



Guidelines for National and Regional Group Reports

The majority of the National and Regional Groups follows the Guidelines for the arrangement of their Reports and thereby contributes to a quicker and cheaper printing of the Summary Yearbooks. We are most grateful for this support and would like to draw your attention to following Guidelines:

- 1) The National and Regional Groups are responsible for the contents, spelling and trilingual summaries in their Reports. The texts will normally be printed without further correction.
Please avoid sending us full translations of the Group Reports. Summaries in the two other languages will be sufficient.
- 2) Drafts cannot be accepted. Please only send final versions.
- 3) Please deliver your Reports by e-mail only. Our address is: mail@aippi.org. If you cannot provide the Reports by e-mail please contact us.
- 4) Please rewrite/include the questions in your Reports.
- 5) Please try to stick to a clear and simple presentation of the Group Reports without too many sub-paragraphs.
- 6) Please avoid too many and long footnotes.
- 7) We shall not be able to publish extracts of National Laws as Annexes. If necessary please make a reference to the laws in questions (websites).

For further questions concerning the presentation of Group Reports you are kindly invited to contact the AIPPI General Secretariat at mail@aippi.org.

Please make sure that your Reports are sent before **February 1, 2005**.

AIPPI General Secretariat, Zurich

Working Guidelines

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Question Q186

Punitive damages as a contentious issue of Intellectual Property Rights

Introduction

- 1) 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 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 aggravation to his feelings of the tort in question.
- 2) 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.
- 3) 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.

Previous work of AIPPI

- 4) 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.
- 5) In Q169 "Criminal law sanctions with regard to the infringement of intellectual property rights" AIPPI resolved (Yearbook 2002/II page 383) that criminal sanctions should be available to combat "wilful infringement" of IP rights.
- 6) The issue of punitive damages was discussed in detail in relation to patent infringement in a 1995 Workshop "Damages and Other Financial Remedies for Patent Infringement", No. VII, Yearbook 1995, page 272. The Workshop considered whether damages are "intended only to compensate the patent owner or also to punish the infringer". Martin Adelman (US Group) reported that US law permits a judge or jury to award multiple damages or penal damages (which cannot exceed twice the monetary award) under extraordinary circumstances in patent infringement cases. The infringement must be "wilful" for penal damages to be awarded. The US Federal Circuit has invigorated this doctrine by holding that an infringer who knows of a patent that it may be infringing has an affirmative duty of care not to infringe that patent unless it has a good faith belief that the patent is either not infringed or invalid.

- 7) The meaning of "wilful" has been examined in numerous cases. In *Ortho Pharmaceutical Corp. v. Smith* 959 F.2d 936, 22 U.S.P.Q.2d 119 (Fed. Cir. 1992) the court, in finding no wilful infringement, held that the Ortho obtained and reasonably relied (based on the thoroughness of the letter and the experience of the counsel) upon opinion letters rendered by counsel. However, the court "stopped short of creating a safe harbour for an infringer with a good faith belief in the correctness of its legal position when beginning infringing activity". Mr Adelman suggested that given the uncertain fashion in which the law on enhanced damages in the USA is structured, there should be a safe harbour which, if followed, will protect members of the public from enhanced damages. This will "diminish the fear that a member of the public with a good faith belief in the invalidity or non-infringement of a patent will hesitate to challenge that patent" because of a fear of having to pay penal damages in addition to conventional damages if he/she is wrong.
- 8) In Canada, treble damages may in theory be awarded, but virtually never are.
- 9) No participant from a country other than the USA and Canada mentioned the possibility of multiple damages. Jochen Pagenberg (German Group) explained that the German system is one of "damage-compensation"; recent discussions have considered whether this provides sufficient protection to the patentee. Many practitioners have "the impression that the financial risks for an infringer are seldom a sufficient deterrent, and in case of a successful product rather an invitation to infringe."

Discussion

- 10) Article 45(1) TRIPS provides that judicial authorities can order the infringer to pay damages adequate to compensate the right holder for the injury he has suffered from the infringer's infringement of his rights, where the infringer infringed knowingly, or had reasonable grounds to know that he was infringing. Article 45(2) provides that the judicial authorities can also order the infringer to pay the right holder's expenses. It further provides that "in appropriate cases, Members may authorise 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."
- 11) Article 45(1) appears to provide for the award of standard and, perhaps, aggravated damages (depending on the understanding of "injury") to a right holder. The second sentence of Article 45(2), in permitting "recovery of profits" from the infringer, may allow for an award of punitive damages. However, "appropriate cases" is not defined, and the fact that these damages can be awarded even where the infringer did not knowingly infringe suggests that this article is not intended to provide for punitive awards.
- 12) EU Directive on the enforcement of intellectual property rights (2004/48/EC) provides (Article 13) that damages should be available to compensate a right holder. However, there is no suggestion that punitive damages should be available.
- 13) The US appears to have the most developed law and practice on punitive damages in intellectual property cases. A full discussion of the US position in patent cases is set out in the report of the Workshop "Damages and Other Financial Remedies for Patent Infringement" discussed above. Most recently the US Court of Appeals for the Federal Circuit has taken the case *Knorr-Bremse v Dana and Haldex* (133 F. Supp. 2d 833 (E.D. Va 2001)) en banc (order of 26 September 2003) to reconsider its precedent concerning the claiming of adverse inferences with respect to wilful patent infringement. Issues include whether a defendant is obliged to take legal advice to confirm that there is no infringement and then to disclose that advice in litigation to protect the position against a finding of wilful infringement. The availability of pre-trial discovery and its geographic scope are also relevant, particularly where a party is obliged to give discovery in US proceedings of document held in a country which does not itself provide for discovery.

- 14) In the UK punitive damages may be awarded but only in cases of “oppressive, arbitrary or unconstitutional action by the servants of the government” or where “the defendant’s conduct has been calculated by him to make a profit for himself which may well exceed the compensation payable to the plaintiff” (*Rookes v Barnard* [1964] AC 1129). *Rookes v Barnard* also provides that the court must take into account three considerations in any case in which punitive damages are being claimed: (i) the plaintiff must himself be the victim of the punishable behaviour; (ii) the power to award punitive damages must be used with restraint; and (iii) the means of the defendant, and everything which aggravates or mitigates his conduct, are all relevant. The case further provides that, in general, punitive damages are anomalous, as they confuse civil and criminal aspects of the law.
- 15) The tort must be one for which punitive damages had been awarded prior to *Rookes v Barnard*. It follows that no punitive damages can be awarded for patent infringement (*Catnic Components v. Hill & Smith* [1983] F.S.R. 512). In *Cala Homes v Alfred McAlpine Homes* [1993] Q.B. 507 Laddie J held that additional damages for copyright infringement did not have to be purely compensatory and could include a punitive element.
- 16) In Germany, Switzerland and other civil law countries, it appears that an award of punitive damages is not available as a matter of principle in any type of civil case. However, collecting societies are occasionally awarded damages equivalent to double their national licensing rates when the defendant has failed to take a licence and reproduces a copyright work without permission. However, such jurisdictions may become involved in cases concerning willful infringement when discovery requests e.g. from the US are made in national proceedings.

Questions

National and Regional Groups are invited to answer the following questions:

- 1)
 - a) Does your country have a concept of punitive damages?
 - b) If so, does it apply to patents, trade marks and other IPR?
 - c) Would the possibility of an award of punitive damages be of benefit in infringement cases?
 - d) Is your Group in favour of courts having power to award such damages in IP cases?
- 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?
- 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 that advice assessed in subsequent infringement proceedings?
- 4)
 - a) Is there a pre-trial discovery system which allows an IP owner to review the defendant’s behaviour?
 - b) If so, are the parties required to give discovery of documents held abroad?
- 5) What is the impact in court proceedings in your country of the ability of courts in other countries to award punitive damages?

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

National Groups are invited to comment on any additional issue concerning punitive damages which they find relevant.

Note:

It will be helpful and appreciated if the Groups follow the order of the questions in their Reports and use the questions and numbers for each answer.