

Summary Report



Question Q186

Punitive damages as a contentious issue of Intellectual Property Rights

The Reporter General received 37 Reports from Argentina, Australia, Belgium, Brazil, Bulgaria, Canada, China, Czech Republic, Denmark, Egypt, Finland, France, Germany, Hungary, India, Indonesia, Italy, Japan, Latvia, Malaysia, Mexico, The Netherlands, New Zealand, Norway, Paraguay, Philippines, Portugal, Romania, Singapore, Slovenia, South Africa, Spain, Sweden, Switzerland, Ukraine, United Kingdom, United States of America. The Reports give a most interesting review on the laws of the various National Groups.

A damages award is generally meant to compensate a party for the harm done to him by the opponent: the emphasis is on repaying the claimant's loss and not on removing the defendant's gain. In some cases the court may wish to award further compensation. For example, where the manner of commission of the tort injures the claimant's proper feelings of dignity or pride, the court may award aggravated damages. These damages are aimed at compensating the claimant for the added injury to his feelings as a result of the tort in question.

In contrast, punitive damages are awarded to punish the wrongdoer. Punitive damages are awarded where it is necessary to teach a wrongdoer that "tort does not pay". They are thus controversial, said by some to confuse the civil and criminal functions of the law. At a time when intellectual property rights are the centre of political attention, any apparent expansion of the rights of IP owners will be carefully examined.

It is against this background that this question considers issues surrounding punitive damages including whether they are necessary or desirable in the context of proceedings for the infringement of intellectual property rights. The question also considers how a court may decide whether or not to award them, and what steps a party can take to minimise the risks of such an award.

AIPPI has not previously considered this question in detail. In Q134 "Enforcement of Intellectual Property Rights – TRIPS" AIPPI resolved, at paragraph 6(h), that "Punitive damages are not desirable". The minutes of the Plenary Session (Yearbook 1998/VIII page 27) show that this was a widely held view.

1) a) *Does your country have a concept of punitive damages?*

The majority of countries answered this question in the negative. They include Argentina, Belgium, Brazil, Bulgaria, Denmark, Egypt, Finland, Germany, India, Italy, Japan, Latvia, Mexico, the Netherlands, Norway, Paraguay, Portugal, Slovenia, Spain, Sweden, Switzerland and Ukraine.

The Swedish Group noted that the whole concept appears to derive from common law and requires a consideration of the differences between legal systems and procedural rules.

The Dutch Group noted that while there is no concept of punitive damages in Dutch law, there are elements which may be regarded as punitive – while they are not intended to be so, in practice they have this effect. These include:

- i) "flexible" assessment of damages suffered including lost licence fees;
- ii) accumulation of surrender of profits and damages;
- iii) surrender of profits which may surpass the amount of actual damage suffered;
- iv) ancillary orders for destruction, recall, disclosure of identity of supplier and accounting for sales; and
- v) penalties for non-compliance with injunctions.

The Swedish Group noted that legislation and courts have, in the last two decades, introduced punitive or preventive aspects in assessing damages. It appears that such aspects are mainly considered when there is no, or very low, economic loss for the sufferer and the compensation for such loss appears unreasonably low when compared to the culpability of the tortfeasor or the profits made by him.

A much smaller number of countries recognise punitive damages. In particular, the United States has a concept of punitive damages in civil cases generally and specifically provides in its patent, trade mark and copyright laws for "enhanced damages". The basis for awarding such enhanced damages is generally knowing and wilful infringement, but litigation misconduct can also lead to an award for enhanced damages. The UK and New Zealand refer to such damages as "exemplary". In the UK accounts of profits are more likely, and "additional" damages exist for copyright infringement. These may be punitive. In Canada punitive damages are known but not for intellectual property rights. They also exist in Indonesia, South Africa and Singapore. Singapore provides for non-compensatory damages for copyright and trade mark infringement. In the Czech Republic damages have a statutory base and in Romania they are ordered in some cases but not for intellectual property rights. India has accounts of profits for copyright infringement.

b) If so, does it apply to patents, trade marks and other IPR?

Almost all countries refer to the answer given to question 1a) above. A number of countries refer to the availability of criminal sanctions. Slovenia, South Africa and the US specifically have extended damages for copyright infringement, and copyright seems to receive a more flexible treatment.

c) Would the possibility of an award of punitive damages be of benefit in infringement cases?

The Spanish Group notes that such an award would be advantageous in cases of repeated infringement and suggested that EC Directive 2004/48, Recital 26 might provide a ground for this. This provides: With a view to compensating for the prejudice suffered as a result of an infringement committed by an infringer who engaged in an activity in the knowledge, or with reasonable grounds for knowing, that it would give rise to such an infringement, the amount of damages awarded to the rightholder should take account of all appropriate aspects, such as loss of earnings incurred by the rightholder, or unfair profits made by the infringer and, where appropriate, any moral prejudice caused to the rightholder. As an alternative, for example where it would be difficult to determine the amount of the actual prejudice suffered, the amount of the damages might be derived from elements such as the royalties or fees which would have been due if the infringer had requested authorisation to use the intellectual property right in question. The aim is not to introduce an obligation to provide for punitive damages but to allow for compensation based on an objective criterion while taking account of the expenses incurred by the rightholder, such as the costs of identification and research. The UK Group noted that the fact that exemplary damages are rarely sought in UK courts suggests that they provide little benefit over other forms of relief that are available. The Argentinean, Brazilian, Canadian, Indian, Latvian and Mexican Groups thought there

might be benefit. The Australian, Bulgarian, Italian and Slovenian Groups did not think they would be of benefit. The Slovenian Group noted the proper function of the criminal courts in this area. The Australian Group thought it was important that the validity of a right be determined prior to any punishment being ordered under it. The German Group suggested that a lump sum might be appropriate in certain cases. The Belgian Group suggested that such damages may be beneficial so long as the rules governing them are precisely defined.

d) *Is your Group in favour of courts having power to award such damages in IP cases?*

The German Group is against this idea on the basis that it mixes civil and criminal functions of courts. The UK Group believes that such damages are an "unnecessary distraction". The Portuguese Group thought this was a problem to be resolved by criminal remedies. A number of Groups noted that such damages might have a deterrent effect – Japan, Latvia, Norway and the US. The Australian Group thought such damages might be useful in cases of repeated infringement and the New Zealand Group in cases of flagrant breach of rights. The Argentinean Group thought they should apply in cases of bad faith only. The Chinese Group notes that it is easy to infringe intellectual property rights and therefore the prospect of punitive damage should encourage suits to restrain infringement and therefore fair business. The Indian and Mexican Groups are in favour. The Mexican Group noted that they might be hard to collect.

There was no particular agreement at this stage as to the right form of damages to award if they should be available.

2) *If punitive damages are available:*

a) *In what types of situations can punitive damages be awarded?*

b) *How is the amount (quantum) of damages assessed?*

A number of countries which do not have a concept of punitive damages did not answer this question in detail.

In the US the patent statute (35 USC §284) authorises a court to increase damages up to three times the amount found. Trade marks law provides strong penalties in case of intentional counterfeiting including allowing a plaintiff to elect to recover statutory damages for wilful misuse of a mark up to as much as \$1m per counterfeit mark for type of goods or services sold. For copyright, enhanced damages may be recovered in certain cases – there may also be an award of "statutory damages" (under 17 USC §504). Extraordinarily, the court may order that the losing party pays the winning party attorneys fees.

In the US, actual patent damages must be adequate to compensate for the infringement but may be no less than a reasonable royalty for use made of the invention. To recover an infringer's profits a trade mark owner need only show the infringer's sales. The burden then shifts to the infringer to prove any deductions. If the court determines this award is inadequate it can be increased to an amount the court deems just. The court may also award up to three times the amount of actual damages depending on the circumstances.

The Dutch Group noted that any circumstances of the case, and more specifically the behaviour of the infringer, may give rise to a raising or lowering of the damages. This is not done in a systematic manner and is wholly dependant on the circumstances of the case. The more brutal and more wilful the infringement the more a judge will be inclined to be lenient with regard to the injured party's burden of proof. In New Zealand judges tend to condemn "high handed" or "contumelious" conduct. The Chinese Group noted that the following factors are taken into account:

- i) The degree or reprehensibility of the defendant's conduct and the duration, and also the defendant's awareness of concealment and past conduct;
- ii) The defendant's profits;
- iii) The defendant's financial position;
- iv) Mitigation resulting from criminal sanctions imposed on the defendant;
- v) Other civil awards against the defendant for the same conduct; and
- vi) Whether the amount of punitive damages will deter a future infringer.

The New Zealand Group thought that any award should be "modest". The Canadian Group noted that the purpose of such damages are to punish the defendant and reflect the court's "outrage". The key is proportionality of the award to the defendant's conduct and to show "retribution, deterrence and denunciation" in cases where a compensatory award is insufficient.

Singapore considers the flagrancy of the infringement, the defendant's benefit and all relevant matters. In Mexico the court may order no less than 40% of the final sales price of infringing goods or services.

The Swiss Group notes that in certain copyright cases damages may be raised to double.

- 3) *Is there an obligation on a party to take legal advice to ensure there is no infringement? If so,*
- a) *what is the obligation and when does it arise; and*
 - b) *how is the advice assessed in subsequent infringement proceedings.*

The great majority of countries answered this question in the negative but many noted that, in a similar vein to the Australian Group, the opinions of appropriately qualified intellectual property practitioners may have an effect in assessing flagrancy or quantifying damages. The Latvian Group noted that such an opinion might show good faith. The Chinese Group Reported that there is an obligation on a party to take legal advice to ensure there is no infringement. A potential infringer who has actual knowledge of another's IP right has an affirmative duty of care to determine whether or not he is infringing. Taking advice is thus a very important factor in infringement proceedings.

The Indian Group suggested that there should be an obligation to take advice, but that it should not be considered in proceedings.

The US Group noted that for patents, where a party is notified that it is engaging in specific acts of infringement, it has an affirmative duty to exercise due care to determine whether it is infringing. In its decision of 13 September 2004 the Federal Circuit said that where a defendant fails to take advice about patent infringement it is not appropriate to draw on an adverse inference that advice would have been unfavourable. There is no obligation to waive privilege and produce advice obtained. This normally entails obtaining competent legal advice, but failure to do so will not lead to an adverse inference that such an opinion was or would have been unfavourable. For trade marks, there is no obligation, but wilful blindness is no defence to infringement. In the US, therefore, parties are well advised to obtain an opinion. The Japanese Group noted that while there was no obligation to take legal advice, Japanese IP laws stipulate that IP infringers shall be presumed to have been negligent. Even if an infringer receives legal advice from an attorney and consequently believes that he does not infringe another party's IP right, this does not overrule the presumption of negligence.

The Singaporean Group thought that efforts to avoid infringement would be noted by the court.

4) a) *Is there a pre-trial discovery system which allows an IP owner to review the defendants behaviour?*

b) *If so, are the parties required to give discovery of documents held abroad?*

The following Groups noted that there is no such obligation in their country – Argentina, Belgium, Brazil, Bulgaria, Czech Republic, Denmark, Egypt, Finland, India, Latvia, Netherlands, Portugal, Romania, Slovakia, Sweden and Switzerland. The following countries Reported that there is pre-trial discovery: Japan, the UK, Canada, US, Australia, China, New Zealand, South Africa and Paraguay.

Those Groups from civil law countries noted that this was standard practice. The Japanese Group noted that a party may obtain a court order supporting the plaintiffs efforts to collect evidence.

In answer to paragraph b), some Groups with a common law heritage (Canada, Singapore, South Africa and the UK) answered the questions affirmatively. The US Group noted that it depends on the circumstances. The Bulgarian Group noted that the court could order discovery of documents held abroad. Other countries did not have such a system.

5) *What is the impact in court proceedings in your country of the ability of courts of other countries to award punitive damages?*

A very large number of countries noted that there would be no effect. The Italian Group noted that foreign judgments, such as those of the US ordering punitive damages, would be ignored. The German Group noted there was no obvious effect – a quick and efficient national system for dispute resolution was key. The Japanese Group noted that a foreign judgment ordering punitive damages in Japan would not be enforced as it was against public order and morality. The Canadian Group noted that a foreign award might prevent double recovery of damages.

The Swiss Federal Supreme Court has said that the enforcement of a foreign decision ordering punitive damages would be against *ordre public*.

6) *Proposals for harmonising the treatment of punitive damages and the processes concerning court proceedings?*

In a detailed response, the German Group noted that it is against the introduction of punitive damages but considers it desirable that a successful claimant should in regular cases be awarded an increased royalty rate (in particular 1.5 to 2 times) as a compensation for damage. This approach is not based on penal reflections (as an increased royalty is not necessarily likely to exceed the infringer's profits) but is appropriate as lump sum compensation. Particular advantages of this method include the simplicity of calculation and the absence of need for expert or other witnesses to decide the matter.

The Japanese Group is against the award of such damages, in particular treble damages as in the US model. The Japanese Group offered the following criticisms of the US model:

- i) the "intent" of the infringer is a state of mind that should be positively proven by appropriate evidence;
- ii) intent to infringe should not be presumed from access to patent gazettes. The designing around patents should be absolutely allowed in order not to duplicate R&D efforts; and
- iii) it seems unreasonable that intentional infringement should be presumed unless the alleged infringer abandons attorney/client privilege.

The US Group recommends harmonisation in the US mode for knowing and wilful infringement.

The UK Group recommends harmonisation of compensatory damages on accounts of profits as a first step.

The Italian and Dutch Group recommend harmonisation around recital 26 of the EU Enforcement Directive, not by introducing punitive damages, but by an objective measure. The Italian Group also suggested harmonisation around the Directive.

The Chinese Group suggests that punitive damages are needed to prevent serious infringements.

The Australian Group notes that there should be harmonisation of the option for courts to order punitive damages similar to additional damages in Australian law. The Canadian Group suggests punitive damages are suitable in exceptional cases of "outrageous" conduct. The Slovakian Group suggests that the matter is really a criminal issue. The Argentinean Group suggests amending Article 45 of TRIPs to achieve harmonisation. The Danish Group recommends accounts of profits as the way forward.

Conclusions

The following trends seem to be discernable from Group Reports:

- 1) The Groups are against the introduction of punitive damages as a routine measure. However, there is a sense that some infringements should be compensated in some more serious way. One way might be through an account of profits. Different IP rights may give different results. Should damages be concentrated on the harm done to the plaintiff or the profit made by the defendant?
- 2) The Groups are not in favour of an obligation for parties to take legal advice to ensure that there is no infringement. However, it is considered good practice to do so.
- 3) Where a legal system provides for discovery of documents, it is not objectionable that documents held abroad should be produced in a case.
- 4) There may be constitutional issues on the enforcement of foreign judgements which order remedies not available in the country of enforcement.
- 5) Methods of calculation which simplify awards of damages may be welcome.