approach, when presented with these two statutory options, of choosing the provision which provides the larger amount of compensation for the claimant.

Yes – it is possible to infringe a patent in good faith. However, two specific statutory provisions are relevant. First, under s62(1) there is a limit on recovery of damages, though this does not stop there being a finding of liability. This limit applies where at the date of the infringement the infringer was not aware, and had no reasonable grounds for supposing, that the patent existed. Marking something with the word “patent” or “patented”, or any word or words expressing or implying that a patent has been obtained for the product, will not necessarily put an infringer on notice unless the number of the patent accompanied the word or words in question.

Second, in terms of liability, acts that amount to infringement or serious preparations to carry out such acts were done in good faith before the priority date of the invention provides a defendant with a defence to continue or to commence those acts (s64(1) Patents Act 1977). The question of damages will therefore not arise as if one has a defence under this provision one does not infringe anyway.

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 courts of England and Wales compensate for the cost to the claimant of being deprived of money they should have had by awarding interest on the sum of damages for all types of litigation. The period for the interest calculations runs from the date of each infringement up



until the judgment awarding damages and the rate reflects that of borrowing the sum, rather than the interest that could have been gained on it had it been invested.

## 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 UK Group believes that the law in the UK could be improved primarily by providing greater certainty to litigants as to the principles that are to be applied when determining the levels of monetary relief. Further specific improvements are discussed in the remaining answers.

### 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 hypothetical assessment should only take place after liability is established thereby rendering the assumption that the IP rights in suit are valid and infringed unnecessary (see 13(b)). This is important because otherwise the hypothetical exercise, which by its inherent nature is only a very rough estimation, is rendered further inaccurate given that some of the rights in suit may later turn out to be invalid and/or not infringed. For example, where a royalty is assessed as a percentage value of four infringing elements, but only two of those are actually later held to infringe a valid patent, then the assumption that all IP rights in suit are valid and infringed artificially inflates the royalty rate owed to the patentee. This would be an unfair and unjust outcome for the defendant and, arguably, contrary to the Enforcement Directive as it could be construed as punitive damages.

### 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

The normal course is for remedies to be determined following a finding of infringement of a valid patent, and there is no reason for the court to depart from the usual rule in this situation.

In terms of the information available to each party at the time, it may be that the potential licensee had particular doubts and uncertainties about the validity of the IP right, or about infringement, and if this was the case then it could be argued that this is a relevant factor when determining the reasonable use of bargaining position. However, the extent of "doubts" over validity and infringement and how these could translate into bargaining is often subjective and difficult to quantify. It is as such more practical for the court to ignore any such ambiguous caveats. But if the court is required to determine validity and infringement, it can frame the hypothetical negotiation in light of the fact that the IP right *is* valid and infringed. Although it may be said that the hypothetical negotiation would as such be undertaken with the benefit of hindsight, this nonetheless ensures a greater degree of consistency and certainty in determining a reasonable royalty. It may also remove the opportunity for potential licensees to tactically overstate their doubts surrounding the IP right (at the time) in an attempt to argue a lower royalty.

All that being said, if the court is approached to make the determination of applicable licence rates and terms on the basis that both parties are prepared to proceed on the assumption that the IP right is valid and infringed (ie, both parties are agreed that the court need not first decide on validity and infringement), or alternatively such rates where validity and infringement remain undetermined, then the court should be flexible and be allowed to depart from the usual rule.

### 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?

The UK Group believes that damages should be assessed on the basis of lost sales first and only if lost sales cannot be determined should a hypothetical negotiation be considered. The UK Group does not consider that any other method of calculation is appropriate, save that nominal damages should be awarded in truly exceptional circumstances if a hypothetical negotiation is not appropriate.

**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?**

Whilst the availability of one remedy should not depend on the other, it is accepted that, if an injunction is granted, this may in some cases affect the amount of recoverable damages since prospective losses may have been thereby largely eliminated. However, where an injunction is granted but future losses have already been incurred, this should still be compensated for.

### 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

Yes. A coherent framework for assessing damages would significantly simplify procedures for rightsholder and rights users in what is usually an international market. Since damages are intended to compensate for a wrong, there should be a common set of principles that apply and where differences exist, it is worth examining why they arise to drive towards best practice. As most territories have a rule that damages should be compensatory not punitive, there is a systemic risk of undercompensation for rightsholders and harmonisation may help identify and eliminate that risk.

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

The UK Group believes that loss should be quantified as follows:

1. In cases where the claimant and defendant are in competition with one another by awarding the claimant their lost profits on sales the claimant would have made but for the defendant's acts of infringement.
2. That damages may also be awarded to compensate for the reduction in the claimant's prices which had been made to counter the defendant's competition, and for continuing reduced sales and price depression for a period after the infringement had been brought to an end by injunction.
3. That in relation to infringing sales where the claimant cannot show that the defendant's sale has caused him to lose the profit on a corresponding sale, the claimant may nevertheless recover a reasonable royalty.
4. That where a claimant has lost conveyed sales, that these should also be reflected in the compensation of loss calculation to the extent that these lost conveyed sales are directly attributable to the infringing act.

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

When calculating reasonable royalties the UK Group believes that these should be calculated as follows:

1. Where the claimant exploits the IP right by licensing, they should be able to recover the royalty that he would have charged the infringer, had he acted lawfully by seeking and obtaining a licence. This licence should reflect as close as is possible the actual licence that would have been granted. For example, if the defendant had previously entered in 3 consecutive 1 year licences to use a copyright work, if they only infringe it for 3 weeks after the expiry of the licence then the licence imposed should reflect that payment would have been agreed for 1 year. The UK Group believes this is necessary to ensure that defendants cannot intentionally infringe and get pro rata damages for their use when licences are not available for short periods.
2. Where the claimant does not exploit the IP right either by manufacturing or by licensing, he can still recover damages by way of a licence royalty, based on a hypothetical party in the position of the claimant who licences their IP rights.
3. That when working out a royalty rate where there are no prior comparables of the claimant that regard should be made to the licensing practices of competitors or other parties in the same industry or field.
4. That any hypothetical negotiation must be made under the assumption that the rights are valid and infringed (and rates based on any comparable licences not framed under those assumptions should be adjusted upwards accordingly).
5. That the prior licensing practices or rates in other fields may be relevant, but only in cases where the claimant can show that there is good reason for the court to apply such rates. For example, the industries in question are in some way analogous, i.e. they are both in the metal manufacturing sector. The UK Group does not however believe that this would be a common source of comparable licences and would only be available on certain fact patterns.

**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 licence is at the heart of the exercise as explained at 18 above. The assumption is made that the rights in issue are valid and infringed. However, as noted above at 13(a), this assumption not really a true assumption in that at the point of conducting this hypothetical exercise the Court will have already assessed whether and which 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

As noted above at 18 (points 3 and 5), prior licensing practices of the parties, but also of the relevant industry, may be relevant in identifying and analyzing comparable licences to act as a gauge for the hypothetical licence.

**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

See 18 above - points 3 and 5.

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

That where a claimant has lost conveyed sales, that these should also be reflected in the compensation of loss calculation to the extent that these lost conveyed sales are directly attributable to the infringing act.

**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 not making use of the patent should not provide a basis for recovery unless there is a clear and direct link such that they are in effect conveyed goods.

**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 (or part of a product) forms part of a larger assembly, the claimant should only recover for a percentage of the total assembly to reflect the value of the right infringed in driving the sale of that overall assembly (this could amount to only a part of the motivating factor for a purchase or the whole motivating factor for the purchase (see *Fabio Perini v PCMC and LPC* [2012] EWHC 911).

In *Kuwait Airways Corporation v. Iraqi Airways* [2002] 2 AC 883, when addressing the issue of causation, Lord Hoffman sitting in the House of Lords "... There is therefore no uniform causal requirement for liability in tort. Instead, there are varying causal requirements, depending upon the basis and purpose of liability. One cannot separate questions of liability from questions of causation. They are inextricably connected. One is never simply liable; one is always liable for something and the rules which determine what one is liable for are as much part of the substantive law as the rules which determine which acts give rise to liability. It is often said that causation is a question of fact. So it is, but so is the question of liability. Liability involves applying the rules which determine whether an act is tortious to the facts of the case. Likewise, the question of causation is decided by applying the rules which lay down the causal requirements for that form of liability to the facts of the case...".

However, the UK Group wishes to add that by applying artificial constructs as to the recovery of damages which reach beyond the core of an IP right infringement, there is a real risk that claimants will be overly compensated and defendants overly punished. Therefore, whilst the UK Group is in favour of the position being harmonised to say that these types of related damage can be quantified, the UK Group believes that any attempt to enumerate when they will be available would be wrong – as it would not be possible to tie these to the myriad of factual possibilities.

**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.

We do not consider that separate principles should be applied when assessing quantum for indirect/contributory infringement. Although different considerations may be at play when establishing liability, for the purposes of quantum, the Court should apply the standard principles when assessing damage. To do otherwise, could improperly and unfairly import a limitation in the recovery of damages contrary to the Enforcement Directive.

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

The UK Group has addressed all the issues were presently 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.

Jonathan MOSS