

The award of damages in the Unified Patent Court Agreement

*CEIPI Diploma on Patent Litigation in Europe
Strasbourg • 19 March 2022*

Pierre Véron

Honorary President EPLAW (European Patent Lawyers Association)
Member of the Expert Panel group of the Unified Patent Court
Member of the Drafting Committee of the Rules of Procedure

Contents

Damages before
the Unified Patent Court

UPC: an Eldorado?



3

Damages before
the Unified Patent Court

Proceedings

The proceedings for the award of damages are set out in the Rules of procedure

11

Damages before
the Unified Patent Court

Substantive law

- Current national law no longer applies
- Instead, a new, common, substantive law applies

28

Damages before
the Unified Patent Court

The crane hook case

**An hypothetical
scenario of
damages
calculation**



33



UPC: an Eldorado?



Damages

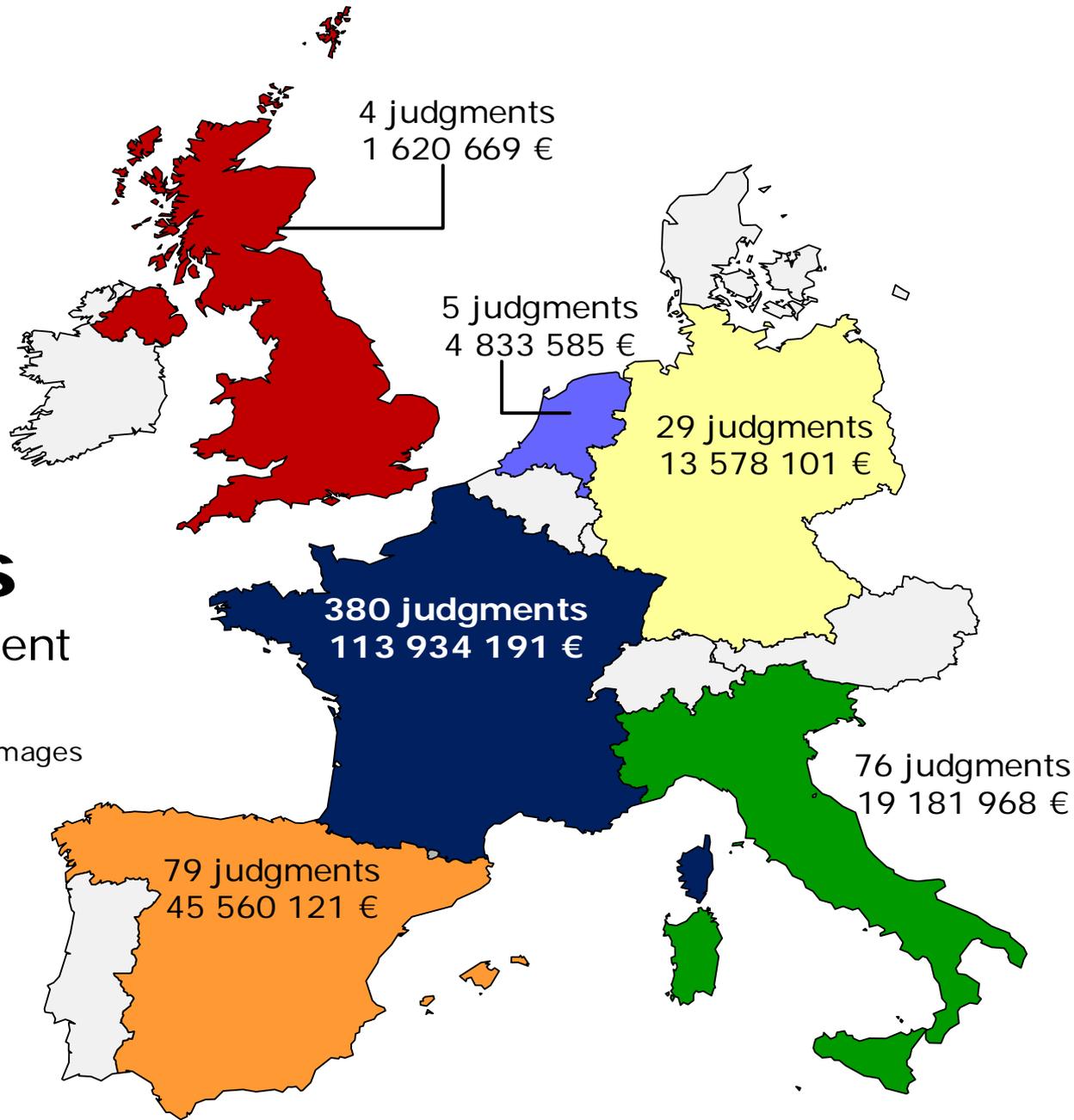
for patent infringement

2000-2019

number of judgments granting damages

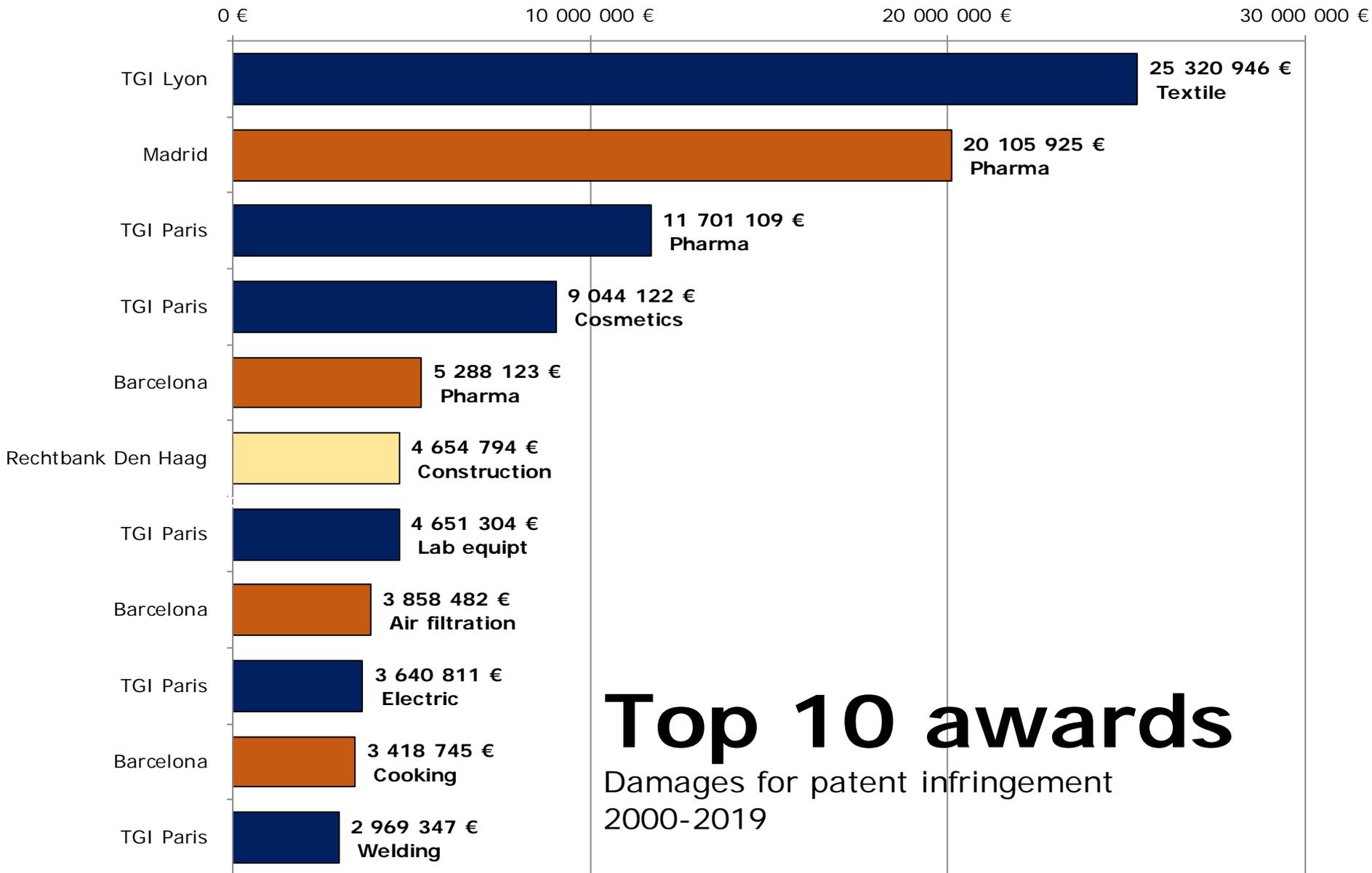
total amount granted €

Source www.darts-ip.com



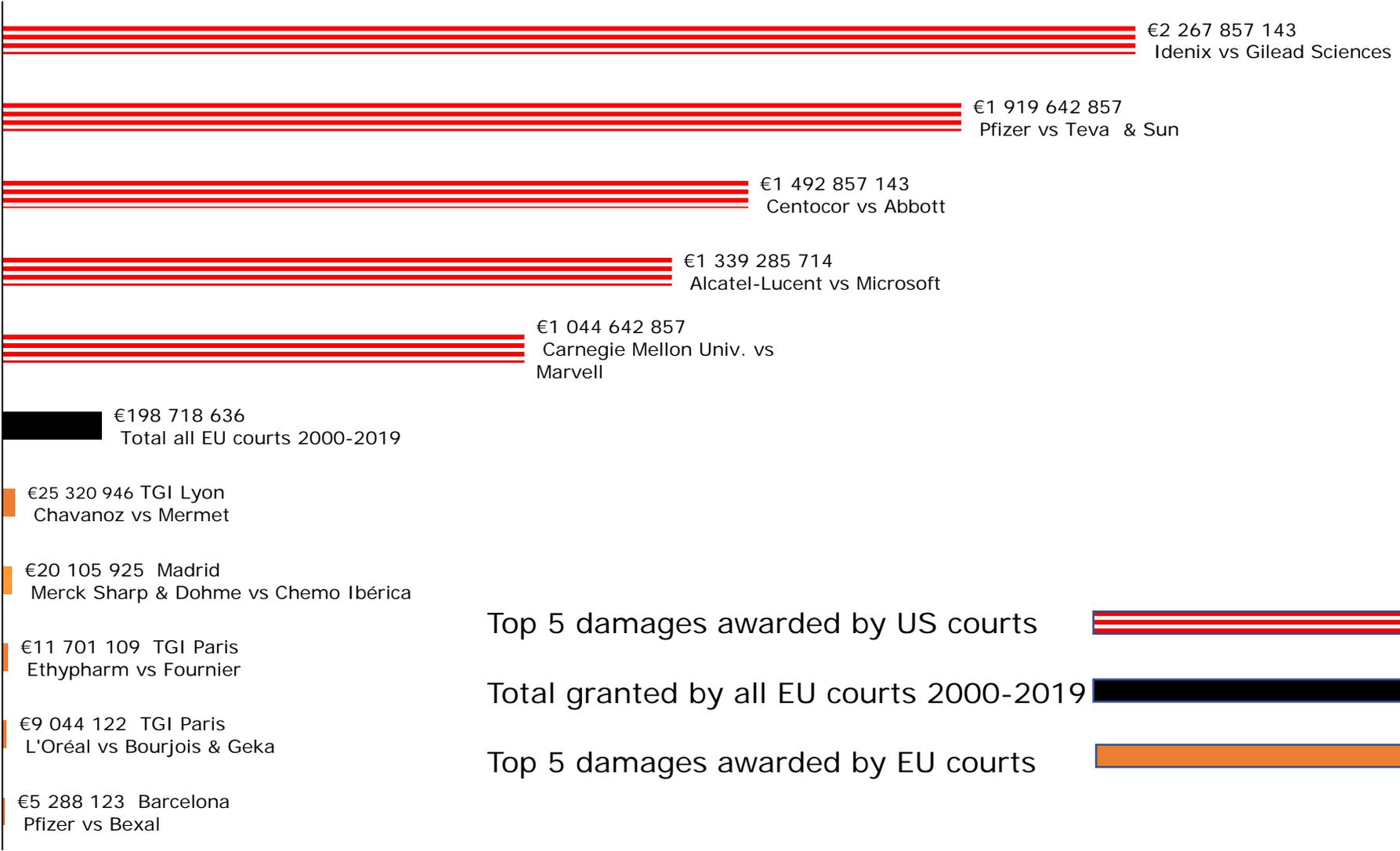
https://www.veron.com/wp-content/uploads/2021-02_GRUR_Pierre_Veron_Damages_patent_infringement_Festschrift_MeierBeck.pdf

https://www.veron.com/wp-content/uploads/2021-07_Prop_Ind_Pierre_Veron_PrixduCrime_DommagesInteretsContrefaconBrevet.pdf



Top 10 awards

Damages for patent infringement
2000-2019



Top 5 damages awarded by US courts



Total granted by all EU courts 2000-2019



Top 5 damages awarded by EU courts



UPC: an Eldorado? Simpler and cheaper



- A single case for up to 27 countries
- May include countries in which patent litigation was exceptional before UPC
- A single law for the assessment of damages



UPC: an Eldorado? Bigger



■ A wider market

- ▶ EU = 500,000,000 people
- ▶ DE + UK + FR = 200,000,000 people
- ▶ USA = 320,000,000 people

■ HFCE (Household Final Consumer Expenditure)

- ▶ EU M\$ 9,600,000
- ▶ USA M\$ 13,000,0000



The law

- Proceedings
- Substantive law



Legal sources



19 February 2013
Agreement on a Unified Patent Court
and draft Statute

<https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=OJ:C:2013:175:TOC>



15 March 2017
Draft Rules of procedure
of the Unified Patent Court (V18)

https://www.unified-patent-court.org/sites/default/files/upc_rules_of_procedure_18th_draft_15_march_2017_final_clear.pdf



Proceedings

The proceedings for the award of damages are set out in the Rules of procedure



Rule 10 ROP

Stages of the proceedings

“Proceedings before the Court of First Instance shall consist of the following stages:

a) a written procedure;

b) an interim procedure, which may include an interim conference with the parties;

c) an oral procedure which, subject to Rules 116.1 and 117, shall include an oral hearing of the parties where necessary;

d) a procedure for the award of damages, which may include a procedure to lay open books;

e) a procedure for cost decisions.”



Damages assessment “bifurcation”

Rule 118 – Decision on the merits

*“ 1. In addition to the orders and measures and without prejudice to the discretion of the Court referred to in Articles 63, 64, 67 and 80 of the Agreement **the Court may, if requested, order the payment of damages or compensation according to Article 68 and 32(1)(f) of the Agreement. The amount of the damages or the compensation may be stated in the order or determined in separate proceedings [Rules 125-143].”***



Options for the Court

- Decide on infringement and damages in the same judgment ("*short tour*")
- Decide only on infringement and decide on damages at a later stage
 - ▶ on the basis of the parties' submissions only ("*medium tour*"); or
 - ▶ after having ordered the infringer to open its books to the claimant ("*long tour*")



"Short tour"

when damages assessment is straightforward

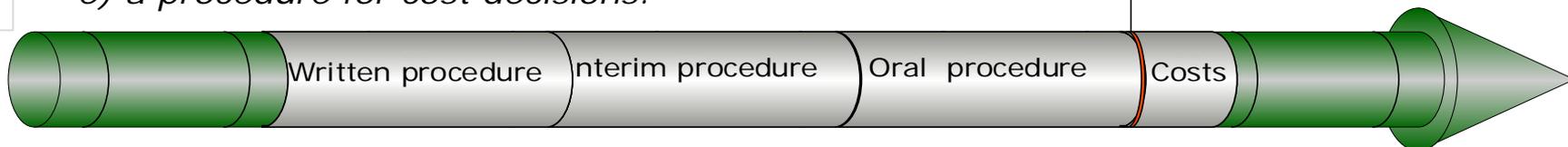
Rule 10 – Stages of the proceedings (*inter partes* proceedings)

Proceedings before the Court of First Instance shall consist of the following stages:

- a) a written procedure;*
- b) an interim procedure, which may include an interim conference with the parties;*
- c) an oral procedure which, subject to Rules 116.1 and 117, shall include an oral hearing of the parties where necessary;*
- d) a procedure for the award of damages, which may include a procedure to lay open books;*
- e) a procedure for cost decisions.*



Decision
on the merits
and on damages
R 118 §1



"Medium tour"

when damages assessment is complex
but basic information is available

Rule 10 – Stages of the proceedings (*inter partes* proceedings)

Proceedings before the Court of First Instance shall consist of the following stages:

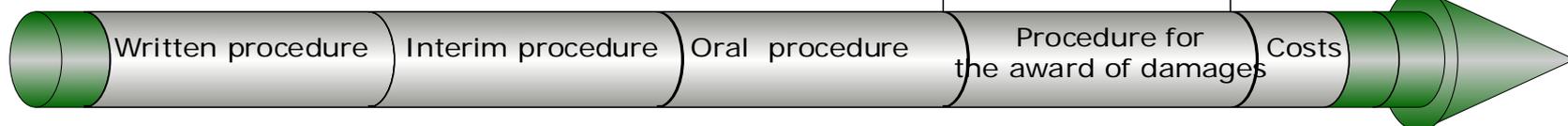
- a) *a written procedure;*
- b) *an interim procedure, which may include an interim conference with the parties;*
- c) *an oral procedure which, subject to Rules 116.1 and 117, shall include an oral hearing of the parties where necessary;*
- d) a procedure for the award of damages**, which may include a procedure to lay open books;
- e) *a procedure for cost decisions.*



Decision
on the merits
R 118



Decision
on damages
R 125--140



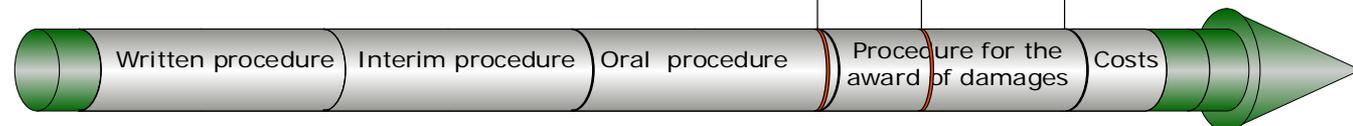
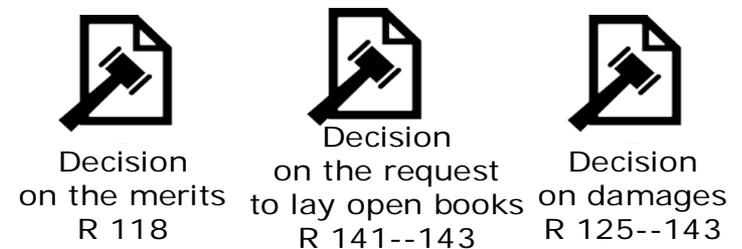
"Long tour"

when damages assessment is complex
and basic information not available

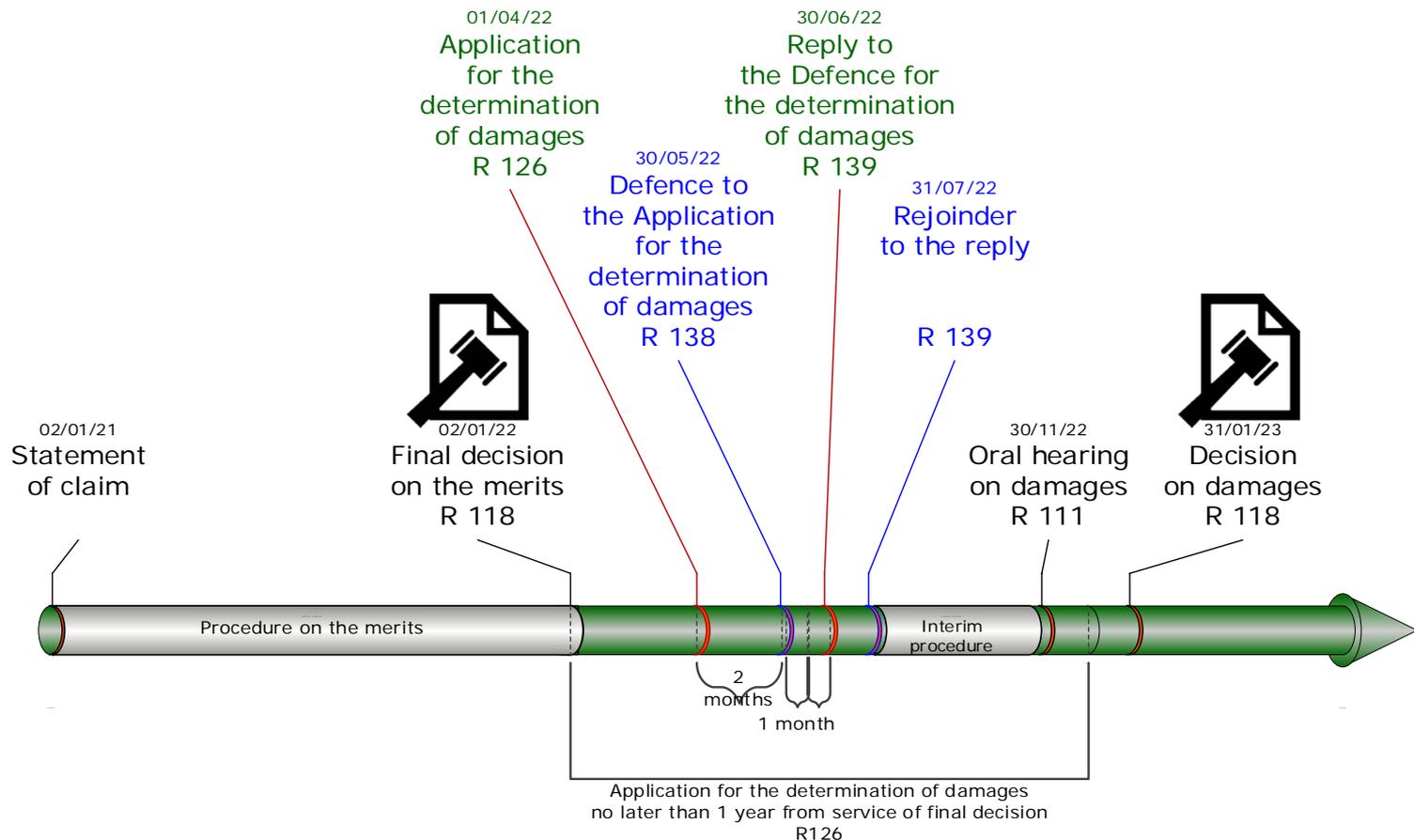
Rule 10 – Stages of the proceedings (inter partes proceedings)

Proceedings before the Court of First Instance shall consist of the following stages:

- a) a written procedure;
- b) an interim procedure, which may include an interim conference with the parties;
- c) an oral procedure which, subject to Rules 116.1 and 117, shall include an oral hearing of the parties where necessary;
- d) a procedure for the award of damages, which may include a procedure to lay open books;**
- e) a procedure for cost decisions.

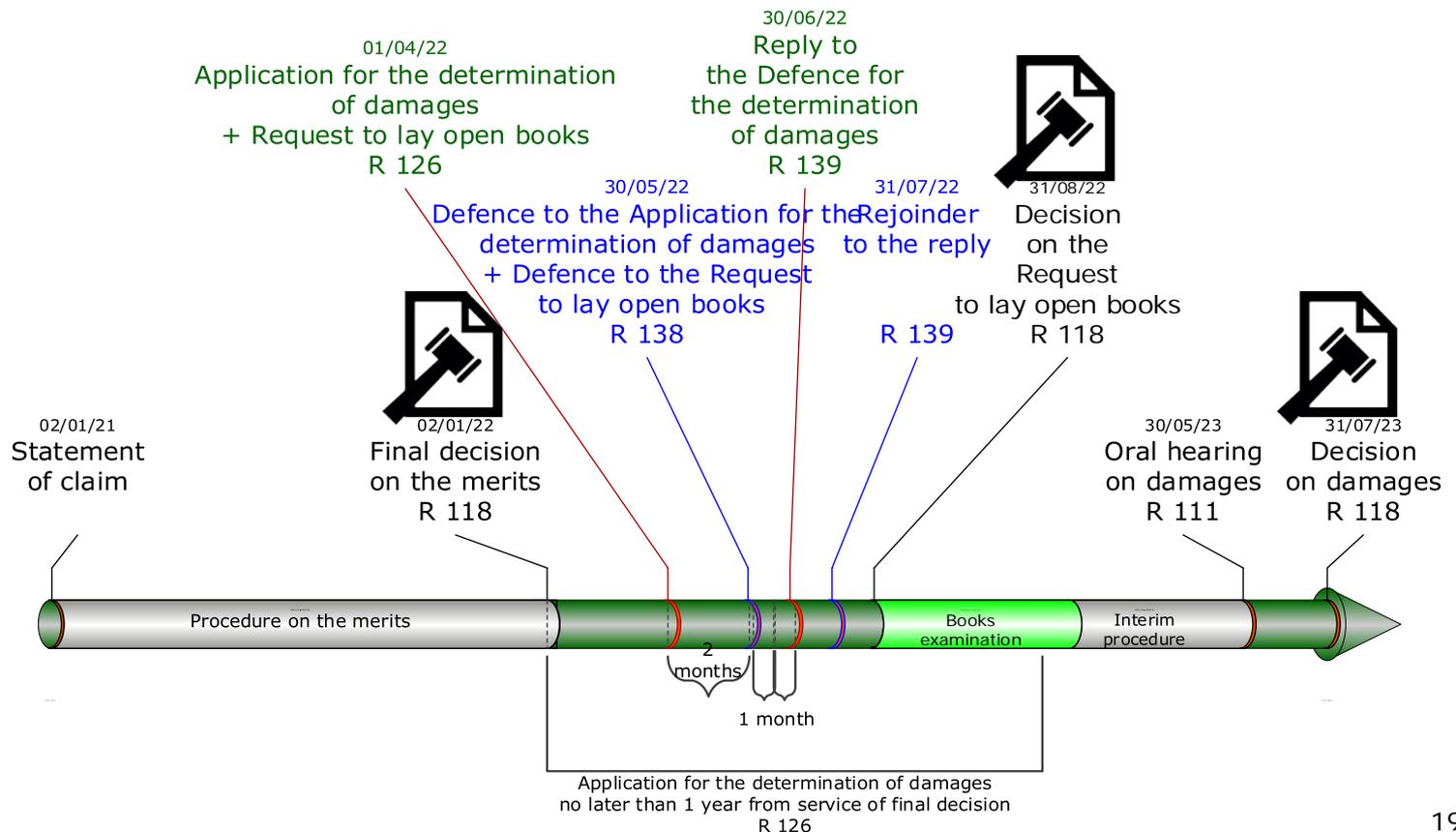


"Medium tour" Procedure for the determination of damages





"Long tour" Procedure for the determination of damages

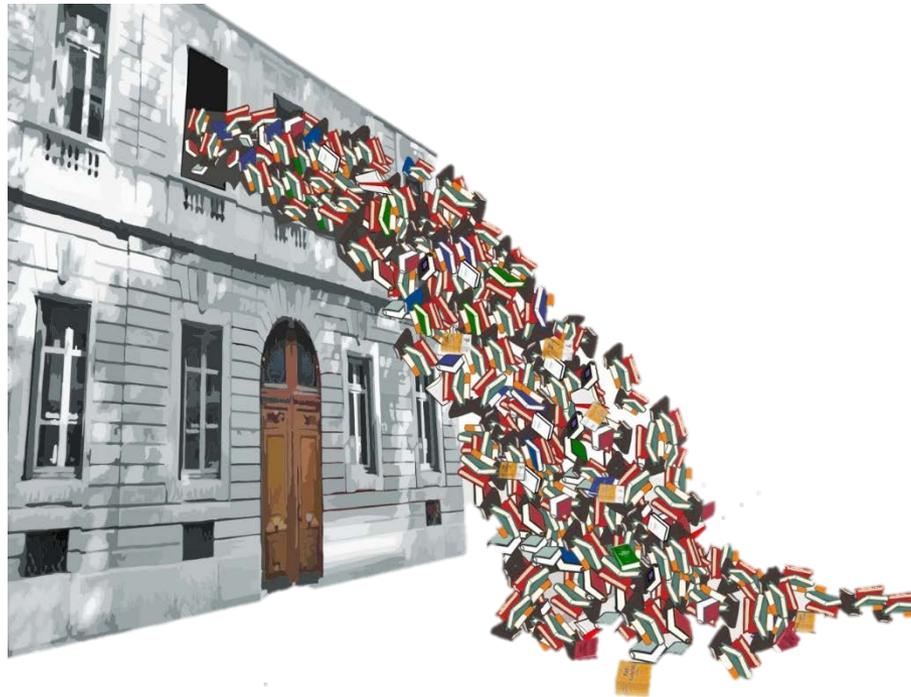


Substantive law

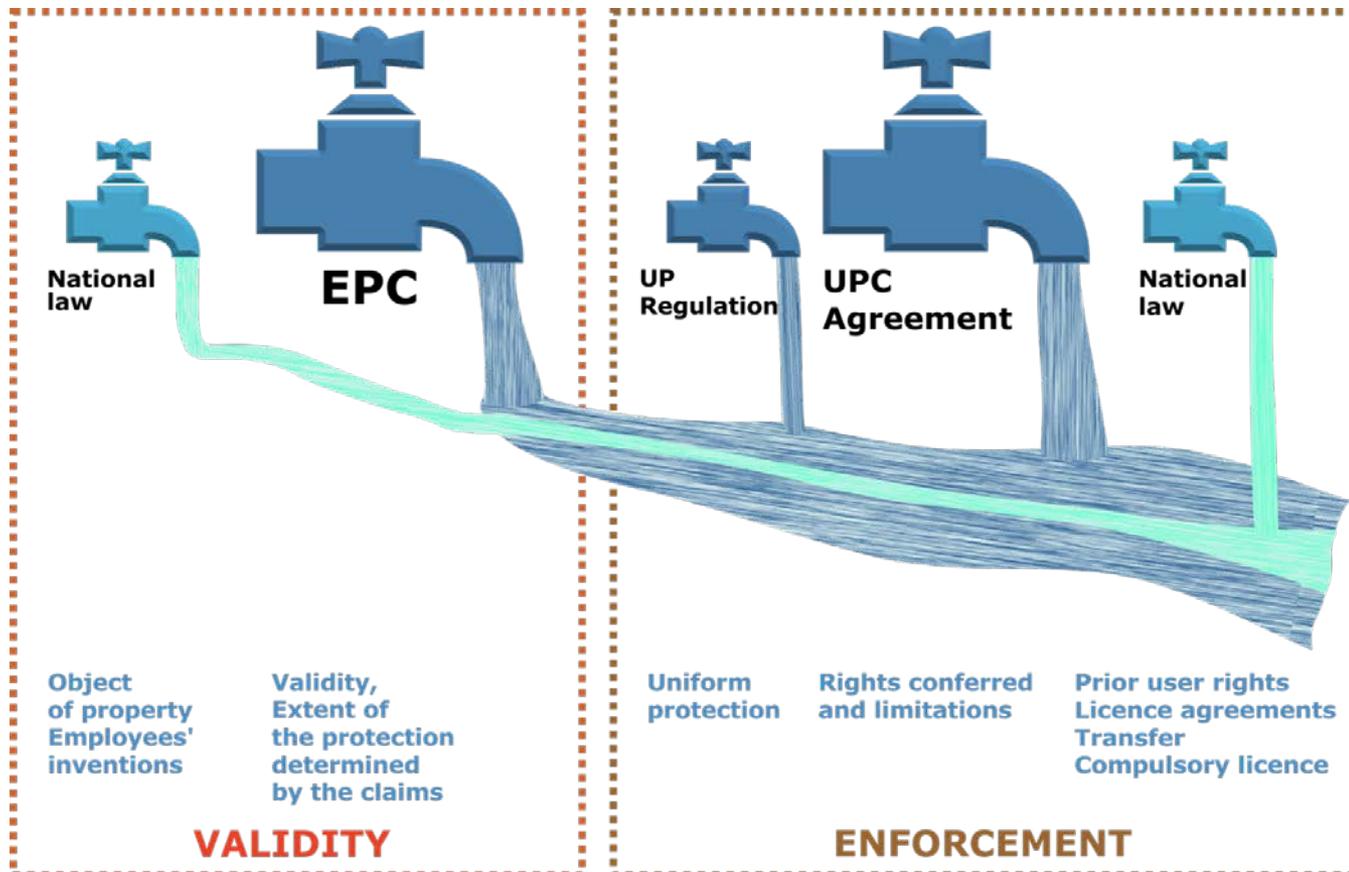
- Current national law no longer applies
- Instead, a new, common, substantive law applies



Current national law no longer applies



Sources of the law applicable before the Unified Patent Court



Substantive law

- A new, common, substantive law
- Very similar to Enforcement Directive 2004/48



Article 68 Award of damages

" (1) The Court shall, at the request of the injured party, order the infringer who knowingly, or with reasonable grounds to know, engaged in a patent infringing activity, to pay the injured party damages appropriate to the harm actually suffered by that party as a result of the infringement.

Not in the
Directive



*(2) The injured party shall, to the extent possible, be placed in the position it would have been in if no infringement had taken place. **The infringer shall not benefit from the infringement.** However, damages shall not be punitive..."*

Article 68 Award of damages

" (3) When the Court sets the damages:

*(a) it shall take into account all appropriate aspects, such as **the negative economic consequences, including lost profits**, which the injured party has suffered, any unfair profits made by the infringer and, in appropriate cases, elements other than economic factors, such as the moral prejudice caused to the injured party by the infringement; or*

*(b) as an **alternative** to point (a), it may, in appropriate cases, set the damages as a **lump sum** on the basis of elements such as **at least the amount of the royalties** or fees which would have been due if the infringer had requested authorisation to use the patent in question.*

*(4) Where the infringer **did not knowingly**, or with reasonable grounds to know, **engage in the infringing activity**, the Court may order the recovery of profits or the payment of compensation."*



Any changes expected in the UPC approach of damages?

- The Enforcement Directive has already unified the national approaches with regards to
 - ▶ the lost profits of the injured party and
 - ▶ the reasonable royalties
- With respect to the infringer's profits, one clause of article 68 UPC Agreement ("...*The infringer shall not benefit from the infringement...*") is not in the Directive and is not in all the national laws of EU countries



UK

Profit made by the infringer: a path strewn with thorns

Lindley LJ in *Siddell v Vickers* (1892)
9 R.P.C. 152 CA at 162 -163

"I do not know any form of account which is more difficult to work out than an account of profits ... Accounts very seldom result in anything satisfactory to anybody. The litigation is enormous, the expense is great, and the time consumed is out of all proportion to the advantage ultimately attained ... I believe in almost every case people get tired of it and get disgusted. Therefore, although the law is that a Patentee has a right to elect which course he will take, as a matter of business he would generally be inclined to take an inquiry as to damages, rather than launch upon an inquiry as to profits."



UK

Profit made by the infringer: limited to net profits attributable to invention

Watson LJ in *United Horse-Shoe and Nail Co v. John Stewart* (1888) L.R. 13 App. Cas. 401

"When a patentee elects to claim the profits made by the unauthorized use of his machinery, it becomes material to ascertain how much of his invention was actually appropriated, in order to determine what proportion of the net profits realized by the infringer was attributable to its use. It would be unreasonable to give the patentee profits which were not earned by the use of his invention."



DE
**Profit made by the infringer:
the patentee is not, by default,
entitled to 100 % of the profits**

With thanks to
Klaus Bacher



BGH, 24 July 2012 – X ZR 51/11 – Flaschenträger
(bottle carrier)

- Even if the patent covers the infringing product **as a whole**, the patentee is not by default entitled to 100 % of the profits.
- If the invention led to **improvements** only in some **details**, the percentage to be recovered is rather small.
- If the improvement nevertheless is **very important** for the buyer, the percentage recovered is rather large.



DE

Profit made by the infringer?

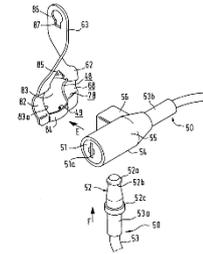


BGH, 14 May 2009 – I ZR 98/06 – Tripp-Trapp-Stuhl

- ▶ Infringer's proceeds: 2,485,118 € (~ 37 € per chair)
- ▶ Infringer's profits: 445,851 € (6.70 € per chair)
- ▶ The court of first instance awarded 100 % of this amount
- ▶ The court of appeal awarded 90 % [\approx 16 % of the proceeds]
- ▶ Both parties filed an appeal against this decision to the BGH
- ▶ The BGH reversed the decision and sent the case back to the court of appeal
- ▶ **Even if the infringing product was a total reproduction of the protected work, this would not necessarily mean that the right-holder is entitled to 100 % of the infringer's profits.**
- ▶ With regard to the differences between the protected work and the infringing product, the trial judges' decision to deduct only 10 % is not justified by the reasons given in their judgment.



DE Profit made by the infringer?



BGH, 3 December 2013 – X ZR 130/12 – Kabelschloss (cable lock)

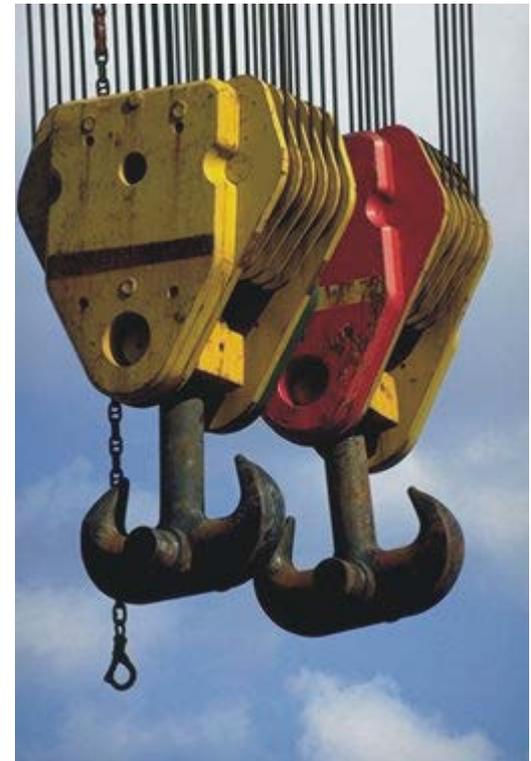
- Infringer's proceeds: 1,007,201.29 Euro (~ 7 Euro per item)
- Infringer's profits: 482,357.08 Euro (3.35 Euro per item)
- The claimant sued for 80 % of this amount
- **The court of first instance awarded 10 % of the profits [≈ 5 % percent of the proceeds]**
- The court of appeal upheld this decision
- The claimant filed for a grant of appeal against this decision to the BGH
- The **BGH upheld the decision**
 - ▶ The trial judges based their decision on criteria which comply with the principles laid out in "Flaschenträger"
 - ▶ The advantages provided by the patent have to be taken into account even if they were neither visible when the product was on display in the infringer's store nor advertised to potential buyers.
 - ▶ But under said circumstances, **the percentage owed to the patentee may be rather low.**





The crane hook case

An hypothetical scenario of damages calculation



The patented crane hook

Montana Mining Company ("2M"), based in Montana, holds a patent on a new, improved, hook for a crane characterized in that it incorporates a WiFi transmitter of the hook's GPS position

Claim 1
covers the hook

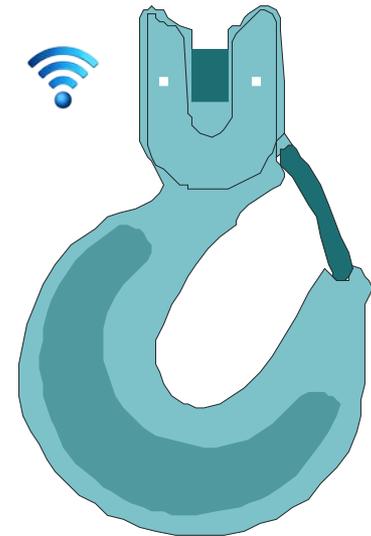


Claim 2
covers the crane fitted with the hook



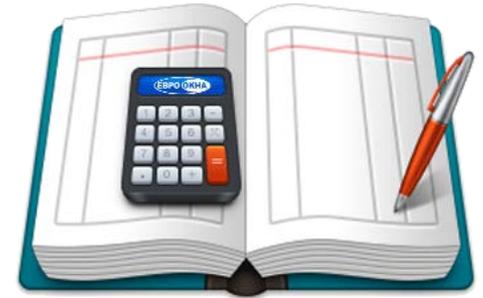
The infringing crane hook

China Crane Company ("CCC"*)
sold conventional cranes fitted
with a hook which was held by
the Court to infringe 2M's
patent



* CCC is nicknamed by its employees
"Cost Conscious Company"

Results of the Request to lay open books



- The Court ordered infringer CCC to lay open its books to allow 2M to gather the relevant information for the assessment of the amount of damages owed by CCC to 2M
- This gave information about:
 - ▶ the number of cranes sold
 - ▶ the turnover generated
 - ▶ the profit margin related to the cranes sold





Data sheet

Defendant CCC	
Total infringing sales €	960 000 €
Total costs of infringing sales €	- 300 000 €
Total profit margin €	660 000 €
Total infringing sales units	12 u
Average sales price per unit	80 000 €
Profit margin per unit	55 000 €
Price per unit of hooks sold as spare parts	8 000 €
Claimant 2M	
Average sales price per unit before infringement	120 000 €
Costs before infringement	- 80 000 €
Profit margin per unit before infringement	40 000 €
Average sales price per unit of the 10 cranes sold after infringement	105 000 €
Costs after infringement (unchanged)	80 000 €
Profit margin per unit before infringement	25 000 €
Market information	
Market shares of the players of the relevant market	
2M (claimant)	60%
CCC (defendant)	20%
NHC	20%
Total	100%



Defendant CCC	
Total infringing sales €	960 000 €
Total costs of infringing sales €	- 300 000 €
Total profit margin €	660 000 €
Total infringing sales units	12 u
Average sales price per unit	80 000 €
Profit margin per unit	55 000 €
Price per unit of hooks sold as spare parts	8 000 €
Claimant 2M	
Average sales price per unit before infringement	120 000 €
Costs before infringement	- 80 000 €
Profit margin per unit before infringement	40 000 €
Average sales price per unit of the 10 cranes sold after infringement	105 000 €
Costs after infringement (unchanged)	80 000 €
Profit margin per unit before infringement	25 000 €
Market information	
Market shares of the players of the relevant market	
2M (claimant)	60%
CCC (defendant)	20%
NHC	20%
Total	100%

Data about the claimant



■ Before the infringement

- ▶ Claimant 2M sold its patented cranes per unit for €120,000
- ▶ Claimant 2M's costs are - €80,000
- ▶ Hence a profit margin of claimant €40,000

■ As a result of the infringement and of CCC's aggressive price policy, claimant 2M could sell only 10 cranes after infringement

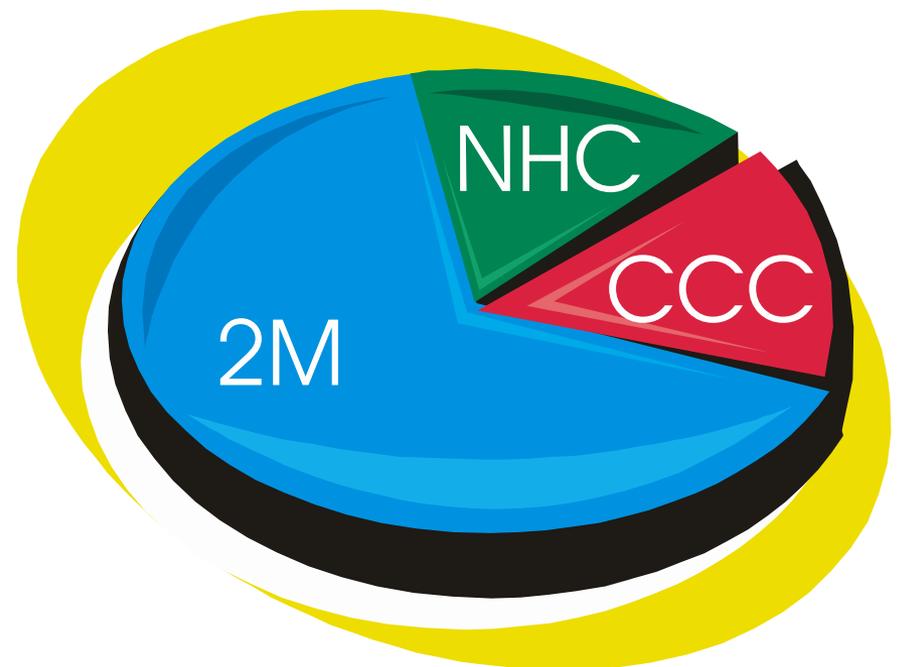
- ▶ Claimant 2M was forced to reduce its prices to try and maintain its market shares to €105,000
- ▶ Claimant 2M's costs did not change - €80,000
- ▶ Thereby reducing 2M's profit to €25,000



Data about the market agreed upon by both parties

Both parties agreed on the market shares of the players of this specific industry:

- 2M (claimant) 60%
- CCC (infringer) 20%
- NHC (third party) 20%



Damages before
the Unified Patent Court



Total infringing sales

The Request to lay open books provided the following information:

- CCC sold 12 cranes fitted with the infringing hook
- The total turn over was €960,000, hence an average sales price per crane of €80,000
- CCC's profit margin per crane (due to its low cost operation model) was €55,000
- CCC offered for sale the hooks as spare parts for a price per unit of €8,000

A small, partially legible table with multiple columns and rows, likely representing financial data or a summary of costs and revenues. The text is too small to read accurately.

Damages before
the Unified Patent Court



Claimant's position: lost profit

Claimant 2M claims for its lost profit as follows:

- Profit lost on the 12 infringing cranes sold by CCC:
 $€40,000 \times 12 = €480,000$
- Price depression on 10 cranes sold after infringement
for a unit price of €105,000 (instead of €120,000) :
 $€15,000 \times 10 = €150,000$

Total lost profit €630,000



Damages before
the Unified Patent Court



Claimant's position infringer's profit

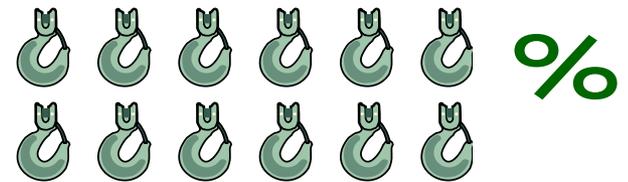
In addition, claimant 2M claims for the portion of the profit made by the infringer exceeding the claimant's profit, namely €30,000, assessed by difference between:

- Profit made by the infringer amounts:
 $€55,000 \times 12 =$ €660,000
- Profit lost by the claimant = €630,000

Portion of the profit made by the infringer
exceeding the claimant's profit €30,000



Damages before
the Unified Patent Court

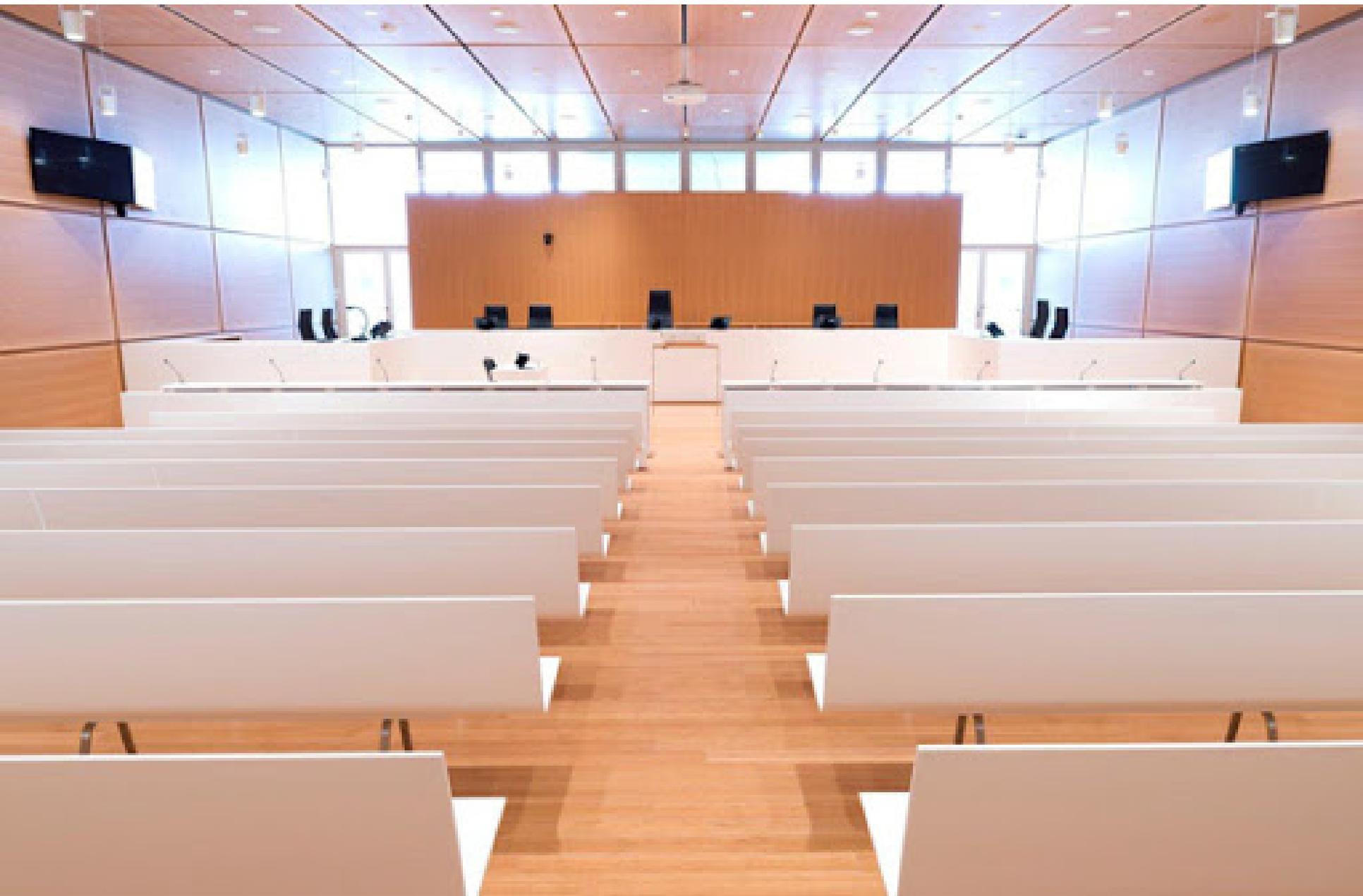


Infringer's position

Infringer CCC submits that it should pay only a reasonable royalty of 1% on the sales price of the 12 hooks (not on the cranes) sold:

$$(\text{€}8,000 \times 12 = \text{€}96,000) \times 1\% = \text{€}960$$

A small, low-resolution thumbnail of a document or spreadsheet, likely a legal or financial document related to the case.



Issues to be decided by the Court

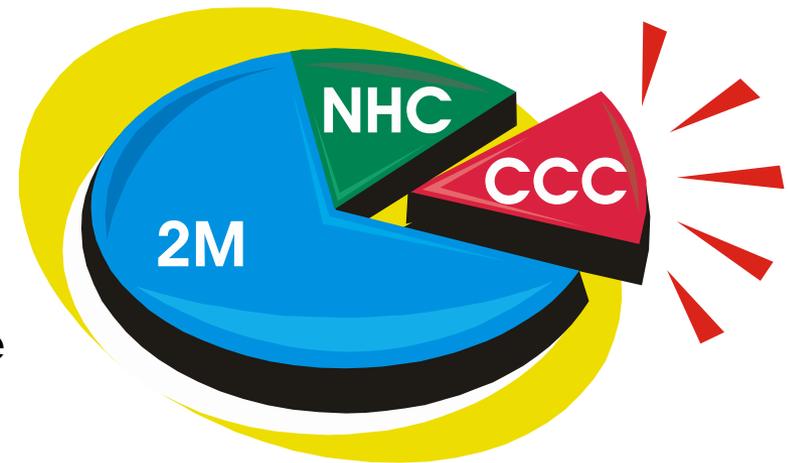
- But for the infringement
(= "*had the infringer not infringed*":
 - ▶ Would 2M have sold all the 12 infringing cranes sold by CCC (drift of sales = 100%)?
 - ▶ Would 2M have reduced the selling price of the patented crane?
- What should be the basis for the royalty (value of the crane fitted with the hook? or value of the hook?)?
- What should be the royalty rate?
- What about the profit made by the infringer?



The sales drift

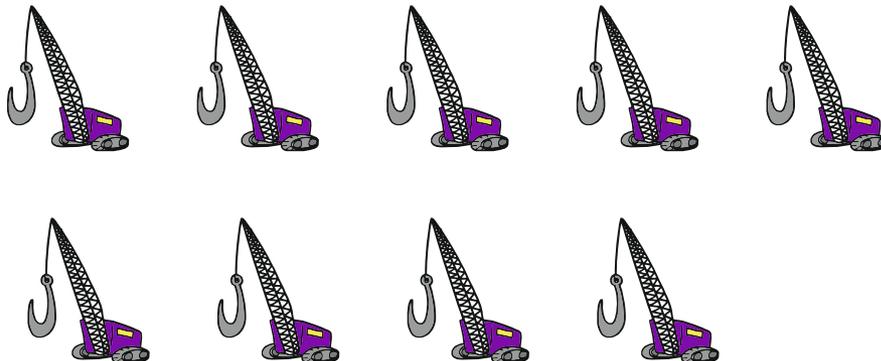
**But for CCC infringement,
would 2M have sold 12 more
cranes?**

The Court should weigh evidence that the patented feature was an important reason of the purchase. Absent such evidence it should decide that, but for the infringement, 2M would have sold only a fraction of CCC sales corresponding to the shares of 2M on the market of the relevant type of cranes without infringement, i.e. $60\%/80\%=75\%$ or 9 cranes



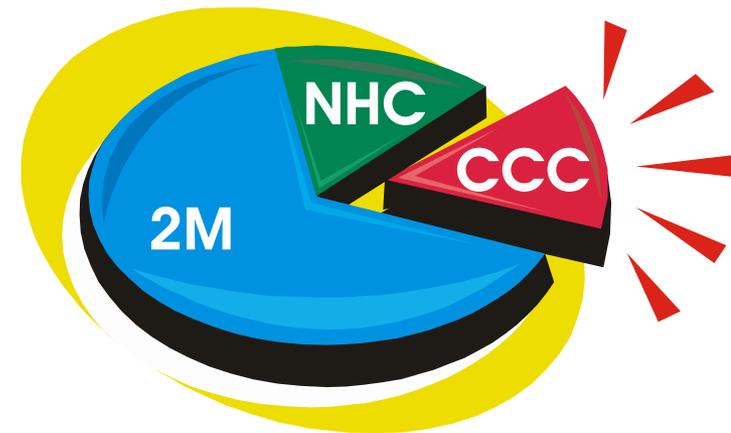
Calculation of 2M lost profit on derived sales

- The margin made by 2M on each crane is €40 000
- Hence 2M's lost profit is
 $€ 40\,000 \times 9 \text{ cranes} = €360\,000$



Calculation of royalty on non derived sales

- On the 12 cranes sold by CCC, 2M would have sold 9
- On the remaining 3 cranes, CCC should pay a royalty at a “reasonable plus” rate of 7.5%
- NCC sells its cranes
€ 80 000, hence
 $80\,000 \times 3 \times 7.5\% = \text{€}18,000$



Price depression

- The fierce price war obliged 2M to reduce its prices to maintain its market shares: while 2M price was €120,000 before infringement, it was reduced to €105,000 after infringement, hence a €15,000 depression
- As 2M sold 10 cranes during the relevant period, the price depression was $€15,000 \times 10 = €150,000$



Profit made by the infringer beyond the claimant's profit

■ Profit made by the infringer =	€660,000
■ Negative economic consequences suffered by the claimant:	
▶ Lost profit	€360,000
▶ Royalty on non derived sales	€18,000
▶ Price erosion	€150,000
<hr/>	
▶ Total	€528,000
■ Infringer's profit beyond the claimant's profit :	
€660,000 - €528,000 × 20% ≈	€26,000



Grand Total

■ Lost profit	€360,000
■ Royalty on non derived sales	€18,000
■ Price erosion	€150,000
■ Infringer's profit (part)	€26,000
<hr/>	
■ Total	€554,000



Pierre Véron

Thank you



pierre.veron@veron.com
www.veron.com