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Damages in IP Infringement Matters – Calculation Methods and Liable Persons

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Legal / Statutory Framework

- Art. 45 TRIPS
- Art. 13 EU-Directive 2004/48/EC (Enforcement Directive)
- § 139 II PatG (German Patent Act); § 15 V MarkenG (German Trademark Act), § 97 II UrhG (German Copyright Act)
  - In cases of willful or negligent infringement, the infringer must compensate damages to the IP-right owner.
- §§ 249, 252 BGB (German Civil Code)
  - Infringer must fully compensate all damages including lost profits caused by the infringement act.
- § 287 ZPO (German Code of Civil Procedure)
  - If there is controversy among the parties as to size and amount of damages to be compensated, the court decides using its free discretion taking into account all relevant circumstances. The decision of the court includes the issue of what evidence it wants to take and whether it wants to appoint an expert to testify.

Damage Calculation

- Basic rule “natural restitution” (compensation as if infringement would not have happened), § 249 BGB
- Triple method of damage calculation
  - License analogy (fictive royalty)
  - Lost profits of IP-right owner
  - Infringer’s profits
- Which method applies?
  - IP-right owners’ choice
  - Methods must not be combined
  - Rights owner may switch from one method to another

Damage Calculation

- Differences between IP-rights?
- Different results if applying different calculation methods?
  - Causation issues; e. g. aftermarket sales
  - Damage calculation in the distribution chain
  - Is interest part of the damage?
- What are means of evidence to establish calculation basis and royalty rate?
- Issues of License analogy
  - What is the turnover basis for the calculation?
  - What determines the royalty rate?
  - Happy infringer – mark up of royalty rate?

Damage Calculation

- Issues of Lost Profits
  - Which sales/profits has patentee lost – does he practice the invention?
  - Profitability of patentee's operations; does he want to disclose his figures?
  - Causation of lost sales/profits by infringement?
    - other competitors?
    - market shares?
    - overall market – situation/conditions?

Damage Calculation

- Issues of Infringer's profits
  - Profit (sales ./. costs)? Deductible costs? BGH GRUR 2001, 329 - Gemeinkostenanteil
  - Causation factor (0-100%?)? BGH GRUR 2012, 1226 - Flaschenträger
    - significance of protected invention
    - work around solution available
    - several or just one IP-right applicable to infringing product
    - advertising, promotion of infringer

Issues of Causation(-factor)

- Relevant for all calculation methods?
- Circumstances, facts considered relevant
  - technical and economic importance of the invention, IP-right
  - easy substitute / work around
  - several / many patents implemented in a product
  - market situation /-shares of IP-right owner / infringer
  - Standing, market-/distribution power of infringer
  - Springboard effect; Aftermarket
  - unsafe position / short amortization period for infringer

Liable Persons

- Difference between damages and other claims resulting from infringement?
- The (direct) infringer
- Inducement to, support of infringement
- Joint tortfeasor – jointly and severably liable
- Liability of directors
- Indirect infringer
- Fault (negligence, intent)

Conclusions, Study Question(s)

- Importance of information and accounting
- Information and accounting must be obtained in base proceeding
- Choice of method of calculation is critical – results may vary significantly
- Eventually, court will end up estimating amount of damages; court has wide discretion; limited review upon appeal
- Study question(s)!? Proposals for harmonization

AIPPI Study Question

I. Current law and practice

1. What rules and methods are applied when quantifying actual loss?

   In particular, please describe:

   a) the method used to determine the diversion of sales, i. e the part of the infringing sales that the rightholder would have made but for infringement;
   b) what level of profit margin is taken into account.

2. What rules and methods are applied when quantifying a reasonable royalty?

   In particular, please describe:

   a) the royalty base;
   b) how relevant comparables among license agreements are defined;
   c) how a reasonable royalty is quantified in the absence of relevant comparables;
   d) the nature of the royalty, e.g. lump-sum, percentage of revenues or profit, a mix?

AIPPI Study Question

I. Current law and practice

3. What rules and methods are applied when quantifying the infringer's profits, as part of quantifying damages?

   In particular, please describe:

   a) the method to determine the profits resulting from the infringement, i.e. resulting from the use of the IP right;
   b) what level of profit margin of the infringer should be taken into consideration.

4. What rules and methods are applied, both when quantifying actual loss and quantifying a reasonable royalty:
   a) in relation to convoyed goods;
   b) where the infringing product forms part of a larger assembly; or
   c) where the IP rights found infringed are routinely licensed together with other IP rights as a portfolio?
   d) when the damage suffered by the rightholder is related to competing goods which do not implement the infringed IP rights?

5. Are any of the rules and methods addressed in your answers to 1) to 4) above different when considering the damage suffered by the rightholder or by its licensee?

AIPPI Study Question

I. Current law and practice

6. What kinds and types of evidence are accepted for proving:
   a) the quantum of actual loss;
   b) the quantum of reasonable royalties.

   For example, is expert accounting evidence on past licensing practices accepted?

7. What mechanisms (e.g. discovery) are available to the rightholder to assist with proving the quantum of actual loss or reasonable royalties?

8. How, if at all, does the quantification of damages for indirect/contributory infringement differ from the quantification of damages for direct infringement?

9. Are forward-looking damages (e.g. damage in relation to an irreversible loss of market share) available:
   - ☐ if an injunction has also been granted;
   - ☐ only if an injunction has not been granted; or
   - ☐ not at all?

   Please tick or fill in only the applicable box. Please explain your answer.

AIPPI Study Question

I. Current law and practice

10. Is the bad faith of the infringer taken into account in the assessment of the damage? If so, how is bad faith defined and is it possible to infringe a patent in good faith?

11. How do courts take into account the damage suffered because of the time between the date of the infringing acts and the date of the award of damages taken into account?

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

12. Are there aspects of these laws that could be improved?

13. If the Court determines a reasonable royalty by reference to a hypothetical negotiation, should:
    - ☐ the Court's assessment of the hypothetical negotiation be under an assumption that all the IP rights in suit are valid and infringed?
    - ☐ the Court first be required to find that all the IP rights in suit are valid and infringed?

    Please tick or fill in only the applicable box. Please explain your answer.

14. If the Court does not determine a reasonable royalty by reference to a hypothetical negotiation, what factors and what evidence should be relevant in that determination?

15. Should the quantification of damages depend on whether injunctive relief is granted, e.g. should forward-looking damages for a loss of market share be available if an injunction is also being granted or only if an injunction is not granted?

AIPPI Study Question

III. Proposals for harmonisation

16. Is harmonisation of the quantification of damages desirable?

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

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

17. Please propose the principles your Group considers should be applied when quantifying actual loss.

18. Please propose the principles your Group considers should be applied when quantifying reasonable royalties, explaining in particular:

a) the relevance, if any, of a hypothetical negotiation and whether the hypothetical negotiation should be under the assumption that the IP rights being negotiated were or were not found valid and infringed;
b) the relevance, if any, of prior licensing practices or prior going rates for licensing the IP rights in suit; and
c) the relevance, if any, of prior licensing practices or prior going rates for licensing other IP rights of third parties that may or may not be similar to the IP rights in suit.

AIPPI Study Question

III. Proposals for harmonisation

19. Please propose, in relation to actual loss and reasonable royalties:
    a) how convoyed goods should be dealt with;
    b) how competing goods of the rightholder, not making use of the patent, should be dealt with; and
    c) how damages should be determined when the infringing product forms part of a larger assembly.
20. Please propose principles your Group considers should be applied when quantifying the damages for indirect/contributory infringement in circumstances where there is no direct infringement of the IP rights in suit.

21. Please comment on any additional issues concerning any aspect of quantification of damages you consider relevant to this Study Question.

Thanks for your attention!