

## Study Guidelines

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### 2021 – Study Question

#### Reasonable awareness in compensation for infringement of IP rights

##### Introduction

- 1) This Study Question concerns the role of reasonable awareness in compensation for the infringement of IP rights.
- 2) The knowledge of the infringer is relevant to damages, under Article 45 of TRIPs:
  - (1) *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.*
  - (2) *The judicial authorities shall also have the authority to order the infringer to pay the right holder expenses, which may include appropriate attorney's fees. In appropriate cases, Members may authorize the judicial authorities to order recovery of profits and/or payment of pre-established damages even where the infringer did not knowingly, or with reasonable grounds to know, engage in infringing activity.*
- 3) The purpose of this Study Question is to explore the effect of the knowledge and awareness of the infringer on the recoverable damages.

##### Why AIPPI considers this an important area of study

- 4) The transposition of Article 45(1) into national laws has varied from jurisdiction to jurisdiction, leading to a number of very different approaches.

- 5) For example, damages for patent infringement in the US can increase (beyond the loss suffered by the right holder) depending on whether it is found that the infringement was “willful.”
- 6) Under German law, the question of ‘fault’ is relevant to assessing whether or not damages should be assessed on the basis of unjust enrichment, or on a different basis.
- 7) In contrast, UK law generally takes the general approach that infringement is a strict liability tort and knowledge is not relevant to damages, except in very specific circumstances. An example of a specific circumstance, in relation to patent infringement, is that damages shall not be awarded, and no order shall be made for an account of profits, against a defendant or defender who proves that at the date of the infringement he was not aware, and had no reasonable grounds for supposing, that the patent existed. The scope of this ‘innocent infringement’ defence is very restricted.
- 8) These different approaches suggest that there is relatively little consistency and legal certainty, for both the right holder and a potential infringer. The same factual conduct, e.g. the global launch of a specific product across a number of jurisdictions, can lead to varying outcomes and different levels of damages in different jurisdictions. This makes it more difficult, at the stage of planning product launches and similar activities, to pro-actively take steps to reduce the risk of exposure to damages awards. For example, producing an opinion in the US to seek to protect against wilful infringement/triple damages may result in enhanced liability for damages in another country, because specific knowledge was acquired prior to product launch.
- 9) It would be of assistance, and would promote legal and business certainty, if a set of common principles could be defined so as to harmonise and improve the varying approaches adopted.

### **Previous work of AIPPI**

- 10) AIPPI has examined the quantification of damages on a general level, for example in its Resolutions on Q258 – “Quantification of monetary relief” (Sydney, 2017) and Q270 – “IP damages for acts other than sales” (London, 2019).
- 11) In addition, AIPPI has commented on the level of damages that may be appropriate in specific situations, for example:
  - a. Paragraph 6(b) of AIPPI’s Resolution on Q134 – “Enforcement of intellectual property rights – TRIPS” (Rio de Janeiro, 1998) provides

that: *“In the case of negligent, knowledgeable or wilful infringement, no distinction should be made in the relief available to the plaintiff.*

- b. *In case of innocent infringement the plaintiff shall be entitled at least to a reasonable royalty.*
  - c. *Punitive damages are not desirable”*
  - d. The Resolution on Q186 – "Punitive damages as a contentious issue of IPRs" (Berlin, 2005) provides that where there is no practical deterrent, “enhanced damages in civil cases may be justified”.
- 12) In particular Resolutions Q134 and Q186 reinforce the point that punitive damages are not generally appropriate and enhanced damages (such as triple damages for wilful infringement) are only justified where the deterrent effect to prevent future infringement can only be achieved with damages, and not, for example, with an injunction to prevent future infringement. This is consistent with the general objective of Article 45(1) TRIPs to compensate for the injury suffered rather than aiming to deter the same infringer or others from infringing by imposing a penalty.
- 13) AIPPI has not, however, conducted a detailed examination of the effect of knowledge on the recovery of damages, in particular whether damages should be reduced (or increased) under Article 45(2) TRIPs depending on the level of knowledge.

### **Scope of this Study Question**

- 14) This Study Question will focus on the following sub-topics:
- a. whether damages to compensate the right holder should only be awarded where the infringer has the level of knowledge specified in Article 45(1) TRIPs, or whether damages can also be awarded if the infringer did not have the level of knowledge specified in Article 45(1) TRIPs. In other words, does Article 45(1) mandate a level of knowledge before damages can be recovered at all, or is Article 45(1) permissive and does it also permit recovery inter alia in circumstances when the required level of knowledge is not present.
  - b. whether damages should be reduced (or increased) under Article 45(2) TRIPs depending on the level of knowledge?
  - c. whether higher damages above those necessary to compensate the right holder can be justified by the level of knowledge of the infringer,

and if so, in what circumstances? In particular, in what circumstances would punitive damages be justified, and what role does knowledge play in assessing whether punitive damages are appropriate?

- d. whether the infringer's ability to understand (and have knowledge of) the existence and scope of the IP right in a relevant language should affect the level of damages?
- 15) This Study Question does not address criminal law, the role of knowledge in compensation calculated by reference to the unlawful profits of the infringer, or the reimbursement of costs of litigation. It also does not address specific methods for the quantification of monetary relief, as such, because this was covered by the Sydney and London resolutions on damages.

## **Discussion**

- 16) The general approach adopted in TRIPs is that damages should be adequate to compensate for the injury the right holder has suffered when the infringer has the required level of knowledge. This does not appear to contemplate punitive damages, which aim to punish the infringer by over-compensating the right holder, and thus deter future infringement. As an exception, and when the infringer infringed unwittingly or otherwise without the requisite knowledge, TRIPs allows the recovery of "pre-established" damages (or infringer's profits; excluded from the scope of this Study Question), which could perhaps include fixed statutory damages which do not relate to the loss suffered by the right holder. Whilst the language of Article 45(1) does not expressly contemplate punitive damages, it does not appear to expressly exclude them either and awarding punitive damages might still comply with the general objectives of Article 45(1) TRIPs.
- 17) The knowledge required under TRIPs Article 45(1) can be satisfied by subjective knowledge (the actual knowledge that the infringer subjectively has), or by objective knowledge (when there were reasonable grounds for the infringer to possess actual knowledge). Objective knowledge may be established, for example, in relation to existence of the IP right in question if the IP right is registered and there is the possibility for any person to inspect the register. Objective knowledge might also be established in relation to the existence of the IP right if there is legal presumption that persons launching new products onto the market should conduct freedom to operate searches. Subjective knowledge of the existence of the IP right could be established, for example, if a cease and desist letter brought the existence of the IP right in question to the attention of the infringer.

- 18) Subjective knowledge is, however, very fact sensitive and complex issues can emerge. For example, it is not clear that subjective knowledge of infringement is established – even after a cease and desist letter bringing the IP right in question to the attention of the infringer – if the infringer’s product contains third-party components the precise function of which is not known. Electronic products in particular can include microchips and other components, the function of which is not known to the infringer and will *never* become known to the infringer in the ordinary course of trading. In these circumstances the infringer never had an opportunity to make a decision to avoid infringement.
- 19) The picture is further complicated by the fact that in the US (and perhaps other jurisdictions) it may be relevant, when assessing whether the infringer has infringed willfully, to consider whether the infringer knew of the possible patent infringement and obtained legal advice prior to the litigation indicating that there would be no infringement. The infringer’s knowledge of the legal advice in this case is subjective knowledge of an opinion and not actual knowledge of actual facts – it is, essentially, a belief or an opinion. From the point of view of a right holder (and also the defendant accused of infringement), an element of uncertainty is introduced if the recovery of enhanced damages is dependent on the infringer’s state of mind and their beliefs/opinions.
- 20) Putting aside wilful infringement for the moment, the application of the knowledge requirement in Articles 45(1) and 45(2) of TRIPs appears potentially complex and problematic from a practical perspective. In addition, fundamental questions arise, such as whether the requirement for knowledge in Article 45(1) is an essential requirement without which damages cannot be awarded at all, and whether damages higher or lower than damages “adequate to compensate” under Article 45(2) can be awarded.
- 21) The drafting history of Article 45<sup>1</sup> sheds some light on the knowledge requirement, but relatively little light on how knowledge affects the availability (or non-availability) of punitive damages:
- a. The draft of 23 July 1990<sup>2</sup> referred to “[adequate] [full] compensation” being awarded in relation to “[deliberate or negligent]” infringement, and under the equivalent of Article 45(2), recovery of profits and pre-established damages where the infringement was not intentional or negligent.

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<sup>1</sup> Information on the drafting history of Article 45 was received with gratitude from Daniel Gervais, Milton R. Underwood Chair in Law at Vanderbilt Law School (and author of *The TRIPs Agreement: Drafting History and Analysis* 4<sup>th</sup> ed, Sweet and Maxwell).

<sup>2</sup> W/76.

- b. The draft of 1 October 1990 referred to damages “adequate to compensate” in relation to infringement to “[intentional or negligent]” infringement.

22) Article 45 of the 1990 draft final treaty contained the following provisions:

*“1. 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 his intellectual property right by an infringer who knew or had reasonable grounds to know that he was engaged in infringing activity.*

*2. The judicial authorities shall also have the authority to order the infringer to pay the right holder expenses, which may include appropriate attorney’s fees. In appropriate cases, PARTIES may authorise the judicial authorities to order recovery of profits and/or payment of pre-established damages even where the infringer did not know or had no reasonable grounds to know that he was engaged in infringing activity.”*

23) These drafts appear to have included Article 45(2), or an equivalent of it, as an alternative to Article 45(1), and appear to contemplate Article 45(1) as the main provision for damages with Article 45(2) applying mainly when the infringer lacks the necessary subjective or objective knowledge. It seems clear, from the drafting history, that there was a distinct shift away from negligence and intention, towards a general requirement based on subjective or objective knowledge.

24) The complexity of these provisions can present problems for right holders as well as for infringers. For right holders, Article 45(2) could have the effect of reducing recoverable damages below the loss they have suffered and below the Article 45(1) “adequate to compensate” level. This would obviously mean that those right holders cannot recover all of the loss that they have suffered, and if such a reduction is made because of a factor outside the control of the right holder – such as the knowledge of the defendant – then an element of uncertainty/uncontrollability is introduced. That element of uncertainty could result in enforcement litigation becoming uneconomic and the value of the IP right to the right holder (in terms of allowing compensation for infringement) would ultimately be reduced. For example, if the infringer lacks the necessary knowledge for Article 45(1) to apply, and yet his efforts to infringe are economically unsuccessful, recovering the infringer’s profits under Article 45(2) could leave the right holder unable to recover the losses he himself has suffered, merely because the infringer did not have the requisite knowledge.

- 25) For infringers, the possibility in certain countries of being ordered to pay statutory damages (i.e. consisting of a fixed amount stipulated in the statute<sup>3</sup>) for a large number of infringements may mean that the resulting damages award is big enough to be punitive, and may result in over-compensation for the right holder.
- 26) These examples suggest that the approach of not taking knowledge into account, but simply awarding damages sufficient to compensate the right holder for his loss, has the benefit of being simpler to administer and possibly fairer to the right holder if variability resulting from the knowledge of the infringer is taken out of the equation.
- 27) If an objective of damages is to discourage or deter future infringement<sup>4</sup>, it may be challenging to justify from a policy perspective given the other relief generally sought in IP cases: if an injunction is awarded against the infringer, future infringement by that infringer will be prevented by the injunction and does not need to be discouraged by damages. If an injunction to prevent future infringement is not ordered by the court, then on the basis it would seem to follow logically that damages to discourage future infringement should not be ordered either.
- 28) The approach adopted in the US doctrine of wilful infringement has echoes of an approach based on examining the conduct and motives of the defendant, in addition to his knowledge, opinions or beliefs about infringement. If the defendant's acts are deliberately calculated to achieve a profit, or if there is an element of "wilful blindness", that in itself could possibly signify a degree of culpability that deserves to be punished by punitive damages.
- 29) In *Halo Electronics Inc v Pulse Electronics Inc*, 136 S Ct 1923 (2016), the US Supreme Court held that objective standards of conduct are too rigid, and that the subjective conduct of the infringer should play a greater role in assessing whether there is wilful infringement. "*egregious cases of misconduct beyond typical infringement*" where the behaviour of the infringer is "*willful, wanton, malicious, bad-faith, deliberate, consciously wrongful, flagrant, or characteristic of a pirate*" might qualify as wilful infringement, according to the court.
- 30) The *Halo* ruling raises the question of whether the purpose of damages is to punish, and deter others from infringing. It is otherwise difficult to see a logic in two infringers A and B committing exactly the same infringing acts, but A is punished with triple damages because A's mindset was characteristic of a pirate,

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<sup>3</sup> See TRIPs travaux préparatoires, position of the US delegation (MTN.GNG/NG11/W/14/Rev.1).

<sup>4</sup> As it appears to have been, for the European Communities and some other delegations. See TRIPs travaux préparatoires at MTN.GNG/NG11/W/31.

whereas B is not punished because B had no idea that the IP rights in question even existed and behaved in a commercially reasonable way throughout. Infringer B could, however, be liable for greater damages under German law because he failed in his commercial duty (under German law) to check what IP rights could affect his product launch and marketing.

- 31) Subsequent US case law appears to lend some support to the view that the core issue is the culpability of the conduct of the infringer, and not whether (or not) they had the requisite knowledge. In *Ansell Healthcare Products LLC v Reckitt Benckiser LLC* 2018 WL 620968 (D. Del. Jan. 30, 2018), the court observed that if a defendant was willfully blind to a patent covering a product that it copied and then sold, it “*could satisfy the knowledge requirement for willful infringement, because the defendant’s willful blindness demonstrates the same level of culpability as if the defendant copied the product with actual knowledge of the patent.*”
- 32) Of course, it cannot be a general policy objective for infringers to benefit from turning a blind eye and operating with minimal or zero knowledge (including the function of the products they sell) so as to reduce their exposure to damages. If such a mode of operation is routinely permitted, the monopoly granted to the right holder will have no remaining value in terms of compensating the right holder for his economic loss resulting from infringement.
- 33) The further problem that arises in assessing the culpability of the conduct of the defendant is that it is no longer an assessment of what any defendant should or could have objectively known, nor is it an assessment of what the specific defendant in question knew as such. It is more an assessment of whether the conduct and motives of the defendant import a degree of culpability. This is not referred to expressly in Article 45 of TRIPs and could involve moral judgments by the court.
- 34) In the UK case of *Kuddas v Chief Constable of Leicestershire* [2002] AC 122, the House of Lords<sup>5</sup> held that exemplary<sup>6</sup> damages may be available in a patent infringement action where the case falls within one of the following three categories:
  - a. oppressive, arbitrary or unconstitutional actions by the servants of government,

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<sup>5</sup> Now the Supreme Court.

<sup>6</sup> i.e. punitive.



- b. where the defendant's conduct has been calculated by them to make a profit for themselves which may well exceed the compensation payable to the plaintiff, or
  - c. where a statute expressly authorises the same.
- 35) Again, given that most commercial conduct is always "calculated" to maximise the profit made, test (b) above appears an exceedingly difficult test to carry out in practice. Generally speaking no commercial entities deliberately achieve profits below the maximum possible.
- 36) Where the justification for punitive damages is that the defendant intended to make a profit which exceeds compensatory damages, it may be appropriate to divide the compensation due to the right holder into two components: (i) compensatory damages, and (ii) additional damages for unjust enrichment for the profit that exceeds compensatory damages. Such a division may be justifiable on the basis that committing an unlawful act (such as infringement) should not, as a matter of policy, lead to a de facto licence, because this would incentivise infringement.
- 37) An alternative approach adopted in some cases by the English Court (see *Xena v Cantideck* [2013] EWPC 1) has been to penalise a wilful infringer by taking that willfulness into account when deciding what proportion of the right holder's legal costs should be paid by the loser/infringer. Other factors would also be relevant to such an analysis, e.g. whether the right holder and the infringer have conducted the litigation in a proportionate manner.

Access to information about the existence and scope of the IP right

- 38) A further aspect of a knowledge requirement, within this Study Question, is the relevance of the knowledge of the defendant of the existence and scope of the IP right in question. Registered IP rights are, of course, available in public registers but not necessarily in a language that is understood by the defendant accused of infringement.
- 39) This is a relevant issue in relation to the proposed unitary patent for the EU. In the current incarnation of the European patent system, based on the European Patent Convention (EPC), the problem of translations has relatively little impact because when a European patent is granted it becomes a set of national granted patents which must comply with relevant national requirements – such as language. For example, an inventor from Korea seeking a patent for their invention under the EPC must provide relevant translations, such that if an entity is accused of infringement of the Spanish part of a European patent the relevant

language requirements have been complied with. Critically, any defendant accused of infringing in Spain should have had proper notice of and be able to understand the scope of the Spanish patent, and this is achieved under the EPC by the provision of appropriate translations.

- 40) With a unitary patent, which is granted as a single patent and not separately as national patents, a new challenge arises. This is addressed in Council Regulation (EU) No 1260/2012 relating to the translation arrangements of the unitary patent, in particular Article 4(4) which provides:

*“In the event of a dispute concerning a claim for damages, the court hearing the dispute shall assess and take into consideration, in particular where the alleged infringer is a SME, a natural person or a non-profit organisation, a university or a public research organisation, whether the alleged infringer acted without knowing or without reasonable grounds for knowing, that he was infringing the European patent with unitary effect before having been provided with the translation referred to in paragraph 1.”*

- 41) Paragraph 1 of Article 4 specifies the translations to be provided:

*“... the patent proprietor shall provide at the request and the choice of an alleged infringer, a full translation of the European patent with unitary effect into an official language of either the participating Member State in which the alleged infringement took place or the Member State in which the alleged infringer is domiciled.”*

- 42) The overall objective of these measures appears to be to ensure that the due process rights of the defendant are respected. If legal liability and legal consequences can follow from infringement, then defendants should be allowed to have some advance knowledge and notice of the existence and scope of the IP rights in question, especially – in the case of patents – the claims of the patent.
- 43) It is open to question whether advance knowledge can properly be acquired if the translations are only provided “on request.” Prior to any request, the defendant would not have had sight of the translation and the patentee might not be able to recover any damages for past infringement for the same reason. On the other hand, it could be onerous to require the patentee to provide, as a matter of course, full translations of every patent in every EU member state.
- 44) A purpose of this Study Question is to consider balanced methods of providing potential defendants with knowledge of the existence and scope of relevant IP rights, but without disproportionate burden to right holders. This question has immediate relevance in the context of the unitary patent but has a broader

relevance in any context where rights in one country are given effect in another, or when IP rights are applied for centrally.

- 45) For example, if the defendant is an SME with EU-wide sales, domiciled in Finland, with its internal working language in English, should damages be restricted in relation to infringement of a unitary patent in the French language which is in force in Poland, because a Polish translation of a unitary patent was not provided?
- 46) On the other hand, a Spanish SME operating solely in Spain could perhaps be unfairly prejudiced if it is sued under the same unitary patent, if that patent is published only in French.
- 47) The question of knowledge of the scope of the IP right also arises where a patent is amended in the course of litigation, and the claims of the patent are upheld in a form that did not form part of the patent as published when it was granted. Should the knowledge of the infringer of the new claims of the patent, added through amendment, be relevant to damages?
- 48) Views are invited on practical methods of fairly providing sufficient information to potential defendants in advance of any infringement, so that the defendants receive the earliest possible notice, and patentees are deprived of the least amount of damages.
- 49) Bearing in mind the issues and variations in national laws discussed above, it is an objective of this Study Question to examine whether a harmonizing approach can be found, to enable a more uniform and predictable approach to assessing damages to be implemented. A harmonised approach would give better legal certainty, for both right holders and potential infringers.

***You are invited to submit a Report addressing the questions below.***

## **Questions**

### **I. Current law and practice**

*Please answer the below questions with regard to your Group's current law and practice.*

- 1) Do:
  - a. the objective or subjective knowledge of the infringer,
  - b. the beliefs/opinions of the infringer, and/or

- c. the publication of the scope of the IP right in general or at a particular time (e.g. the publication of the claims of a patent amended in the course of litigation).

play a part in relation to the assessment of damages? If YES, please explain.

- 2) Are punitive damages awarded and if YES, in what circumstances?
- 3) Are damages reduced below the level required to compensate the loss suffered by the right holder, and if YES, in what circumstances?

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

- 4) Could your Group's current law or practice relating to the role of knowledge in relation to damages be improved? If YES, please explain.
- 5) Should the recovery of damages depend, or not depend, on the knowledge (subjective or objective) of the infringer? Please explain.
- 6) Should damages be elevated so as to discourage future infringement by:
  - a. an infringer, when a court has established infringement and awarded an injunction against that infringer,
  - b. an infringer, when a court has established infringement but not awarded an injunction against that infringer,
  - c. third parties, when a court has not yet established infringement by such third parties or the existence of any potentially relevant third parties.
- 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.*

- 8) Do you believe that there should be harmonisation in relation to the role of knowledge in relation to damages? Please answer YES or NO.

*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) a) Should the knowledge (subjective or objective) of the infringer affect the recovery of damages? Please answer YES or NO.

b) If the answer to 9)a) is YES, should the knowledge be (you may tick one or, if you think either suffices, both boxes):

subjective

objective

c) How should such knowledge (for example) be established? Please tick all that apply:

by the right holder?

by the infringer?

by evidence of the circumstances of the infringement?

by evidence of the state of mind of the infringer?

referring only to facts available to any person?

referring to information available only to the infringer?

d) How should such knowledge affect the recovery of damages?

10) Can or should damages to compensate the right holder:

a. only be awarded where the infringer has the level of knowledge specified in Article 45(1) TRIPs

b. nevertheless be awarded if the infringer did not have the level of knowledge specified in Article 45(1) TRIPs.

11) What, if any, change in the level of damages or the assessment of damages is appropriate, if the infringer:

a. had no subjective knowledge, prior to the litigation, of the existence of the IP rights that were found infringed,

b. had no subjective knowledge, prior to the litigation, of the scope of the IP rights that were found infringed because the IP right was not published in a language which is (or should be) understood by the infringer,

- c. had no subjective knowledge, prior to the litigation, of the scope of the IP rights that were found infringed because the IP right was amended in the course of litigation resulting in its scope changing,
  - d. had a subjective belief prior to the litigation (whether gained through legal advice or otherwise) that the IP rights in question would or would not be infringed,
  - e. had not undertaken searches prior to launching a new product, to determine if the new product would or might infringe,
  - f. had undertaken searches prior to launching a new product, to determine if the new product would or might infringe, and those searches erroneously indicated no infringement.
- 12) If the grant of punitive or exemplary damages (being damages greater than those required to compensate the right holder) is permitted, please indicate whether such damages should depend on the knowledge of the infringer, and if so, what objective or subjective knowledge should be required?
- 13) Should the conduct of the infringer, e.g. setting out to make profit from infringement which exceeds the compensatory damages payable to the right holder, justify punitive/exemplary damages greater than those required to compensate the right holder:
- a. when the infringer had some intention/knowledge of the objective of making the profit?
  - b. when the infringer had no intention/knowledge of making the profit, and the profit was made “accidentally”?
  - c. regardless of the knowledge of the infringer?
- (This question does not concern compensation based on the unlawful profits of the infringer)
- 14) Please comment on any additional issues concerning any aspect of the role of knowledge in relation to damages you consider relevant to this Study Question.
- 15) Please indicate which industry sector views provided by in-house counsel are included in your Group's answers to Part III.