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THE QUANTIFICATION OF DAMAGES IN CASES OF IP INFRINGEMENTS

Contributions prepared by Colombia, Jordan, Morocco, the United Kingdom and the International Association for the Protection of Intellectual Property

1. At the twelfth session of the ACE, held on September 4 to 6, 2017, the Committee agreed to consider, at its thirteenth session, among other topics the “exchange of information on national experiences relating to institutional arrangements concerning IP enforcement policies and regimes, including mechanism to resolve IP disputes in a balanced, holistic and effective manner”. Within this framework, this document introduces the contributions of four Member States (Colombia, Jordan, Morocco and the United Kingdom) on the experiences of their judicial systems in relation to the quantification of damages in cases of infringement of intellectual property (IP) rights. It also includes the presentation of a study on the quantification of monetary relief released by the International Association for the Protection of Intellectual Property (AIPPI) in October 2017.
2. The contributions of the four Member States illustrate the various approaches adopted within their respective domestic legal systems in the quantification of damages. They highlight the different ways of assessing damages, either through a compensation mechanism, which covers the actual loss and lost profits, with all the difficulties to assess exactly the damage suffered, or through alternative mechanisms such as pre-established damages, national royalties and account of profits. In addition, the impact of bad faith on the part of the infringer in calculating damages is discussed, as well as the possibility of awarding moral damages. The AIPPI contribution highlights the main points of the 2017 study, which covers various developed and developing countries. The contribution focuses on the material damage, and more particularly the assessment of the right holder’s lost profits, the issue of reasonable royalties, the recovery of damages for conveyed goods and goods into which an IP-infringing item is incorporated and the question of whether and how to take future losses into account.

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ASSESSMENT OF DAMAGE TO INTELLECTUAL PROPERTY: A VIEW FROM THE COLOMBIAN LEGAL SYSTEM

*Contribution prepared by Mr. Jorge Mario Olarte Collazos, Deputy Superintendent for Judicial Affairs, Superintendency of Industry and Commerce, Bogota, Colombia**

ABSTRACT

Comprehensive protection of intellectual property rights (IPRs) must include mechanisms designed to ensure that a right holder is granted an effective remedy or even compensation for damage caused by an act infringing his or her exclusive rights. Of course, the difficulties in this area are not minor, particularly with regard to the determination and quantification of damage caused by IPR infringement. The purpose of the present document is to set out the criteria available to IPR holders and judges in Colombia for establishing and calculating the amount of damage caused by an infringing activity both in the area of industrial property and in copyright.

I. INTRODUCTION

1. Intangible assets, including those that are protected under intellectual property (IP) laws, have significant value in the market since they are crucial not only for companies but also for public and private entities whose activities are, to a certain degree, founded on the exploitation of IPRs.
2. It is precisely the intangible nature of IP assets that makes it particularly difficult to determine their value when it comes to compensation for the damage caused in particular by IP infringement. This is mainly because intangible assets, such as trademarks, patents and copyright-protected works have no intrinsic value; they derive their value from the frequency and success with which they are exploited in the market.
3. Accordingly, comprehensive and effective IPR protection and enforcement cannot be limited to developing mechanisms that prevent or stop infringing actions. Rather, they should include *inter alia* mechanisms, which ensure that right holders receive effective reparations for injuries resulting from acts that infringe their exclusive IPRs.
4. The difficulties in this area are certainly not minor, especially when it comes to establishing and calculating the damage resulting from IPR infringement.
5. This paper sets out the criteria which IPR holders and judges in Colombia may take into account to establish and calculate the amount of damages resulting from an infringement of industrial property rights and copyright. The paper starts with a brief explanation of the concept of civil liability in Colombia and then identifies existing mechanisms used to calculate damage resulting from the infringement of both industrial property rights and copyright.

* The views expressed in this document are those of the author and not necessarily those of the Secretariat or of the Member States of WIPO.

II. CIVIL LIABILITY IN THE COLOMBIAN LEGAL SYSTEM

6. The concept of civil liability in the Colombian Civil Code is derived from the principle that each person shall be liable to repair the harm he or she causes to another person. In other words, civil liability generally presupposes the existence of a relationship between two individuals, namely one who causes the harm and another who suffers it. The legal consequence is an obligation on the part of the perpetrator to repair the harm caused¹.

7. Traditionally, a distinction is made between extra-contractual and contractual civil liability depending on the type of right that is infringed. Violation of an absolute subjective right gives rise to extra-contractual civil liability², while the violation of rights resulting from contracts gives rise to contractual civil liability³.

8. Extra-contractual civil liability, which arises from the violation of a subjective right where there is no contractual relationship and which would typically apply to an IPR infringement, is established by three cumulative elements under Colombian law, namely: (a) an intentional act or negligence that causes a damage; (b) the damage or the prejudice; and (c) the existence of a causal link between the damage and the act in question⁴.

A. DAMAGE

9. The damage is the most important element of civil liability, since the obligation to compensate the damage is predicated on its existence. Accordingly, a person is said to be civilly liable if he or she actually causes the damage. In the past, the damage was defined as the violation or impairment of a legally protected interest⁵ or of a person's subjective rights⁶, such as IPRs.

10. With regard to its typology, the damage is characterized as material in case of the destruction or violation of any of a person's property rights and as immaterial or moral in case of a violation or impairment related to his or her person, affecting a person's feelings or honor⁷.

11. In the case of IP and considering that it generally covers a number of exclusive rights relating to intangible assets, it could be said in a nutshell that the damage arises when an infringer uses or exploits intangible property without the prior and express authorization of the right holder or outside the prescribed scope of such recognized exceptions and limitations.

12. Such a violation or infringement of the right arises because the unauthorized use of IP-protected subject matter deprives the right holder of the exclusive right to authorize or prohibit the use or exploitation of that subject matter.

¹ Valencia Zea, Arturo; Ortiz Monsalve, Álvaro, *Derecho Civil Vol. III, De las obligaciones*, tenth edition, Temis, Bogotá, 2010, page 169.

² Civil Code, Articles 2341 to 2360, available on WIPO Lex at: <http://www.wipo.int/wipolex/en/details.jsp?id=10022>.

³ Civil Code, Articles 1602 to 1617.

⁴ Civil Code, Articles 2341 *et seq.*

⁵ García Vásquez, Diego Fernando, *Manual de Responsabilidad Civil y del Estado*, Librería Ediciones del Profesional, Bogotá, 2009, page 13.

⁶ Valencia Zea, Arturo; Ortiz Monsalve, Álvaro, *Derecho Civil Vol. III, De las obligaciones*, tenth edition, Temis, Bogotá, 2010, page 227.

⁷ *Ibid.*

13. From another perspective, it may be considered that harm is not caused by the infringement of IPRs *per se*; rather, there must be actual impairment to the right holder's property or a violation of his or her honor or feelings.

B. INTENTIONAL ACT OR NEGLIGENCE

14. This concept refers to the fact that the damage must arise from the infringer's behavior or action that is reprehensible either because it is intended to cause harm or because it falls short of the of due diligence, based on the way an average person would act (i.e., how a person would normally act with a certain degree of prudence and diligence)⁸.

C. CAUSAL LINK

15. There must be a causal link between the act and the damage caused, namely the damage must result from an act that constitutes the cause of the violation or infringement of the victim's legitimate interest or subjective right.

16. In short, for a person to be declared civilly liable and obligated to compensate for damage caused through the violation or infringement of a subjective right, which could be an IP right, the aforementioned elements must be satisfactorily proven in a judicial process.

17. Similarly, it should be noted that in the customary system of civil liability, whoever brings a legal action claiming compensation for damage must justify the amount of the claim.

III. SPECIAL CRITERIA ESTABLISHED FOR INDUSTRIAL PROPERTY STANDARDS

18. In the area of industrial property, Andean Community Decision No. 486 of 2000, a supranational legal instrument developed by the Andean Community of Nations, provides that for the purposes of calculating compensation for damage arising from the infringement of an industrial property right, due regard shall be given, among other things, to the following criteria:

“(a) the actual damage and the loss of revenue suffered by the owner of the rights as the result of the infringement;

(b) the amount of the profits earned by the infringer as a result of the infringing acts;

(c) the price that the infringer would have paid for a contractual license, due regard being had to the market value of the infringed rights and to contractual licenses that have already been granted”⁹.

19. The application of the above criteria has generated much debate in Colombia, primarily among those who consider that this body of law fails to set out the criteria for assessing damages and rather states the types of damage arising from the infringement of industrial property rights.

⁸ *Ibid.*

⁹ Andean Community Decision No. 486, Article 243.

20. In any case, whether understood as types of damage or assessment criteria, particularly those described in subparagraphs (b) and (c), these concepts do help right holders to prove and calculate damages arising from infringement.

IV. THE SYSTEM OF PRE-ESTABLISHED DAMAGES IN THE AREA OF TRADEMARKS

21. Furthermore, the Trade Promotion Agreement between Colombia and the United States of America, which was signed in 2006 and came into effect on May 15, 2012, establishes that in civil judicial proceedings, each state party shall, “at least with respect to infringement concerning copyright or related rights and trademark counterfeiting, establish or maintain pre-established damages, which shall be available on the election of the right holder as an alternative to actual damages¹⁰”.

22. On the basis of this requirement, a system of pre-established damages arising from the infringement of trademark rights was developed in the Colombian legal system under Law 1648 of 2013 and Decree No. 2264 of 2014. This system provides that damages arising from the establishment of a trademark infringement by court ruling may be subject to the system of pre-established damages or to the general evidentiary rules governing compensation for damages, as the plaintiff chooses.

23. Therefore, if the plaintiff opts for the system of pre-established damages when filing the claim, he or she shall not have to prove the quantity of damages and prejudice resulting from the infringement. The damages shall range from a

“minimum of 3 (three) times up to a maximum of 100 (one hundred) times the minimum statutory monthly wage at prevailing rates, for each trademark infringement. This amount may increase to two hundred (200) times the minimum statutory monthly wage at prevailing rates if the infringed trademark has been declared a well-known trademark by the judge; the malicious intent of the infringer has been established; the life or health of persons has been put at risk and/or it is established that the trademark infringement is a repeat offence”¹¹.

24. Moreover, when assessing the amount of compensation, the judge must take into account “the duration of the infringement, its scope, the quantity of infringing products and the geographical scope”¹².

V. SPECIAL CRITERIA FOR COPYRIGHT

25. In the area of copyright, Andean Community Decision No. 351 of 1993 does not establish special criteria to guide the judge in establishing the amount of damages arising from the infringement of copyright or related rights. It merely states that the competent national authority may, through a judicial process, order, among other things “payment, to the owner of the infringed rights, of adequate compensation or indemnification for damages sustained as a result of the infringement”¹³.

¹⁰ United States-Colombia Trade Promotion Agreement, Chapter 16.11, Article 8.

¹¹ Articles 1 and 2 of Decree No. 2264 of 2014.

¹² *Ibid.*

¹³ Article 57.

26. However, Law No. 44 of 1993 provides that the following criteria shall be taken into account when assessing the material damage resulting from an infringing act:

- “1. the market value of the copies produced or reproduced without authorization;
2. the amount that the right holder would have charged if he had authorized exploitation;
3. the period during which the unlawful exploitation took place”¹⁴.

27. Lastly, it is worth mentioning that a legal system of pre-established damages does not yet exist in the copyright system. A bill, however, is currently being considered in the Colombian Congress which provides for a system similar to the current trademark system, i.e., an alternative to the system based on actual damages¹⁵.

¹⁴ Article 57 of Law Nr. 44 of 1993.

¹⁵ Bill No. 206 of 2018 (Senate) and No. 222 of 2018 (Chamber).

CALCULATION OF DAMAGES IN THE CASE OF INFRINGEMENT OF INTELLECTUAL PROPERTY

*Contribution prepared by the Honorable Justice Dr. Nehad Al-Husban, Judge, Amman Appeal Court, Jordan**

ABSTRACT

The Jordanian legal system provides for compensation for both material and moral damage. Material damage is determined by the actual losses and loss of profits sustained by the plaintiff. Under this system, courts may not apply general rules of equity and fairness when calculating damages nor may they award punitive damages, *i.e.*, award an additional amount to the plaintiff as compensation for the infringement of that person's intellectual property rights. Moral damage is limited to the infringement of copyright or related rights. In order for moral damages to be awarded, the plaintiff must prove the merits of their claim, and calculate them based on a discretionary valuation by an expert. Furthermore, the amount of damages awarded is neither linked to the nature of the infringing act - whether it was a direct infringement resulting from the imitation or use of a trademark without the consent of its owner or an indirect infringement due to the sale of counterfeit goods - nor to the willfulness of the infringer's actions. Indeed, the amount of damages is determined by the actual losses and loss of profits sustained by the plaintiff, provided that such damage was a natural consequence of the infringing act. Finally, courts may award compensation equal to the value of a license agreement, if the plaintiff can prove the relevance of such an agreement to their claim.

I. INTRODUCTION

1. "Civil Liability" is generally defined as the obligation to repair the damage caused to another person. It can be divided into two types of liability: contractual liability, which results from a breach of contract, and tort liability. The situation differs whether the infringer is bound by a contractual obligation to the right holder of intellectual property rights (IPRs) (in general), or to the right holder of a copyright or trademark (specifically), or in the case of committing an act which infringes upon such rights without being bound by any contractual obligations. Whatever the case may be, liability is founded on (i) an infringing act or a contract breach, (ii) actual damage and (iii) the causation principle between (i) and (ii). In other words, for the plaintiff to recover damages, the damage must result from the act of infringement or breach of contract.
2. The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement) does not provide for mechanisms or baselines to calculate damages. Instead, Member States shall confer powers on their judicial authorities for those subject-matters which may give rise to damages claims, on the understanding that damages awarded should be proportionate to the damage suffered by the right holder and may include, as appropriate, the payment of the plaintiff's legal expenses and attorney fees¹.
3. Therefore, the calculation of damages for IPR infringement is governed by national legislation. The Jordanian IP laws do not specify eligibility requirements to claim damages nor a basis for the calculation thereof, except for the Jordanian Copyright Protection Law, which

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¹ Article 45 of the TRIPS Agreement.

specifies some factors to guide the calculation of damages for infringement of protected works². Consequently, reference should be made to the above-mentioned provisions, as well as those under the Jordanian Civil Code governing tort liability, which provide that “[e]very injurious act shall render the person who commits it liable for damages even if he is a non-discerning person”³, as a general principle. Under the Jordanian Civil Code, liability may arise by direct action or causation⁴. Direct action implies liability regardless of whether the act was willful or not; whereas recovery of damages which are caused indirectly requires proof of willfulness. Proportionate liability may be applied in cases involving multiple tort-feasors⁵ if their respective “contributions” can be established. Otherwise, courts may choose to apply equal or joint liability.

4. As such, we can distinguish between two types of damage:

- Material damage⁶: damage resulting in an economic loss. Article 266 of the Jordanian Civil Code provides that the amount of compensation awarded thereon is determined by the “actual losses” and the “loss of profits” suffered by the plaintiff as a result of a wrongful act. In other words, it aims to compensate the plaintiff for their losses, which in turn need to be established and evaluated.

Compensation, in any form, is calculated on the basis of the direct damage caused by the infringing act, whether this damage is material or moral, foreseeable or unexpected, current or future provided they are imminent. The assessment of direct damage implicates two essential elements: (i) actual losses and (ii) loss of profits.

- Moral damage⁷: Damage resulting from the injury to an individual’s social status. Article 267(1) of the Jordanian Civil Code provides that a party is liable for the damage caused for any damage to the liberty, honor, reputation, or social or financial status of another party.

5. In light of the above, this paper will be divided into two parts: Part A which will look at the basis for calculating damages for the proprietor of a trademark and Part B which will consider the basis for calculating damages for the holder of copyright or related rights.

A. BASIS FOR CALCULATING DAMAGES FOR THE PROPRIETOR OF A TRADEMARK

6. In principle, any damage suffered by a trademark proprietor is a material damage. According to Article 266 of the Jordanian Civil Code, material damage is defined as “the actual losses and loss of profits” suffered by the plaintiff. Therefore, in order for a court to award the appropriate compensation, a trademark owner will have to produce the necessary legal evidence of such damage and a valuation thereof. In cases of industrial property right infringements, there are no claims for moral damage, since any prejudice to a trademark’s reputation will lead to a loss in the market value of the trademark and a decrease in sales. This will in turn lead to a loss of profits for the owner of the trademark, which is considered material damage. Consequently, the basis for calculating damages is as outlined below.

² Article 49 of the Jordanian Copyright Protection Law no. 22 of 1992 and Amendments, published on p.684 of the Official Gazette no. 3821 of 16/04/1992.

³ Article 256 of the Civil Code no. 43 of 1976, published on p.2 of the Official Gazette no. 2645 of 01/08/1976.

⁴ *Ibid.*, Article 257.

⁵ *Ibid.*, Article 265.

⁶ Jordanian Court of Cassation, decision no. 275/2014 (ordinary panel) of 10/07/2014, ADALEH Center for Legal Information.

⁷ *Ibid.*, Decision No. 1685/97 (ordinary panel).

7. According to Article 266 of the Jordanian Civil Code, the calculation of damages is based on:

- the actual damage, i.e., the damage or loss effectively sustained by the right holder of a trademark as a result of an infringing act; and
- the loss of profits resulting from the infringing act.

8. In several decisions, the Jordanian courts have applied the above-mentioned principles by determining the actual damage and loss of profits suffered by a plaintiff as a result of the infringing act⁸, invoking the following rationale:

- Proof of infringement does not imply proof of damage.
- For determining and evaluating the damages and evidence produced, the Court considered⁹ in its reasoning, the following elements:

a) The market value of the trademark

Expert entities specialized in evaluating IP rights, including trademarks, can be mandated to assess the value of the damage suffered by the trademark owner as well as the impact of the infringement on the trademark's value in the market.

b) Damage resulting from loss of profits

The profits of the trademark owner can be assessed by reference to the plaintiff's audited financial statements before and after the infringement act. This is used to determine the damage resulting from loss of profits.

c) Sales decrease

The decrease must be established by the plaintiff by showing (a) a likelihood of confusion between the plaintiff's and defendant's trademarks; and (b) that the latter is using the trademark to mislead the public by creating the belief that it is a branch or agent of the plaintiff so as to divert sales from the plaintiff to the defendant. For example, the Court awarded¹⁰ JOD 25,474 in damages to a plaintiff, as he was able to prove that the defendant had infringed upon his well-known trademark "AL sultan Charcoal". The plaintiff was also able to establish the subsequent decrease in sales in 2013-2014 during which period the defendant's counterfeit products had entered the market.

d) Expenses incurred for trademark protection, such as attorney fees

The Court did not award compensation for attorney fees in a case where the plaintiff did not produce evidence of the expenses incurred to prevent the defendant from registering a similar trademark, despite the plaintiff's having been successful in legal proceedings before the Registrar and Administrative Court where the plaintiff had filed an objection.

⁸ Amman Court of First Instance, decision no. 3841/2007 (single judge panel) of 20/05/2008 on the infringement of the trademark "CAF DU ROI", ADALEH Center for Legal Information. See also Amman Court of Conciliation, decision no. 9775/2017 on the infringement of the trademark "KOSMODISK", "Meezan" Electronic Court System.

⁹ Amman Court of First Instance, decision no. 3841/2007.

¹⁰ Amman Court of Conciliation decision no. 19315/2015, "Meezan" Electronic Court System.

e) Advertising and publicity expenses incurred by the plaintiff and the defendant's unlawful free riding thereon

For example, the Court decided¹¹ to award JOD 17,361 to the plaintiff as compensation for advertising expenses related to products bearing the trademark "KOSMODISK" in the press, medical journals and on TV, as well as for the expenses incurred in publishing flyers, brochures, leaflets, bags, promotional materials and in participating in exhibitions.

f) Office and storage costs as well as employees' remuneration

The Court¹² did not take into account these expenses for the calculation of damages, as they are operational costs incurred independently of any infringing act.

B. BASIS FOR CALCULATING DAMAGES FOR THE HOLDER OF A COPYRIGHT OR RELATED RIGHT

9. As defined under Articles 8 and 9 of the Jordanian Copyright Protection Law¹³, copyright and related rights are economic and moral rights which may be subject to infringement and may give rise to a claim for damages. This implies the need to determine the nature of the infringed right and the possible damage (material or moral) suffered by the right holder.

10. Although proceedings relating to damages claims are governed by the Jordanian Civil Code, Article 49 of the Copyright Protection Law additionally requires that compensation must be fair and provides for additional principles when calculating damages suffered by the right holder, as follows:

a) The author's cultural status

The status of an author who has won awards for scientific, cultural or literary achievement is taken into account when assessing compensation for the material damage, including the benefits that the infringer unlawfully gained as a result of their infringement, which also represents a loss of profits for the author. The author's status is also an important element that experts take into account in assessing the moral damage where an author's moral rights are infringed.

b) The value of a literary, scientific or artistic work

The value of an award-winning work, which is highly rated, widely viewed or considered to be influential in its domain, shall be taken into account when assessing compensation for material and moral damage.

c) The market value of an original work

In assessing the calculation of damages this value underpins the plaintiff's loss of profits as well as the profits gained by the defendant. However, the full work's market value is not considered as a whole loss of profits since it also includes production costs incurred by both the plaintiff and defendant in calculating, respectively, their loss of profits and gained profits.

¹¹ *Ibid.*, decision no. 9775/2017.

¹² *Ibid.*, decision no. 19315/2015.

¹³ Jordanian Copyright Protection Law no. 22 of 1992 and Amendments, published on p.684 of the Official Gazette no. 3821 of 16/04/1992.

d) The extent to which the infringer benefited from the exploitation of the work

For this purpose, the plaintiff must establish the following:

- Quantity of works affected by copyright and related rights infringement;
- Market share loss by the plaintiff due to such infringement; and
- Loss of profits for the plaintiff due to such loss of market share.

11. For instance, the Jordanian Court of Cassation concluded¹⁴ in one case, that the plaintiff had suffered a material damage as a consequence of the defendant's exploitation of the plaintiff's work – an audio recording of the Quran – by way of unlawfully distributing 55,000 copies of the CD while the plaintiff was selling each copy for one Jordanian dinar with a margin of profit of 35 piasters.

Calculation of moral damages under Articles 8 and 23 of the Copyright Protection Law

12. Every author enjoys moral rights in their work that are, by nature, inalienable, perpetual and imprescriptible. Generally, works are understood to be an extension of the author's personality rights and, thus, any adaptation, modification or alteration to a work, without the consent of its author, is considered an infringement of the author's moral rights, for which the author may, consequently, claim damages. In Jordan, the amount of moral damages awarded is generally left to the discretion of the judiciary¹⁵ since setting an absolute amount would be incompatible with the nature of such damage. Therefore, the expert will assess the reasonable amount of damages to be awarded on a case-by-case basis in light of the evidence produced by the plaintiff and taking into account the principles established under Article 49 of the Jordanian Copyright Protection Law, as referred to above. For instance, the Jordanian Court of Cassation considered, in one case, that the addition of words and phrases and their attribution to the plaintiff without the plaintiff's knowledge and prior consent gave rise to a valid cause of action for damages. In its reasoning, the Court considered that moral rights were independent from the author's economic rights and that they were non-transferable¹⁶. Therefore, although the plaintiff had concluded a contract with the defendant to prepare a scientific study in Jordan, such an agreement did not give the defendant the right to reuse the material of the plaintiff's work without the latter's authorization or to prevent the plaintiff from objecting to any distortion, mutilation or other modification of, or other derogatory action in relation to his / her work, which would be prejudicial to his / her honor or reputation¹⁷.

Whether it would be possible to calculate damages for IPR infringement based on the values of the license agreements

13. The value of a license agreement can be used as a basis for the calculation of damages. The loss of future income from a license agreement that has been terminated as a result of the infringement could, subject to the judge's discretion, be treated as a measure of the plaintiff's loss of profits. Thus, the present value of the license agreement would constitute a base for calculating damages, provided it is registered¹⁸ with regard to all industrial property rights, including trademarks. A license agreement is enforceable against third parties only from the

¹⁴ Jordanian Court of Cassation, decision no. 621/2018, "Meezan" Electronic Court System.

¹⁵ Jordanian Court of Cassation, decision no. 138/2002 (ordinary panel) of 06/02/2002, ADALEH Center for Legal Information.

¹⁶ *Ibid.*, decision no. 2648/2003 (ordinary panel) of 11/11/2003.

¹⁷ *Ibid.*

¹⁸ Article 3(a) of the Law no. 33 of 1952 on Trademarks and Amendments.

date of its registration. As for Copyright and Related Rights, such contracts must be set out in writing.

14. A judge will not simply presume the existence of such agreement, as under the Jordanian legal system the plaintiff has the burden of producing evidence of damage and proving its amount. However, the value of license agreements covering the same IP rights, offered or negotiated prior to the infringement, may be used as guidance for the calculation of damages.

15. The compensation to which the plaintiff is entitled shall include the following:

- court fees incurred by the plaintiff;
- expenses incurred by the plaintiff during the proceedings, such as experts' fees, witnesses' expenses and costs for the seizure of infringing goods;
- attorney fees, which are estimated by the Court¹⁹. They are in no event less than five percent of the award and may reach the maximum of one thousand Jordanian dinars at the trial stage before the Court of First Instance. They do not exceed half the attorney's fees estimated at the first instance when the case is before the Court of Appeal; and
- legal interest rate of nine percent per annum on the total award. This is regarded as pre-established damages, which is calculated from the date of institution of proceedings until the date of payment by the defendant.

II. CONCLUSION

16. The Jordanian legal system provides for compensation for both material and moral damage. Material damage is determined by the actual losses and loss of profits suffered by the plaintiff. Under this system, courts may neither apply general rules of equity and fairness when calculating damages nor award punitive damages. Regarding moral damage, the plaintiff must produce evidence of damage and an expert valuation thereof. Furthermore, the amount of damages awarded neither depends on the nature of the infringing act nor the willfulness of the infringer's actions but it is determined by the actual damage and loss of profits suffered by the plaintiff, if such damage was a natural consequence of the infringing act. Finally, courts may award compensation equal to the value of a license agreement if the plaintiff can prove the merits of the claim.

¹⁹ Article 46 of the Jordanian Bar Association Law no. 11 of 1972 and Amendments, published on p.666 of the Official Gazette no. 2357 of 06/05/1972.

COMPENSATION FOR DAMAGES IN COUNTERFEITING CASES

*Contribution prepared by the Honorable Justice Mr. Abderrazzak El Amrani, First President, Casablanca, Commercial Court of Appeal, Morocco**

ABSTRACT

Under Morocco's legislation and case law, including most decisions issued by commercial courts, a trademark owner may choose to claim "full compensation" for actual losses suffered and profits generated by the unlawful activity. In such cases, the trademark owner will have to establish the merits of their claim, which could be very difficult even if the judge has recourse to a technical expert. Thus, plaintiffs usually choose to claim the statutorily "pre-established damages", so as to be exempt from proving the extent of the incurred damages. Where a court assesses the compensation to be awarded within the set range for pre-established damages, it takes into account the volume of counterfeit goods seized from the infringer's shop. The judge will only look at the issue of good and bad faith when the infringer is a small "non-manufacturing" trader. On the other hand, a manufacturing infringer is deemed to be a counterfeiter liable for compensation regardless of their good faith. Finally, the Moroccan judiciary does not establish the terms of compensation by reference to the value of hypothetical license agreements.

I. BACKGROUND

1. "Counterfeiting" is defined as an act, which infringes upon an intellectual property right, resulting in damage to a trademark owner who is consequently entitled to compensation. Compensation for damages has been, however, subject to extensive debate among jurists and judges who specifically delved into the issues of proportionality, eligible types of damages (*i.e.* material damages, expenses incurred and/or loss of profits), the basis of calculation (*i.e.* pre-established damages or judicial discretion) and other factors which may be taken into account in counterfeiting cases (*e.g.* good or bad faith and volume of seized counterfeit goods).

2. In general, compensation has long been underpinned by a retributive principle of justice before it was replaced, in modern legislation, by a restorative principle which instead aims to repair the damages caused. As such, punitive damages became restricted to penal liability.

3. In Morocco, tort liability is governed by Articles 77, 78 and 98 of the Code of Obligations and Contracts. Article 77 provides that "a person who willfully commits an unlawful act resulting in material or moral damage to another person is liable for such damages". Article 78 provides that "one is liable for any material or moral damages caused, as a direct or indirect consequence of their actions, to another person".

4. Article 98 defines what constitutes damages, specifying the elements to be taken into account in the assessment thereof. It provides that

"in crimes and torts, damages shall be constituted of actual losses suffered, necessary reparation expenses incurred and loss of profits suffered by the plaintiff as a consequence of the wrongful act. The Court shall also take into account

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whether the wrongful act arises from misconduct or fraud when determining such damages”.

5. By way of the above provisions, Morocco has laid down “the right to compensation” as a general rule of law, which may not be circumvented by agreement between parties. That right draws on three principles: (i) misconduct (breach of a legal obligation); (ii) actual material or moral damage suffered by a party; and (iii) causality between (i) and (ii).

II. LEGAL FRAMEWORK FOR COMPENSATION IN MOROCCO

6. Morocco has taken important steps in dealing with the issue of civil compensation in counterfeiting cases moving from its first law on industrial property (June 23, 1916) providing for small monetary penalties to Law no. 17-97 on the Protection of Industrial Property (IP Law), which provides for the right to claim full compensation for damages suffered or to claim the pre-established damages fixed by the legislator. Subsequently, the provision as to pre-established damages contained in Article 224 of IP Law no. 17-97 was amended and complemented by provisions under Law no. 23-13 and Law no. 31-05 by which the minimum and maximum pre-established damages were raised, respectively, from MAD 5,000 and MAD 25,000 to MAD 50,000 and MAD 500,000. The amended Article 224 provided that

“the right owner may choose to claim compensation for actual damages suffered and recovery of all profits generated by the unlawful activity as far as it is not included in such compensation, or to claim pre-established damages ranging between MAD 50,000 and MAD 500,000, as deemed fair by the Court to redress the damage sustained”.

7. Morocco’s IP Law is in line with international standards provided for in the various international instruments to which Morocco has acceded, including World Trade Organization (WTO) agreements, such as the Agreement on Trade-related Aspects of Intellectual Property Rights (TRIPS Agreement), and treaties administered by the World Intellectual Property Organization, including the Trademark Law Treaty. Article 224 of IP Law no. 17-97 is in line with Article 45 of the TRIPS Agreement, which provides that

“[t]he 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. 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”.

III. LEGAL BASIS FOR ASSESSING COMPENSATION

8. Article 224 of Morocco’s IP Law no. 17-97 establishes a unique rule for compensation, unparalleled in any other national law, namely that the trademark owner may choose between two options at the time of initiating their proceedings:

A. FULL DAMAGES

9. The trademark owner may claim full compensation for damages caused by the act of counterfeiting, subject to judicial discretion. Under this option, general rules of law apply. The burden of proof is on the plaintiff who is required to prove the merits of his / her claim and establish his / her actual losses and loss of profits as a result of the infringing act. This burden can be very difficult, although it would be relatively easy to prove a decrease in sales volume by producing financial statements. In fact, it remains impossible to establish that such a decrease was a result of the infringement, given the small volume of counterfeit goods offered for sale by most infringers due to the risk of facing “descriptive seizures”. In addition, most traders dealing in counterfeit products do not maintain regular books of accounts, which would help in determining the volume of counterfeit goods sold and the fraudulent gains generated.

B. PRE-ESTABLISHED DAMAGES

10. Alternately, the trademark owner may claim pre-established damages for counterfeiting as set by the legislator. This right benefits trademark owners who do not have the means to prove the extent of damages suffered and/or lack information about the loss of profits diverted by the infringer. It is a fixed amount set to compensate the trademark owner for the damages incurred, even when they do not suffer any real losses, *e.g.* when counterfeit goods are seized at a port before entering the national market. According to the case law, importers of counterfeit goods are liable for substantial compensation even when such counterfeit goods were neither sold nor made available to the public. Under this option, the trademark owner is exempted from providing proof of damage. In its decision no. 3280 of May 31, 2017, issued in case file no. 2017 8211-18450, the Casablanca Commercial Court of Appeal found that there was no substance to the appellant’s argument that the trial court failed to establish the extent of the loss sustained or the necessary reparation expenses incurred by the trademark owner, given that pre-established damages are awarded as presumptive compensation without requiring the plaintiff to establish the extent of the damages suffered. The Court accordingly upheld the trial ruling and dismissed the case.

IV. JUDGES’ COMPETENCE IN ASSESSING COMPENSATION

11. As a general principle, a judge is free to determine, in accordance with his / her own firm conviction, what constitutes appropriate compensation for damage, in light of the circumstances of the case and the evidence produced. However, such freedom is limited by the requirement to issue a ruling clarifying the reasoning by which the award was determined.

12. Under Moroccan legislation, failure to take into account the legal elements of compensation in a ruling shall be deemed a substantive flaw, providing grounds for challenge for improper or insufficient court reasoning. In its decision no. 2749 of November 20, 1985, issued in case file no. 81/27390, the Court of Cassation confirmed this principle, stating

“compensation is assessed on the basis of the actual loss and loss of profits sustained by the plaintiff. A court must thus issue a reasoned ruling, indicating the causes and the rationale of the award so that the Court of Cassation may ascertain the damage sustained by the plaintiff. Hence, the Court of Appeal, which decided to reduce the amount of damages awarded in the first instance, should have duly motivated its decision”.

13. Under Article 59 of the Civil Procedure Code, it is stated that where judges decide to call upon experts to clarify technical issues relevant to assessing compensation,

“they shall determine the subject-matter of such technical issues, on the understanding that they may not be of a legal nature. Experts shall provide an accurate and clear answer to each question but may not reply to any such questions as fall outside their field of competence and/or are of a legal nature”.

In addition, Article 66 states that “the judge may freely take or not take into account the expert’s opinion and may appoint any other expert to clarify further technical aspects of the dispute”. In its decision no. 1608 of March 28, 2018, issued in case file no. 2017 8211-18490, the Casablanca Commercial Court of Appeal considered that

“...by claiming for statutory damages between MAD 50,000 and MAD 500,000, the trademark owner becomes exempted from proving the damage sustained, whereas claiming for full compensation requires the plaintiff, i.e. the trademark owner, to prove the extent of damage sustained. As the decision to award MAD 800,000 was challenged on the basis that it is unfounded and did not indicate the rationale by which such award was deemed to compensate for the damage sustained by the trademark owner, the defendant, in his challenge, required the appointment of an expert to assess the actual damage sustained. The expert opinion concluded that the plaintiff was entitled to MAD 190,000 for damages; the plaintiff not having produced evidence to the contrary, i.e. establishing that the damage sustained exceeded the compensation assessed by the expert; this Court decides to overturn the decision, and reduces the award to MAD 190,000”.

V. CRITERIA FOR ASSESSING COMPENSATION

14. Considering the broad range set for pre-established damages, i.e. between MAD 50,000 and MAD 500,000, several rulings issued by commercial courts in Morocco, and most notably the Casablanca Commercial Court of Appeal, have taken into account in the calculation of damages the volume of counterfeit goods seized or sampled by the judicial commissioner. For instance, in its decision no. 2728 of May 20, 2014, the Casablanca Court of Appeal stated that

"having regard to the discretionary power of the court to determine pre-established damages, this Court finds that the amount of MAD 20,000 awarded is not sufficient to repair the damage caused, in light of the volume of seized counterfeit goods which comprised 686 pairs of shoes bearing the infringed trademark. Therefore, this Court hereby approves the claim to raise the compensation awarded to the [then] maximum amount of pre-established damages, namely MAD 25,000."

15. Furthermore, the type of trader offering counterfeit goods for sale is also taken into account when assessing compensation. Indeed, such compensation may vary depending on whether the defendant is a large professional trader who offers large quantities for sale or a minor trader who sells only a limited number of such counterfeit goods. In such cases, most rulings have awarded the minimum pre-established compensation of MAD 50,000. In this context, it is worth noting that a court may not award any compensation below MAD 50,000 even if it does not deem it proportionate with the resources of the defendant where, for example, only a limited number of counterfeit goods were seized from the defendant’s shop, the annual profits of which not exceeding MAD 50,000.

VI. IMPACT OF GOOD AND BAD FAITH ON ASSESSING COMPENSATION

16. With regard to the willfulness element of counterfeiting and its impact on the assessment of compensation, the Moroccan legislation and judiciary distinguish between two cases. Where the defendant is a natural or legal person who manufactures the counterfeit product, he / she shall be compelled to pay the above-mentioned compensation regardless of his / her good or bad faith. The rationale of this rule is self-evident since the manufacturer is the first link in the counterfeiting chain and is the primary responsible for the infringing activity. Indeed, the origin of wrongful acts must be subject to a more stringent legal framework.

17. On the other end, there is the “non-manufacturing” defendant, *i.e.* the person in whose shop the seized counterfeit goods were sold or offered for sale. In an attempt to avoid paying compensation, this type of defendant often seeks to establish his / her good faith by claiming that he / she was unaware that the relevant goods were bearing a fake mark. However, as a general principle under Moroccan jurisprudence, a professional trader who sells goods is deemed to have the technical ability to distinguish between original and counterfeit goods and may not claim good faith as long as he / she has the capacity to know the nature of the goods he / she is selling by means of price, quality or source.

18. Finally, another method of compensation would be to require the infringer to pay an amount equivalent to the cost of obtaining a license from the trademark owner. This method is applied by a number of countries, but not by Morocco. Indeed, several jurists have criticized its merits. In this regard, please refer to Dr. Ghassan Branpo’s “Trademark legal system: A comparative study”, where such an award was deemed a compulsory license of the trademark benefitting the infringer, who would only have to pay the cost of a license from the trademark owner as if they had done so from the beginning. This would give the infringer the same standing as a legitimate trader who obtained a legitimate license to use the trademark, whereas a legitimate licensee has to incur advertising expenses and is subject to strict quality control by the trademark owner.

EXPERIENCES ON QUANTIFICATION OF DAMAGES FOR INTELLECTUAL PROPERTY RIGHTS INFRINGEMENT IN THE UNITED KINGDOM

*Contribution prepared by Mr. Alan Johns QC, District Judge of the Intellectual Property Enterprise Court, High Court of Justice, London, United Kingdom**

ABSTRACT

An intellectual property (IP) right holder is entitled to damages for infringement of the IP right without the need to establish any knowledge on the part of the infringer. Further, the law provides an effective remedy for damages, namely negotiating damages, even if loss of a conventional kind cannot be established. In such cases damages are awarded in the sum which might reasonably have been demanded for permitting the wrong. That sum is arrived at by picturing a hypothetical negotiation between the right holder and the infringer and is a question for the court based on the evidence. In cases where the infringer knowingly committed the infringement, the court may award additional damages. Neither negotiating damages, nor additional damages, are punitive. There is only limited scope for damages to compensate for “moral prejudice”.

I. INTRODUCTION

1. This paper addresses the law in England and Wales and seeks to describe the current approach to quantifying damages for infringement of IP rights, as well as touching on the different remedies of an account of the infringer’s profits. It will be seen that the assessment of damages is, in each case, a question for the court on the available evidence. It is an exercise which proceeds on clear principles but which is often imprecise, involving a judicial estimation based on the material before the court.

II. CHOOSING DAMAGES

2. Where an IP right has been infringed, the right holder has a choice. They can ask either to be compensated for the damage done to them by the infringement or opt instead for an account of the profits made by the infringer from the infringement.

3. An account of profits is a different remedy to damages. Its purpose is to prevent the unjust enrichment of the infringer rather than to compensate the IP right holder for loss. The question of whether an infringement has caused a loss is different to the question whether the infringer has derived a profit from the infringement. Accordingly, what the right holder may have suffered by way of loss is irrelevant to an account of profits¹.

4. In order that a claimant can make an informed choice, once infringement has been established the practice is to direct the infringer to provide information as to its profit from the infringement². In the past, it has been usual for claimants to ask for damages, but recent experience shows a growing number of cases where an account of profits is chosen.

* The views expressed in this document are those of the author and not necessarily those of the Secretariat or of the Member States of WIPO.

¹ See *OOO Abbott v Design & Display Ltd* [2016] EWCA Civ 98.

² See *Island Records Ltd v Tring International plc* [1996] 1 WLR 1256.

5. On an account of profits, the court orders payment by the infringer to the right holder of the profit which the court decides the infringer has made from the infringement. In simple terms, that decision involves assessing the gross profit made on infringing sales and determining what expenses are properly deductible. The court's approach to the deduction of expenses in order to arrive at the actual profit is that the infringer may deduct (a) costs associated solely with the acts of infringement, and (b) a proportion of the infringer's overheads where these are properly attributable to the infringing activity³.

III. ENTITLEMENT TO DAMAGES

6. The entitlement to damages does not depend on showing any guilty knowledge on the part of the infringer.

7. While there is a defence of innocence in design cases, as well as copyright and patents, such defence is very narrow and rarely established. In *Kohler Mira Ltd. v Bristan Group Ltd.* [2014] EWHC 1931 (IPEC), the court rejected an argument based on Section 233(1) of the Copyright, Designs and Patents Act 1988 which provides that where "it is shown that at the time of the infringement the defendant did not know, and had no reason to believe, that design right subsisted in the design to which the article relates, the [claimant] is not entitled to damages against him". His Honour Judge Hacon said

"I think the fallacy of the argument lies in the suggestion that in the normal course a defendant who comes across an article will have no reason to believe that a design right subsists. In the context of an industrial article, that will generally not be the case. If the defendant picks up a stone from a beach, plainly a reasonable man in his position would have no reason to believe that design right subsists in its design. By contrast, he is likely to have good reason to suppose that design right subsists in an industrial article".

IV. DAMAGES ARE COMPENSATORY

8. How then are damages quantified? The basic principle is that they are compensatory and will put the claimant back in the same position as he would have been in if the infringement had not occurred. In *General Tire & Rubber Co v Firestone Tyre & Rubber Co Ltd.* [1975] 1 WLR 819, Lord Wilberforce stated the general rule as being that "the measure of damages is to be, so far as possible, that sum of money which will put the injured party in the same position as he would have been in if he had not sustained the wrong". He expressed one of the essential principles in assessing those damages as follows: "that the defendants being wrongdoers, damages should be liberally assessed but that the object is to compensate the plaintiffs and not punish the defendants".

9. The application of those principles is straightforward where the effect of the infringement is to divert sales away from the IP right holder (albeit there may be difficulties of calculation). The loss for which the right holder will be compensated in those cases is their lost profit, principally the profit which would have been realised by the IP right holder if the sales had been made by them rather than the infringer. It may also include lost profit on their own sales where they were forced by the infringement to reduce their price.

³ See *OOO Abbott v Design & Display Ltd* [2017] EWHC 932 (IPEC)

10. In deciding what profit was lost, the court first forms a view as to what proportion of the defendant's sales the claimant would have made. It then has to decide what extra costs would have been incurred. In doing so, it takes into account the fact that the lost sales are of "extra production" so that only certain specific extra costs would be referable to the additional sales. However, it also allows for the fact that, in practice, costs do go up with production⁴.

V. NEGOTIATING DAMAGES

11. What about those cases where sales are not diverted?

12. The answer is provided by adopting a similar approach as in cases of real property. Where a trespasser makes use of someone else's land, the landowner is entitled to damages in the sum that might reasonably have been demanded for permitting such use.

13. Damages are available on a similar basis for infringement of IP rights. Such damages are now referred to as "negotiating damages" and are regarded as "providing compensation for loss, albeit not loss of a conventional kind". The rationale is that the wrongdoer "takes something for nothing, for which the owner was entitled to require payment"⁵.

14. As with real property cases, the damages are in the sum which could reasonably have been charged for the permission and require the court to assess the result of a hypothetical bargain or negotiation between the IP right holder and the infringer⁶.

15. In all cases, that assessment is one for the court on the evidence. As Lord Wilberforce put it in *General Tire & Rubber Co v Firestone Tyre & Rubber Co Ltd*: "The ultimate process is one of judicial estimation of the available indications".

16. It may be that a going rate of royalty can be established on the evidence. But "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 bargain⁷".

17. If no going rate can be established, the assessment may be more difficult.

18. The principles applying to the hypothetical negotiation include the following:

- That one or both parties would not in fact have reached an agreement is irrelevant.
- The hypothetical licence is for the period of the infringement.
- The Court will have regard to the circumstances in which the parties were placed at the time.
- If the infringer would, at the time of the hypothetical negotiation, have had available a non-infringing alternative, account will be taken of that alternative.

⁴ See *Ultraframe (UK) Ltd v Eurocell Building Plastics Ltd* [2006] EWHC 1344 (Pat).

⁵ See *Morris-Garner v One Step (Support) Ltd* [2018] UKSC 20.

⁶ See *General Tire & Rubber Co v Firestone Tyre & Rubber Co Ltd*.

⁷ Lord Wilberforce in *General Tire & Rubber Co v Firestone Tyre & Rubber Co Ltd*.

- The alternative need not to have had all the attributes of the infringing use.
- But the court will not take into account the parties' financial circumstances or character traits⁸.

19. It will be apparent that this is not an exercise in precision. It has been described as sometimes involving “the exercise of a sound imagination and the practice of the broad axe”⁹.

VI. ADDITIONAL DAMAGES

20. While, as already noted, the entitlement to damages does not depend on showing guilty knowledge, in cases of knowing infringement additional damages may be available. Article 13(1)(a) of Directive 2004/48/EC permits recovery of further damages, in such cases, having regard to “unfair profits made by the infringer”.

21. These are still not punitive. They have been said to be available where the court reaches the view that the sum otherwise arrived at for damages, or on an account of profits, does not adequately compensate the claimant for the actual prejudice suffered. Art. 13(1)(a) allows the court, in those cases, to award an additional sum related to unfair profit made from the infringement¹⁰.

22. One example (given in *Henderson v All Around the World Recordings Ltd.*):

“if the defendant made no direct financial profit from the infringement – so an account of profits would be of little use – but his business expanded in volume and/or in reputation on the back of loss-leader infringements. For the claimant, aside from losing sales there would be a likelihood of further loss because of the expansion of a competing business. The expansion would not constitute a profit by the defendant in the usual direct sense, but it would be a contingent profit nonetheless and an unfair one.”

VII. MORAL DAMAGES

23. Art. 13 (1)(a) also allows the court, in cases of knowing infringement, to give damages for “moral prejudice caused to the right holder by the infringement”. But the court has decided there is limited scope for such awards. “The one thing which is clear about “moral prejudice” is that it relates to something which is not an economic factor. I think it is likely to arise only in very particular circumstances ...”¹¹.

⁸ See *32Red plc v WHG (International) Ltd* [2013] EWHC 815 (Ch).

⁹ A quotation in *32Red plc v WHG (International) Ltd*.

¹⁰ See *Henderson v All Around the World Recordings Ltd* [2014] EWHC 3087 (IPEC).

¹¹ *Ibid.*

24. An example of such circumstances was given in *Kohler Mira Ltd. v Bristan Group Ltd.*:

“if a defendant were to infringe the copyright in photographs disclosing private grief by publishing them on the internet, that may generate no profit for the defendant and no financial loss for the copyright owner. But the emotional stress caused might be acute. In those circumstances, Art. 13(1)(a) would allow the court to award appropriate compensation, hitherto unavailable in England to copyright owners”.

THE STUDY ON THE QUANTIFICATION OF MONETARY RELIEF OF THE INTERNATIONAL ASSOCIATION FOR THE PROTECTION OF INTELLECTUAL PROPERTY (AIPPI)

*Contribution prepared by Dr. Ari Laakkonen, Assistant Reporter General, AIPPI, Zurich, Switzerland**

ABSTRACT

This paper summarizes the main issues highlighted by National and Regional Groups of the International Association for the Protection of Intellectual Property (AIPPI) during the Study on the Quantification of Monetary Relief that AIPPI concluded in October 2017. The discussions focused on the quantification of damages (the actual profits of the right holder lost as a result of the infringement) and reasonable royalties (an estimate of damages obtained by applying a reasonable royalty to the infringer's unlawful sales). They also addressed the principles applicable to the recovery of damages for conveyed goods and for goods into which an infringing article are incorporated, as well as the recovery of damages for future losses. The quantification of claims for accounts of profit, i.e., the infringer's unlawful profit attributable to infringement, was not within the ambit of the Study.

I. ABOUT AIPPI

1. The International Association for the Protection of Intellectual Property, generally known under the abbreviated name AIPPI, is the world's leading international non-governmental organization dedicated to the development and improvement of legal regimes for the protection of intellectual property (IP).
2. It is a politically neutral, non-profit organization, established in Switzerland, which currently has over 9000 members representing more than 125 countries. The objective of AIPPI is to improve and promote the protection of IP on both international and national bases. It pursues this objective by working for the development, expansion and improvement of international and regional IP treaties and agreements and national IP laws. It operates by conducting studies of existing national laws and proposing measures to achieve harmonization of these laws on an international basis. Where appropriate, AIPPI intervenes with submissions before major courts and legislative bodies to advocate for strengthened IP protection.

II. AIPPI STUDY ON THE QUANTIFICATION OF MONETARY RELIEF

3. In response to a questionnaire prepared by the AIPPI's Reporter General on the Quantification on Monetary Relief¹, forty reports were received from AIPPI's National and Regional Groups providing detailed information and analysis regarding national and regional laws. These reports were reviewed by the Reporter General of AIPPI and distilled into a Summary Report². At the AIPPI World Congress in Sydney in October 2017, the AIPPI

* The views expressed in this document are those of the author and not necessarily those of the Secretariat or of the Member States of WIPO.

¹ <http://aippi.org/wp-content/uploads/2017/01/FINAL-website-version-Quantification-of-monetary-relief.pdf>.

² http://aippi.org/wp-content/uploads/2017/08/Summary-Report-Quantification-of-monetary-relief_16August2017.pdf.

Executive Committee adopted a Resolution on the issue, following discussions within a dedicated Study Committee and in a full Plenary Session³.

4. This paper summarizes the main issues highlighted by AIPPI's National and Regional Groups as relevant to the quantification of damages, mainly in relation to damages for infringing sales. The quantification of monetary relief in relation to infringing acts other than sales was not considered in detail. For example, this could include damage arising from the acts of importing, keeping, storing, warehousing and offering for sale. It is hoped that the quantification of damages flowing from these non-sales acts can be the subject of future AIPPI studies.

III. DAMAGES: PRINCIPLES

5. The main issue of principle that arises is whether damages should reflect the damage suffered by the right holder or the unlawful profit derived by the infringer from the infringement.

6. There appeared to be consensus amongst the Groups that several different ways of approaching the quantification of actual loss exist, including at least (1) quantifying the lost sales/profits of the right holder; (2) using a hybrid approach and quantifying the right holder's lost sales but applying the infringer's profit margin to these sales; and (3) assessing a reasonable royalty. Methods (2) and (3) are proxies for method (1).

7. National Groups also stated that losses suffered by the right holder can include lost or lower profits in respect of price erosion, if the erosion is a consequence of infringement.

IV. DAMAGES: UNDER- AND OVER-RECOVERY

8. A mere evaluation of the right holder's lost sales suffers from the disadvantage that it involves the quantification of sales that might have happened, but never in fact happened. It is therefore by its nature inexact. Further, highly variable levels of compensation are possible:

- in circumstances where the right holder is only just launching the product in question, the lost sales of the right holder could be very small indeed – which could then lead to very low levels of compensation for the infringement, possibly far below the cost of enforcing the IP rights in question;
- in situations where the infringement causes a very large loss in sales for the right holder, the quantification of damages could lead to compensation to the right holder which is out of proportion with the scale of infringement.

9. In the second scenario, although an infringer might be surprised by the scale of damage caused, no National Group identified an unexpectedly high level of compensation as a problem. In contrast, the problem of under-recovery appears to be a concern to many Groups.

10. Quantifying damages by reference to the lost profits of the right holder also suffers from the potential disadvantage that courts may be unwilling to accept evidence of lost sales if that evidence is not strong enough. This puts the right holder in the position of having to provide strong evidence of something that did not happen – which can be difficult in practice and may result in under-recovery. In extreme cases, the court may decline to order any damages at all, because losses cannot be proven to a sufficiently high level of confidence.

³ http://aippi.org/wp-content/uploads/2017/10/Resolution-on-Quantification-of-montary-relief_English.pdf.

11. Under-recovery is also a particular problem where the damages recovered are lower than the cost of litigating, especially in jurisdictions where the prevailing party cannot recover costs from the losing party.

12. Some of the ways of addressing under-recovery of the right holder's lost profits identified by National Groups were:

- providing a robust mechanism to enable the right holder to obtain evidence from the infringer;
- providing a robust mechanism to protect the confidentiality of information on damages provided by the right holder to the Court. A right holder may in practice be forced to withhold information if the commercial damage caused from the information entering the public domain could exceed the damages the right holder is seeking to recover;
- especially by the Group of the United States of America, statutory damages in the case of copyright infringement and enhanced damages in the case of patent infringement for willful infringement;
- by most Groups, reasonable royalties determined by reference to the sales of the infringer, but still aimed at estimating the licensing income lost by the right holder and therefore still aimed at estimating the loss of the right holder; and
- in some jurisdictions, allowing right holders to estimate their loss by reference to the profits made by the infringers, including the infringers' profit margins.

13. All Groups agreed that leaving the right holder with no damages at all is highly undesirable, and the logical consequence is that on occasion the courts must be prepared to estimate damages even when the amount of evidence available is relatively small.

14. About half of the Groups reported that punitive damages could be awarded when justified. However, as reflected in the Resolution that followed, the majority of Groups did not wish to go too far in introducing elevated damages or other mechanisms that could in extreme cases over-compensate for low recovery, since damages should in some way be an estimate of the loss suffered by the right holder and not the unlawful profits made by the infringer. The disadvantages of under-recovery are obvious; but the disadvantages of over-recovery are less so. Allowing right holders to over-recover can ultimately give them a disproportionate advantage and encourage litigation which aims to simply monetize the IP asset in question.

V. LOST PROFITS OF THE RIGHT HOLDER: FACTORS TO BE CONSIDERED

15. There was a good consensus on the factors that are relevant to the assessment of the right holders' lost profits. The main focus is on estimating the sales that have been diverted from the right holder to the infringer as a result of the infringement. A non-exhaustive list of factors common to many jurisdictions includes:

- the similarities and differences between the parties' competing products or services (e.g., design, quality, price, sales channels);
- the availability of other substitutable products or services in the market;
- the capacity of the right holder to meet demand;

- sales, service and warranty offerings of the parties;
- geographic reach;
- reputation of the parties in the market;
- advertising spend;
- price of the products or services; and
- change in the right holder's turnover following the commencement of infringing sales.

16. In circumstances where diversion has not occurred, e.g., where the rightholder has not yet launched products on the market, other factors will be relevant.

VI. REASONABLE ROYALTIES

17. In most jurisdictions it is possible to quantify damages by a reasonable royalty in respect of infringing sales. It should not be possible to recover, in respect of any single infringing act, both damages and a reasonable royalty. The reason for this is that reasonable royalties are a proxy for damages in circumstances where damages cannot be quantified, and recovering both reasonable royalties and damages would allow the right holder to recover twice for the same loss.

18. The case law of several, mainly common law-based, Groups provides that the principle to be applied when assessing reasonable royalties is that the royalty should be a reasonable royalty in a hypothetical negotiation between the parties, and the parties should be considered as if they were willing licensor and licensee, respectively, with the attributes of the actual right holder and infringer but disregarding the fact that one or both parties would not in practice have agreed to license the IP right in suit. The reasonable royalty should be assessed on the basis that the IP right in suit is valid and infringed.

19. However, a significant number of Groups take the view that a reasonable royalty should be established by simply valuing a license through various data points, such as the duration of the license. In particular, a number of Groups take the view that royalties as a proxy of damage suffered by the right holder do not have to be "reasonable" royalties as such, just compensatory royalties that estimate the damage to the right holder. It is not in any case clear that there is a substantive difference between these two concepts, and perhaps the issue, if one exists, is that reasonable royalties have not been high / "reasonable" enough to be sufficiently compensatory.

20. Regardless of the theoretical basis involved, there was broad support amongst the Groups for a common list of factors to be taken into account:

- other license agreements of the same IP right as the IP right in suit (but taking due account of the circumstances in which any such other license agreement was negotiated and, in particular, but not limited to, whether infringement and/or validity of the IP right in suit had been determined);
- other license agreements of similar IP rights to the IP right in suit;
- the cost of non-infringing alternatives;

- advantages of the IP right in suit when compared with alternatives (including any applicable license fees for alternatives);
- profitability of the products or services encompassing the IP right in suit;
- development costs of the IP right in suit; and
- the absence and/or circumstances of prior licensing discussions between the parties.

VII. CONVOYED GOODS AND MULTI-COMPONENT PRODUCTS

21. The expression “convoyed goods” is used to refer to non-infringing goods sold together with infringing goods. A similar issue arises where the IP right in suit relates to a part of a multi-component product or service sold by the infringer, and the part is integrated into the larger multi-component product.

22. Examples of convoyed goods are easy to find and common. For instance, unmarked non-infringing left-foot shoes may be sold together with infringing right-foot shoes that bear a trade mark. If damages were to be assessed only on the basis of the value of the infringing right-foot shoes alone, the infringer could decide to sell individual right-foot shoes for less and non-infringing left-foot shoes for more, thereby artificially reducing damages. The circumvention of damages is prevented by allowing the recovery of damages for convoyed goods, provided that causation is shown. Whilst only a relatively small number of groups⁴ reported that they had current judicial decisions in which the recovery of damages for convoyed goods had been allowed, there was broad support amongst the Groups⁵ for the principle that damages should be recoverable for convoyed goods if the sale of non-infringing goods result from the sale of the infringing goods.

23. Substantially the same test requiring causation to be shown is applied in relation to multi-component products. The value to be attributed to the IP right in suit (and the compensation available by way of lost profits or reasonable royalty) should be assessed having regard to the extent to which the infringing component provides the basis for customer demand for that multi-component product or service. For example, in the case of the sale of a car, it is easy to imagine that greater demand for the car is created by the engine in the car, in comparison to individual nuts and bolts even if those nuts and bolts are used extensively in the construction of the car. In both cases, the relevant question is to what extent the customer demand for the whole car is driven by demand for the component integrated into the car.

VIII. FUTURE LOSSES

24. There was broad support for the principle that, when assessing damages, regard should be had to the present value of future losses that will be sustained by the right holder after the date of the damages award.

25. Damages for future losses may be quantified in various ways: for example, by way of a reasonable royalty assessed on future sales of the infringer, or by quantifying the lost future sales of the right holder into a single lump sum.

⁴ Australia, France, Italy, Japan, New Zealand, Sweden, United States of America.

⁵ Argentina, Australia, Austria, Belgium, Canada, China, Estonia, France, Germany, Hungary, Italy, Japan, Latvia, Malaysia, Mexico, Norway, Paraguay, Portugal, Sweden, United Kingdom, United States of America.

26. The mere fact that an injunction is also granted in addition to damages does not mean that there will be no future losses.

27. This recognizes the practical reality that, while an injunction may stop the infringement, the injunction might not stop the right holder from suffering further harm. Further harm may be suffered, e.g., because the infringement has caused a price drop or a loss of market share and because it may take longer, if at all, for prices to recover or market shares to be regained.

28. It was reported by a significant number of National Groups that, while their national laws allowed the recovery of damages for future losses in principle, in practice it was extremely difficult to prove the quantum of future losses.

IX. CONCLUSIONS

29. A number of themes, reflecting significant issues faced by courts, emerged from the reports of the National Groups:

- It can be difficult for the right holder to prove losses without adequate access to information and documents in the infringer's possession, custody or control;
- In some circumstances, even the best possible information available will only give the court a partial picture, and the court needs to be ready to quantify damages based on the information that is available without either excessive over- or under-recovery for the right holder, even if the quantification does not yield a figure which is known to be exact.
- The confidentiality of the right holders' business information should be protected for them to be in a position to disclose this information to the court for use in quantifying damages. In particular, right holders should not suffer further loss as a result of disclosing business information to the court.

30. It is a common feature of the legal systems of the National Groups that the factors to be taken into account when quantifying damages (both loss of profits and reasonable royalties) should not be limited. The factors are always highly fact-sensitive, and rigid limits on admissible evidence can lead to inaccurate quantification.

31. The information to be taken into account when quantifying damages should include everything that is relevant to assessing the damage suffered by the right holder, whether that is by reference to the losses of the right holder or by reference to reasonable royalties on the sales of the infringer.

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