

Study Guidelines

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IP damages for acts other than sales

Introduction

- 1) AIPPI issued a Resolution on the Quantification of monetary relief at the Sydney Congress in 2017 (the “Sydney Resolution”). The focus of that resolution was the quantification of damages in a context in which the infringing acts consist of sales of infringing products.
- 2) The following definitions from the Sydney Resolution are adopted for this Study Question:
 - the term **IP rights** includes patents and supplementary protection certificates, petty patents and utility models, trade marks, rights to prevent unfair competition or passing off, copyrights, semiconductor topography rights, database rights and design rights, but excludes trade secrets, rights of confidence and rights in know-how;
 - the term **damages** refers to monetary relief as provided for in relation to IP rights, including but not limited to i) actual loss suffered by the right holder as a result of the infringing activity, e.g. loss of sales or price erosion; ii) the “injury proven” as referred to in paragraph 6(a) of AIPPI’s Resolution on Q134 – “Enforcement of Intellectual Property Rights – TRIPS” (Rio de Janeiro, 1998); and iii) reasonable royalties awarded when actual loss is not proven;
 - the term **IP rights in suit** refers to those IP rights found infringed in respect of which the court will need to quantify damages;
- 3) In the circumstances addressed in the Sydney Resolution, it may in some cases be easier to use the actual sales of the infringer to quantify the volume of lost sales of the right holder, if it is assumed that each sale of the infringer would have been made by the right holder in the absence of infringement, or if a reasonable royalty is levied on the sales of the infringer.
- 4) Whilst the Sydney Resolution set out the general principles that should apply, namely that damages should be recoverable as long as the right holder proves a causal nexus between the infringement and the lost sales, and – as provided in paragraph 1 – that:

Damages should compensate the IP right holder:

- a) *for its lost profits in respect of sales of products or services that the right holder would have made but for the infringement; and/or*
- b) *for its lost profits in respect of price erosion; and/or*
- c) *by a reasonable royalty in respect of infringing sales that are not proved to have been lost sales of the right holder,*

save that the right holder cannot recover twice for the same loss,

it did not address, in detail, the quantification of damages where the infringing acts are *not* actual sales by the infringer. For example, a reasonable royalty assessed on the infringer's sales is not possible to assess if the infringer has not made any sales.

- 5) An example of a non-sales act is the manufacture of a product. Further future dealings in infringing manufactured products may of course be prohibited by an injunction, but in relation to past infringement, there may be a whole series of infringing acts (e.g. manufacture, warehousing, and subsequent sale).

Why AIPPI considers this an important area of study

- 6) Without some degree of harmonisation, the quantification of damages for non-sales infringements is likely to vary across jurisdictions.
- 7) The same chain of infringement can, in some situations, stretch across jurisdictions. For example, an infringing product may be manufactured in jurisdiction A, transported and temporarily warehoused in jurisdictions B and C, and eventually sold in jurisdiction D. Without a uniform approach, there is a higher risk of under- or over-recovery for the right holder.
- 8) Furthermore, a single non-sales infringing act – such as an offer for sale on the internet – could infringe simultaneously in a number of jurisdictions. A non-uniform approach will very probably result in erratic, unpredictable recovery of damages for the right holder and could unfairly prejudice the infringer with multiple damages awards for the same single infringing act.

Relevant treaty provisions

- 9) Relevant treaty provisions were discussed in the context of the Sydney Resolution. In brief, TRIPs makes provision in Article 45 for the basis for assessing damages, but does not specify in detail how damages should be quantified. Similarly, Article 13 of the Enforcement Directive (2004/48/EC) in the EU sets out general principles regarding damages, but does not specify in detail how they should be quantified.

Scope of this Study Question

- 10) This Question addresses quantification of damages for non-sales infringements, including the question of whether the payment of damages for one type of non-sales infringement has the consequence that further dealings in those specific products are not licensed but nonetheless may be possible, e.g. because their circulation is not

restricted by an injunction (the infringing goods have become “franked” when damages have been paid for them¹). This is a distinct issue and not the same as exhaustion or an implied licence in that the right holder has never consented to the circulation of any infringing goods.

- 11) The quantification of damages in relation to infringing services/processes is included within the scope of this question.
- 12) The following issues are not within the scope of this question:
 - a) fair, reasonable and non-discriminatory (FRAND) royalties;
 - b) the assessment of accounts of profit, i.e. the recovery by the right holder of the unlawful profits of the defendant.

Previous work of AIPPI

- 13) The prior work of AIPPI in this area is listed in the Study Guidelines for the Sydney Resolution, and the Sydney Resolution is the latest contribution of AIPPI in this area.

Discussion

- 14) The quantification of damages, when there is an infringing act involving the sale of a product, can often proceed on the basis that the infringing sale(s) give some indication of the volume of trade that has been unlawfully diverted from the right holder to the infringer. Alternatively, reasonable royalties may be determined based on the prices achieved in the unlawful infringing sales.
- 15) Non-sales infringements do not give these data points, because there can be no reliable indication of the eventual volume of infringing sales, or the price levels that might be achieved for those volumes. It may not be possible to estimate how much trade has been diverted from the right holder.
- 16) In *City of Aurora v PS Systems, Inc.*, 720 F. Supp.2d 1243 (2010), the Colorado District Court in the United States analysed mere offers for sale, and concluded that a value could be placed on having the right (under a hypothetical licence) to make offers for sale. The loss to the right holder, from the infringing offer for sale, was the loss of that value.
- 17) Similarly, in *Transocean Offshore Deepwater Drilling, Inc. v Maersk Drilling USA, Inc.*, 699 F.3d 1340 (2012), the US Court of Appeals for the Federal Circuit concluded that damages should be based on a licence with a reasonable royalty that would then allow all types of activity that would in the absence of a licence infringe, including non-sales infringements:

“... the hypothetical negotiation used to calculate a reasonable royalty seeks to determine the terms of the agreement the parties would have reached at the time infringement began. In this case, a reasonable jury could conclude that at the time Maersk first infringed by offering a dual-activity rig for sale, the

¹ See e.g. *Ludlow Music v Robbie Williams*, [2002] EWHC 638 (Ch), Pumfrey J (as he then was).

parties would have negotiated a license granting Maersk the right not only to offer the rig for sale, but also to deliver a rig that uses Transocean's dual-activity technology. Indeed, Transocean's proposed royalty of a \$10-15 million upfront payment and a five percent running royalty assumes that the license grants Maersk "unfettered" future use of the licensed patents."

- 18) This methodology also provides consistent treatment for acts of infringement, if those acts of infringement occur in multiple jurisdictions. Once the initial upfront payment has been made, subsequent dealings do not trigger royalty payments until a sale is made for a particular price (at which point the running royalty can be levied). This helps avoid over-recovery.
- 19) It may be useful to examine the quantification of damages for non-sales infringements using a set of examples that illustrate the issues that arise.

Example 1 – Global offers/advertisements

- 20) If the *only* infringing acts are global offers made on a web site to supply infringing products in any and all jurisdictions, there is no actual infringing sale. In the case of such offers:
 - a) Should those offers, or some proportion of them, be regarded as being equivalent to actual sales, in the absence of evidence from the infringer on their actual sales?
 - b) How can the effect of global offers be measured in relation to a single jurisdiction in which infringement is being alleged?

Example 2 – Manufacturing

- 21) If the infringing activity is manufacturing, should it be assumed that all of the manufactured goods will be sold in the jurisdiction (X) where they were manufactured?
- 22) If it is not assumed that all of the manufactured goods are sold in the jurisdiction (X) they are manufactured in, and some proportion will be exported for sale in jurisdictions Y and Z, should it be assumed that the right holder's loss / a reasonable royalty can be determined on the basis of:
 - Manufacturing in jurisdiction X alone;
 - Sales in jurisdictions Y and Z, and if so, how do two potentially different sale prices in jurisdiction Y and Z affect the calculation; and/or
 - A combination of manufacturing (in X) and sales (in Y and/or Z), and if so, what combination?

Example 3 – Importing and warehousing

- 23) In contrast to manufacturing, where the flow of products is out of a jurisdiction, in the case of importing and warehousing the flow of goods is in the other direction. Thus, one question that arises is whether the goods will stay in the jurisdiction into which they have been imported, or leave (in which case they were "in transit").
- 24) Should the quantification in this situation be based on:

- The likely proportion of products exported?
 - The likely proportion of products exported and then sold?
 - The likely proportion of products not exported sold within the jurisdiction?
 - Other factors?
- 25) It is understood that, in some jurisdictions, the mere importation of a product with no intent to place the product on the market does not amount to an infringing act. This may of course mean that the damages appropriate for mere importation are effectively zero in such jurisdictions, but it is requested that Groups still indicate, when addressing questions on how laws might be harmonised, whether they believe that damages should be payable for mere importation and, if so, how they should be quantified.
- 26) Transit operations by airlines, in particular, may be problematic (see *Smith Kline & French Laboratories Limited v R. D. Harbottle (Mercantile) Limited* [1980] 1 CMLR 277 and *Smithkline Corp v DDSA* [1978] FSR 109). An airline might in theory be liable for importing, warehousing and then exporting (if exporting would infringe) infringing products, without any real ability to limit its liability. This could suggest that it would be useful to permit non-sales acts such as warehousing, or at least the damages for such acts should be zero. But, conversely, non-sales acts by a genuine infringer should probably still be infringing acts for which damages are payable.

Example 4 - Franking

- 27) If damages have been paid in relation to goods that have been manufactured, should the infringer (or the acquirer of the goods) be liable again for damages if those same goods are subsequently sold?
- a) If the answer to this question is no, does that mean that the infringer has a licence to sell the manufactured infringing goods (in other words, are they “franked” once damages have been paid once)?
 - b) If the answer to this question is yes, does that mean that the right holder can recover twice in relation to the same goods?
- 28) The issue of franking is particularly acute if an infringement action covers a large number of past infringements which resulted in products being sold on third parties. At that stage it will be too late on injunct further dealings in those products and prevent them from falling into the hands of third parties.
- 29) Looking at the issue from the perspective of the ultimate recipient of the goods, on one view third parties who have innocently acquired infringing products believing them to be non-infringing may be permitted to continue using them. However, it may be equally logical to conclude that third parties acquiring goods need to ensure that all necessary licences are in place.
- 30) Article 45 of TRIPs (which is not about franking, as such) suggests that there should at least be an argument available to third parties that they do not possess the requisite knowledge for liability for damages to arise:

“The judicial authorities shall have the authority to order the infringer to pay the right holder damages adequate to compensate for the injury the right

*holder has suffered because of an infringement of that person's intellectual property right **by an infringer who knowingly, or with reasonable grounds to know, engaged in infringing activity.***" (emphasis added)

- 31) Practically it may be very difficult for a third party to show that it did not have the requisite knowledge and this may place a burden on the right holder to take active measures to advertise its authorised licensees. However, if Article 45 of TRIPs provides sufficient protection for innocent third parties, there is a less persuasive case for introducing a separate "franking" rule.

You are invited to submit a Report addressing the questions below. Please refer to the 'Protocol for the preparation of Reports'.

Questions

I. Current law and practice

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

- 1) What non-sales infringing acts, i.e. infringing acts which do not involve sales, are recognised in your jurisdiction?
- 2) Please explain how damages are quantified, under the laws of your Group, in relation to infringing acts which do not involve sales of infringing products.

(If the laws of your Group provided for different quantification of damages for different IP rights, please explain how damages are quantified for each type of IP right.)

- 3) Please explain what approach your current law takes in relation to "franking": if damages are paid in relation one infringing act (e.g. manufacturing) for specific infringing goods, can those goods then be circulated freely subsequently, or does their subsequent circulation amount to a fresh infringement in relation to which an injunction or damages may be available?

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

- 4) Are there aspects of your Group's current law or practice relating to the quantification of damages for non-sales infringements that could be improved? If YES, please explain.
- 5) What policy should be adopted generally in relation to non-sales infringements? Should:
 - a) Only damages be available for past non-sales infringements?
 - b) Only an injunction be available to restrain future non-sales infringements?

- c) Both damages and an injunction should be available.
- 6) What policy, in relation to franking, would best promote a uniform recovery of damages in relation to infringements in a number of jurisdictions in relation to the same goods?
- 7) Are there any other policy considerations and/or proposals for improvement to your Group's current law falling within the scope of this Study Question?

III. Proposals for harmonisation

Please consult with relevant in-house / industry members of your Group in responding to Part III.

For the purposes of this section III, please assume that the following acts are infringing acts, even if they are not infringing acts under the current laws of your Group:

- (a) Manufacturing;*
- (b) Selling;*
- (c) Offering whether for sale otherwise;*
- (d) Importing; and*
- (e) Keeping and warehousing.*

- 8) Do you believe that there should be harmonisation in relation to damages for non-sales IP infringement?

If YES, please respond to the following questions without regard to your Group's current law or practice.

Even if NO, please address the following questions to the extent your Group considers your Group's current law or practice could be improved.

- 9) **Manufacturing of patented products:** How should damages be quantified in relation to the manufacturing of infringing products?
- 10) Should the subsequent export and sale of manufactured infringing goods change the quantification of damages?
- 11) **Importing and warehousing of patented products:** How should damages be quantified in relation to importing and keeping or warehousing?
- 12) **Series of infringements in relation to patented products:** In the situation where there is a series of infringing acts, such as manufacturing, followed by warehousing, followed by a sale, should damages be quantified, for each individual infringing product:
 - a) On the basis of a sale alone, if that infringing product was eventually sold?
 - b) On the basis of each infringing act in the chain?
 - c) If the infringing product was never sold?

- d) On some other basis?
- 13) **Services/operating patented processes:** please explain how damages should be quantified in relation to infringements that consist of carrying out infringing processes. e.g. a patented manufacturing process?
- 14) Please explain how damages should be quantified for subsequent post-manufacturing activities in relation to the products of a patented process, e.g. the offering for sale of a product made using a patented process?
- 15) **Simultaneous single infringing acts:** In the situation where there is a single act, such as an offer for sale on the internet, which amounts to an infringing act simultaneously in a number of jurisdictions, how should damages be quantified in each of those jurisdictions? For example, one single offer to sell products is made on the internet and that single offer is considered to infringe by the courts of two jurisdictions A and B. If court A awards damages for that single act which compensate for the loss suffered by the right holder, should court B also award damages and how should those damages be quantified so as to eliminate or reduce double recovery?
- 16) **Franking:** If damages have been paid in relation to goods that have been manufactured but the further circulation of those goods has not been restricted by injunction, should the infringer (or the acquirer of the goods) be liable again for damages if those same goods are subsequently sold?
- a) If the answer to this question is no, does that mean that the infringer has a *de facto* licence to sell the manufactured infringing goods?
- b) If the answer to this question is yes, does that mean that the right holder can recover twice in relation to the same goods?
- 17) Please comment on any additional issues concerning any aspect of quantification you consider relevant to this Study Question.
- 18) Please indicate which industry sector views provided by in-house counsel are included in your Group's answers to Part III.