

Report Q186

in the name of the United Kingdom Group
by Geoffrey BAYLISS, Daniel BROOK, Trevor COOK, Matthew FELWICK,
Nick GARDNER, Neil JENKINS, Nicholas MACFARLANE, Roland MALLINSON, Jocelyn MAN,
Christopher MORCOM QC, David MUSKER, Doris MYLES, David PERKINS,
John REID, Tony ROLLINS, Ashley ROUGHTON, Peter SMITH, Edward STANFORD,
Jonathan TURNER, Jan VLECK and Ian WOOD

Punitive damages as a contentious issue of Intellectual Property Rights

Questions

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

Damages in the UK are usually awarded on a compensatory basis.¹ However, exemplary damages, which are intended to punish the wrongdoer, are available in a limited number of cases, where remedies calculated on a compensatory basis would be inadequate so to do. Exemplary damages are the closest approach that the UK has to punitive damages.

The key case on this area of law is *Rookes v Barnard*². This case is from the mid 1960's and involved a trade union dispute. It sets out the categories in which exemplary damages may be awarded. They are:

- i) oppressive, arbitrary or unconstitutional action by servants of the government;
- ii) wrongful conduct which has been calculated by the defendant to make a profit for himself which may well exceed the compensation payable to the plaintiff; and
- iii) where such an award is expressly authorised by statute.

The Court of Appeal in *AB v South West Water*³ set out a further requirement, namely that the cause of action must be one in which exemplary damages were awarded prior to *Rookes v Barnard*. The rationale behind this further test was that the House of Lords had wished to limit the causes of action for which exemplary damages could be claimed, and was based in part on another House of Lords opinion, *Broome v Cassell*⁴. The House of Lords considered this requirement in 2001, in *Kuddus*⁵, and held that there was no such bar, although that case was concerned with the category i) in *Rookes v Barnard*, which is the category in which the greatest development in this area of the law has taken place in recent years.

¹ Compensatory damages are intended to place the aggrieved party back in the position he would have occupied had the infringement not occurred. Aggravated damages (the claimant's compensatory damages may be rounded up where conduct of the defendant in committing the tort was malicious or oppressive) and an account of profits are viewed as compensatory in nature. It should also be noted that the successful party will generally receive a substantial portion of his legal costs back from the infringer (between 60-70%). A further remedy that is available in the UK to a successful party is the "delivery up" of the infringing articles.

² [1964] AC 1129. Please note that this case did not concern intellectual property.

³ [1993] QB 507.

⁴ [1972] AC 1027.

⁵ [2001] UKHL/29, [2002] 2 AC 122

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

Patents

In *Catnic v Hill & Smith*⁶, the court held that punitive damages were not available for patent infringement to supplement an award of compensatory damages (the successful patentees had not sought an account of the infringer's profits). The infringers' conduct was held to fall into category ii) above, but because of the cause of action bar, the court refused to award exemplary damages. This case predates *Kuddus* and on the basis that the cause of action bar has now been removed, it is arguable that exemplary damages would be available for patent infringement in the UK in similar circumstances to supplement an award of compensatory damages. We are not aware of any exemplary damages having been sought in any patent case since the decision in *Kuddus*. However, a successful patentee also has, as an alternative to a claim for damages, the right to seek an account of the infringer's profits attributable to the infringement. Thus there is a difficulty for the aggrieved party in showing that the other party's conduct was calculated by him to take a profit for himself which may well exceed the compensation payable to the aggrieved party. In such cases it is likely to be only the other party whose calculations to such effect proved in fact to be wrong, and who made less profit than he had envisaged, who would be at risk under such a provision.

Copyright, Designs and Performers' property rights

"Additional" damages are available for infringement of Copyright, Designs and Performers' property rights⁷. These damages stem from the statutory provisions (and can also be regarded as falling within category (iii) above of *Rookes v Barnard*.

Section 97(2) (Copyright), section 191J (2) and section 229(3) (Designs) of the Copyright, Designs and Patents Act 1998 provides:

"The court may in an action for infringement of [copyright/design right/performer's property rights] having regard to all the circumstances, and in particular to:

- a) *the flagrancy of the infringement, and*
- b) *any benefit accruing to the defendant by reason of the infringement, award such additional damages as the justice of the case may require."*

The precise nature of these additional damages is currently open; they have been said to be punitive in nature⁸.

Other IPRs

There is no statutory provision for punitive damages for trade mark infringement. It may be possible to seek punitive damages where the facts of the case fall within category (ii) of *Rookes v Barnard*. Counterfeiters would seem to be likely candidates, but UK law addresses counterfeiters by means of criminal law penalties for certain types of trade mark infringement.

⁶ [1983] FSR 512.

⁷ Whether additional damages are akin to exemplary or aggravated damages is unclear (see footnote 8). Aggravated damages are compensatory in nature. The Court of Session (Scotland) has held them to be aggravated in nature, see *Redrow v Bett* [1997] SLT 1125.

⁸ The English court said that additional damages are akin to exemplary damages in *Cala Homes (South) Ltd v McAlpine Homes East Ltd (No2)* [1996] FSR 36. The House of Lords overruled the decision in *Cala Homes* as to holding additional damages to be available not only where damages were claimed but also where an account of profits was sought, *Redrow v Bett* [1998] 1 All ER 385, [1999] AC 197.

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

The UK courts have a two stage approach to liability and damages. For most matters, the key remedy will be the injunction, awarded at the first stage, when liability has been determined in favour of the rights owner. Once liability has been determined, the parties are often able to settle the issue of the amount of compensation (or quantum) without the need for a second hearing (which would exclusively determine the quantum). However when they do get to assess quantum, UK courts can be generous in so doing where the circumstances allow, and thus in *Gerber v Lectra*⁹ awarded damages which exceeded turnover in the infringing articles, given that it was directly foreseeable that the patentee would lose profits in related areas of its business as a result of the infringement taking place so shortly before patent expiry¹⁰. It is possible that this split approach is responsible for exemplary damages being sought only rarely and the degree of uncertainty as to their availability. There is also an expectation that the court will be unwilling to award such damages. However, prima facie, the fact that exemplary damages are so rarely sought in the UK suggests that they provide little benefit given the other forms of relief that are available, and the approach of the UK courts to the grant of such other relief.

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

No, or at least not so as to differentiate IP cases from other types of tort. In IP cases punitive damages serve as a distraction from the financial relief of greatest importance, namely a realistic, and generous, approach to awards of damages and the availability of accounts of the defendants' profits.

The distraction of punitive damages would serve to further complicate and increase the cost of litigation. Further, there appears to be little reason for awarding to the proprietor of the infringed right a windfall if compensatory damages are fully compensatory. To award more to the proprietor seems to be to reward him for his rights having been infringed.

In criminal proceedings, such as for counterfeiting, it is possible for the Crown to obtain a confiscation order. A confiscation order is an order made against a convicted defendant ordering him to pay the amount of his benefit from crime. The rationale behind this order is that "crime does not pay". It should be noted that even this criminal remedy is not punitive and that it is akin to an account of profits in civil proceedings¹¹.

- 2) *If punitive damages are available:*

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

General position

As set out above, there are three categories in which exemplary damages may be awarded.

- i) oppressive, arbitrary or unconstitutional action by servants of the government;
- ii) wrongful conduct which has been calculated by the defendant to make a profit for himself which may well exceed the compensation payable to the plaintiff; and
- iii) where such an award is expressly authorised by statute.

⁹ *Gerber Garment Technology Inc v Lectra Systems Ltd* [1995] R.P.C. 383.

¹⁰ As an alternative, UK courts have been prepared to grant injunctions extending after patent expiry to compensate for infringement which takes place shortly before patent expiry, as in *Dyson Appliances Ltd v Hoover Ltd (No. 1)* [2001] R.P.C. 26.

¹¹ In making a confiscation order that court can, in certain instances, assume that all income and expenditure over a period commencing six years prior to the date when the proceedings were commenced was received by the defendant as a result of his criminal conduct. If the court chooses to make this assumption, then the defendant has to show to the civil standard that the assumption is incorrectly made.

Exemplary damages are only available from the UK courts where the sum which the Court seeks to award as compensation is inadequate to punish the wrongful party for his outrageous conduct, to act as a deterrent and to mark the courts disapproval of the conduct. It is very much a remedy of last resort and is seldom sought.

Specific examples

Patents

The behaviour of the defendant in *Catnic v Hill & Smith* was deemed to fall within *Rookes* category (ii).¹² In this case the defendants manufactured lintels which infringed the claimant's patent. The case reached the House of Lords and at the hearing the Lords decided that a reply was not necessary from the claimant's counsel (in effect making it clear that the Lords would find for the claimants). The defendants, knowing that an adverse opinion would be given (and an injunction on further sales), sold the remaining stock of lintels at a discount before the opinion was handed down. If the lintels had not been sold, then an order would probably have been made that the lintels be destroyed. This act was held to have been calculated to produce a gain, since it was better to sell the lintels notwithstanding a damages claim on a loss of patentee's profits basis than to destroy the lintels. Since the clarification of *Rookes v Barnard by Kuddus*, exemplary damages might have been awarded.

Copyright

Additional damages were awarded in the *Cala Homes* case.¹³ This case involved the copyright in designs for houses. One of the claimant's directors left on bad terms and joined a rival housebuilder, the defendant. The designs had been produced by the claimant working with an independent firm of technical draftsmen. The director then approached the independent firm and asked for the claimant's design with some minor alterations.

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

There is no set mechanism for calculating the amount of exemplary damages and the amounts have tended to vary considerably. The Law Commission in the UK, having reviewed the principles which govern the award, thought that any such award should be set by a Judge, and set out the following principles, a number of which are however only of application to *Rookes* category (i):¹⁴

- principles deriving from the European Convention on Human Rights;
- the principle of moderation;
- the wealth of the defendant;
- a windfall to the claimant which may divert funds from public services;
- the existence of multiple defendants;
- the existence of multiple claimants;
- the claimant's conduct; and
- the defendant's good faith.

No award of exemplary damages has to our knowledge been made in a patent or trade mark case, and reports as to the quantum of additional damages in copyright cases are rare.^{15 16 17}

¹² See 1 (b) Patents above

¹³ See footnote 6

¹⁴ Law Commission Report No. 247 (Aggravated, Exemplary and Restitutionary Damages).

¹⁵ In *Goswami v Hammons and others* (Solicitors Journal 20 September 1985, p 653) a compensatory award of £15 supplemented by additional damages of £200 was overturned and compensatory damages of £505 awarded, with no additional damages.

¹⁶ In *Peninsular Business Services v Citation* [2003] FSR17, a compensatory award of £9,000 was supplemented by additional damages of a further £9,000.

¹⁷ In *Nichols Advanced Vehicle Systems v Rees (No 3)* 1988 WL 622481, a compensatory award of £1,000 for copyright infringement was supplemented by additional damages of £2,000 (awarded for the aggravated circumstances)

- 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*

No. There is no obligation in the UK to take legal advice to ensure that there is no infringement, and no adverse consequence in damages of a failure so to do.

- b) *how is that advice assessed in subsequent infringement proceedings?*

Legal advice is privileged in the UK¹⁸, and no adverse inference can be drawn from a failure to waive privilege in that advice.¹⁹

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

Yes, but it is in practice unlikely that such discovery could be sought before any action is brought in view of the two stage nature of the UK system. Disclosure (or discovery) is part of the litigation procedure in the UK. Standard disclosure requires a party to disclose the documents on which he relies; and the documents which (i) adversely affect his own case; (ii) adversely affect another party's case; or (iii) support another party's case. If a party's conduct is relevant to the case, then documents relating to that conduct should be disclosed. The procedure is flexible and may be varied by the court to include an obligation to disclose a certain class of documents or to confine the disclosure to specific topics. As a result of the two stage nature of the UK system, discovery of documents which relate to the issues relevant to determining the quantum of the damages will not generally be required until after the trial on liability.²⁰ If the IP rights owner prevails it can then elect whether to seek an account of profits or damages. Before making that election, it can require a limited degree of disclosure from the infringer to determine which to elect.²¹

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

Yes. The duty to disclose documents is limited to documents which are in a party's custody or control (with adverse inferences possibly being drawn as to relevant documents which were, but are no longer, in that party's control). There is no geographic limitation.

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

None. The UK courts are not influenced by courts elsewhere.²²

Whilst parties do sometimes have a choice of where to bring infringement proceedings in Europe, we are not aware of any EU countries which award punitive damages. Consequently, we are not aware of our courts facing competition in this regard or the availability of punitive damages outside the EU having any effect.²³ Indeed, the generally more generous approach of the UK courts to the awarding of compensatory damages than the courts of other EU countries provides if anything an incentive to bring proceedings, should such an option be possible, in the UK.

¹⁸ *Three Rivers District Council and others v Governor and Company of the Bank of England* [2004] UKHL 48.

¹⁹ *Oxford Gene Technology Ltd v Affymetrix Inc* (No.2) [2001] R.P.C. 18

²⁰ *Unilin Beheer v Berry Flooring and Others*, Patents County Court, [2004] unreported.

²¹ *Island Records v Tring International* [1995] 3 All ER 444

²² It is possible for a UK based party to recover the punitive element of an award made for multiple damages (such as triple damages in the US) under the Protection of Trading Interest Act 1980.

²³ The availability of triple damages in the United States may have some influence in terms of forum shopping.

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

We do not consider that in principle intellectual property rights infringements should be treated any differently from any other type of tortious act, and so we would be reluctant to see effort directed at harmonisation of the treatment of “punitive damages” in the current state of the law in various different countries.²⁴ Moreover it would seem ill conceived even to address how “punitive damages” might be harmonised (short of urging their abolition altogether) when there is as yet no international harmonisation of compensatory damages or of accounts of defendants’ profits.

Summary

The concept of punitive damages exists in UK law and punitive damages might be available in IP actions. However, the authors are not aware of punitive damages having been awarded.

The UK group concludes that it is not desirable for the courts to have the ability to award punitive damages. If the infringer’s conduct merits punishment then the criminal courts are the appropriate venue. Punitive damages would lead to more complex and expensive proceedings, and it is difficult to find a sound rationale for awarding the rights holder a windfall benefit. The preferred option is that compensatory damages should truly reflect the loss suffered by the aggrieved party. Placing the rights holder in the position he would have occupied had the infringement not occurred should entail a realistic and generous approach to awards of damages and the availability of the infringer’s profits, together with the ability to recoup any legal costs.

Whilst the harmonisation of the treatment of punitive damages is desirable, the international harmonisation of compensatory damages and of accounts of the infringer’s profits is required before any international harmonisation of punitive damages can take place.

Résumé

La notion de dommages et intérêts punitifs existe en droit britannique et la condamnation au paiement de dommages et intérêts punitifs est possible dans les actions relatives aux droits de propriété intellectuelle. Toutefois, les auteurs du présent rapport n’ont pas eu connaissance de dommages et intérêts punitifs octroyés.

Le groupe britannique conclut qu’il n’est pas souhaitable que les tribunaux aient le pouvoir d’accorder des dommages et intérêts punitifs. Si le comportement du contrefacteur mérite une sanction alors le recours aux juridictions pénales est la solution appropriée. Les dommages et intérêts punitifs aboutiraient à des procédures plus complexes et plus coûteuses et il est difficile de justifier de manière cohérente le fait d’accorder au titulaire de droits un bénéfice imprévu. Il est préférable que les dommages et intérêts compensatoires reflètent véritablement le préjudice subi par la partie lésée. Placer le titulaire de droits dans la position dans laquelle il aurait été en l’absence de contrefaçon devrait entraîner une approche réaliste et généreuse dans l’octroi de dommages et intérêts, la possibilité d’obtenir les profits réalisés par le contrefacteur et celle de recouvrir tous les frais du procès.

²⁴ The issue of punitive damages was raised during the preparation of the Enforcement Directive (Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights, OJ L 195 2.6.2004). No agreement was reached; the compromise reached is that the Directive does not rule out the possibility of punitive damages.

Tandis que l'harmonisation de la question des dommages et intérêts punitifs est souhaitable, l'harmonisation des dommages et intérêts compensatoires et de la prise en compte des profits réalisés par le contrefacteur est nécessaire avant que toute harmonisation des dommages et intérêts punitifs puisse avoir lieu.

Zusammenfassung

Im Rechtssystem des Vereinigten Königreichs existiert das Konzept von Strafzuschlägen zum Schadensersatz und solche Strafzahlungen können durchaus in Immaterialgüterprozessen verhängt werden.

Jedoch besitzen die Autoren dieses Beitrags keine Kenntnis einer Entscheidung, in der solche Strafzuschläge verhängt worden sind.

Die Gruppe des Vereinigten Königreichs kommt zu dem Schluss, dass es nicht wünschenswert und sinnvoll ist, Gerichten die Möglichkeit zu geben Strafzuschläge bzw. Bussgeldzahlungen zusätzlich zum Schadensersatz zu verhängen. Verlangt das Verhalten eines Rechtverletzers nach Bestrafung, so sind die Strafgerichte die richtige Instanz dafür. Die Verhängung solcher Bussgeldzahlungen würden zu komplizierteren und teureren Verfahren führen, und es ist weiterhin auch schwierig eine plausible Rechtfertigung zu finden, warum dem Rechteinhaber noch ein überraschender bzw. zusätzlicher Gewinn zustehen soll. Die bevorzugte Möglichkeit ist, dass die Höhe des Schadensersatz dem wirklichen vom Rechteinhaber erlittenen Verlust entspricht. Den Rechteinhaber in die Lage zu versetzen, in der er gewesen wäre, hätte die Verletzung seiner Rechte nicht stattgefunden, zusätzlich zur Möglichkeit des Einzugs des Gewinns des Rechteverletzers und der Wiedererstattung der Rechtskosten sollte einen realistischen und grosszügigen Ansatz bezüglich der Gewährung von Schadensersatz darstellen.

Obwohl die Harmonisierung in Bezug auf Bussgeldzahlungen zusätzlich zum Schadensersatz wünschenswert ist, ist es notwendig erst eine internationale Harmonisierung bezüglich des kompensierenden Schadensersatzes und der Einziehung des Gewinns des Rechtverletzers anzustrengen und durchzuführen, bevor weitere internationale Harmonisierung in Bezug auf Bußgeldzahlungen stattfinden kann.