

## DAMAGES FOR PATENT, DESIGN AND TRADE MARK INFRINGEMENT

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1. Despite the differences, there are sufficient similarities between an award of damages for patent, design and trade mark infringement for it to be useful to consider them together, but apart from damages for breach of copyright, breach of confidence, passing off and misleading and deceptive conduct. The similarities include the following:
  - (a) The monopoly rights enjoyed by the registered proprietor of a standard or innovation patent, a design and of a trade mark are granted by reason of a registration process. The respective statutes define the rights which registration confers. One of those rights is to sue for infringement and to obtain a Court order that the infringer pay damages.
  - (b) To establish infringement, it is not necessary for the proprietor to prove that the infringer's conduct complained of occurred intentionally and with knowledge, actual or constructive, of the registered right. Copying need not be proven. Innocence is no defence. However, in patent and design cases innocence can be the basis of the Court refusing to award damages even though infringement has been proven: s 123(1) *Patents Act* 1990; s 75(2) *Designs Act* 2003. Further, the Court in patent and design cases can award additional damages, in the nature of punitive, exemplary or aggravated damages, where the flagrancy of the conduct of the infringer calls for that: s 122 (1A) *Patents Act* 1990; s 75(3) *Designs Act* 2003.
  - (c) In many if not most cases, the proprietor suing for infringement is in part motivated to sue to send a message not only to the defendant, but also to others, that the proprietor will act to enforce its registered right to stop infringing conduct. In many, if not most, cases where the defendant seriously contests the claim, infringement is denied on the basis that the registration is invalid hence no valid complaint can be made about the defendant's conduct. The defendant's invalidity counterclaim puts the proprietor's rights at risk not

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only in relation to the defendant, but the defendant thereby seeks to deny the proprietor's monopoly rights in relation to others.

- (d) In many if not most cases, the main aim of the proprietor is to seek to stop the defendant continuing to engage in infringing conduct. Injunctive relief is the principal remedy sought. Pecuniary relief, in addition to a costs order, either an award of damages or an account of the profits made by the infringer, is typically of secondary concern.
  - (e) In most cases, the infringement trial is split: liability is tried and decided before a separate trial of damages/account of profits issues, although permanent injunctions are often ordered at the conclusion of the first stage. Interlocutory appeals against the judge's decision on liability also often occur before a trial of damages/account of profits issues. Most damages claims settle once the registered right has been held to be valid and infringed.
  - (f) Where the proprietor moves quickly to sue for infringement, whether or not an interlocutory injunction is ordered, or undertakings from the defendant obtained, that can have the effect of limiting the extent of the defendant's infringing conduct and hence the quantum of an award of damages by the Court.
2. In these circumstances, it is perhaps not surprising that there are relatively few cases concerning damages for patent, design and trade mark infringement, especially at appellate levels. Many damages decisions are made on summary judgment applications, or where the claim is unopposed. There is relatively little academic guidance to be found concerning damages in the leading Australian texts. The purpose of this paper to state the relevant principles concerning damages, based upon the relevant statutory provisions and the applicable case law.

### **The main statutory provisions**

3. The principal provisions concerning damages are substantially identical:

- **Patents Act 1990**

*"122(1) The relief which a court may grant for infringement of a patent includes an injunction (subject to such terms, if any as the court thinks fit) and, at the option of the plaintiff, either damages or an account of profits."*

- **Designs Act 2003**

“75(1) Without limiting relief that a court may grant in infringement proceedings, the relief may include:

- (a) an injunction subject to such terms as the court thinks fit; and
- (b) at the option of the plaintiff damages or an account of profits.”

- **Trade Marks Act 1995**

“126 The relief that a court may grant in an action for infringement of a registered trade mark includes:

- (a) an injunction, which may be granted subject to any condition that the court thinks fit; and
- (b) at the option of the plaintiff but subject to section 127, damages or an account of profits”.

4. The following matters emerge:

- (a) The Court must first find that infringement by the defendant has occurred before it can order a permanent injunction, damages or an account of profits. Obviously, that is not so in relation to interim or interlocutory injunctions.
- (b) The Court’s power to order damages against the infringer does not depend upon the Court also ordering any form of permanent injunction. There is no concept of, or restriction upon, damages being in lieu of an injunction.
- (c) The Court cannot order an account of profits against the infringer, as well as damages. If the proprietor elects to pursue a damages award, it must forgo an account of profits. The two remedies are alternatives and mutually exclusive. Further, as explained by Windeyer J in *Colbeam Palmer Ltd v Stock Affiliates Pty Ltd* (1968) 122 CLR 25 at 32:

*“The two computations can obviously yield different results, for a plaintiff’s loss is not to be measured by the defendant’s gain, nor a defendant’s gain by the plaintiff’s loss. Either may be greater, or less, than the other.”*

5. The brevity of the references in the statutory provisions to damages should be noted. In each, the substance of the provision is that *“the Court may grant damages for infringement”*. Before turning to the meaning of those words, it is instructive to compare the statutory language used here with the more detailed language in the old s 87(1) of the *Trade Practices Act 1974* concerning (inter alia) damages in relation to Part V misleading or deceptive conduct:

*“87(1) ... where ... the Court finds that a person who is a party to the proceeding has suffered, or is likely to suffer, loss or damage by conduct of another person that was engaged in contravention of a provision of ... Part V ..., the Court ... may make such order or orders as it thinks appropriate against the person ... if the Court considers that the order or orders concerned will compensate the first-mentioned person in whole or in part for the loss and damage or will prevent or reduce the loss or damage.”*

6. Section 87(1):

- (a) distinguishes between the plaintiff having suffered loss and damage and the plaintiff being compensated for that (by an award of monetary damages); and
- (b) requires, because of the use of the words *“by conduct of another person”*, that the loss and damage in respect of which the compensation is sought, has been caused by the contravention: *I & L Securities HTW Valuers* (2002) 210 CLR 109 at para [54] per Gaudron, Gummow and Hayne JJ.

7. By contrast, although at first blush the words: *“the Court may grant damages for infringement”* might not be considered to be very illuminating, it is of fundamental importance to bear in mind that it is a matter of statutory construction what the words of the three provisions which permit the Court to order damages mean. They must be construed according to ordinary principles of statutory construction. I emphasise here that:

- (a) the purposes and objects of the *Patents Act* 1990, the *Designs Act* 2003 and the *Trade Marks Act* 1995 read as a whole, are relevant to the process of construction;
- (b) care must be taken when drawing upon case law and principles concerning damages concerning different causes of action, lest the statutory warrant given to the Courts here be distorted/narrowed/ossified.

8. Before turning to the case law, it is useful to consider what the words: *“the Court may grant damages for infringement”*, convey. There is no doubt that the word *“damages”* means an award of pecuniary or monetary damages made by Court order in favour of the successful proprietor, and against the defendant infringer. The conduct which gives rise to the power of the Court to award such damages, is the defendant’s infringing acts. Those acts must, and will be, acts within the scope of the relevant monopoly conferred on the registered proprietor by the applicable statute, which acts have occurred without the licence, authority or consent of the proprietor. Damages are awarded *against* the defendant because such acts of infringement ought not to have occurred. That suggests that the principle upon which the Court should act in

ordering that the defendant pay damages, is to seek to put the plaintiff proprietor in the position that it would have been in had the infringement not occurred. That is the common law damages principle that applies to tortious conduct by the defendant, such as where the defendant has been negligent. Patent, design and trade mark infringement is considered to be in the nature of a tort, despite the statutory rather than common law basis of the unlawful conduct. However unlike common law torts, such as passing off, damages are not the gist of the action as an award of damages is only one of the remedies which the Court may order where it has found infringement.

9. In what circumstances does the Court order an award of damages *in favour of* the plaintiff proprietor? The answer is where the plaintiff has suffered loss and damage caused by, or as a result of, the defendant's infringing conduct. Damages awarded by the Court in such circumstances are damages *for* the defendant's infringement. If the plaintiff has suffered no such loss or damage, then it will not be awarded any damages notwithstanding the defendant's infringing conduct. This is the compensation principle, and is to be contrasted with:
- (a) an account of profits, where the defendant's gain is ordered to be paid to the plaintiff regardless of the extent of loss or damage suffered by the plaintiff; and
  - (b) additional or flagrancy damages, where the Court awards the plaintiff damages to punish or deter the defendant, having regard to the nature of the defendant's infringing conduct.
10. The *Patents Act* empowers the Court to award additional damages, in the terms similar to s 115(4) of the *Copyright Act 1968*, as follows:
- "122(1A) A court may include an additional amount in an assessment of damages for an infringement of a patent, if the court considers it appropriate to do so having regard to:*
- (a) the flagrancy of the infringement; and*
  - (b) the need to deter similar infringements of patents; and*
  - (c) the conduct of the party that infringed the patent that occurred:*
    - (i) after the act constituting the infringement; or*
    - (ii) after that party was informed that it had allegedly infringed the patent; and*

- (d) *any benefit shown to have accrued to that party because of the infringement; and*
- (e) *all other relevant matters."*

11. More succinctly, the *Designs Act 2003* provides:

*"75(3) The court may award such additional damages as it considers appropriate, having regard to the flagrancy of the infringement and all other relevant matters."*

12. The *Trade Marks Act* does not have any analogous provision concerning additional damages, and French J in *Paramount Pictures Corporation v Hasluck* (2006) 70 IPR 293 at paras [4], [34], [35], [36] decided that exemplary damages are not available under the Act.

13. There is a bright-line distinction between compensatory damages, and additional or flagrancy damages. Concerning compensatory damages, if the plaintiff proprietor *has not* suffered loss and damage as a result of the defendant's acts of infringement, then the Court will not make an award of damages against the defendant infringer and in favour of the plaintiff proprietor, as there is nothing to compensate the plaintiff for. However where the plaintiff *has* suffered loss and damage as a result of the defendant's acts of infringement, there is.

14. The authorities decide that, additional or exemplary damages aside, damages for patent, design and trade mark infringement are compensatory in nature. The most celebrated statement of principle is that of Lord Wilberforce in *General Tire & Rubber Co v Firestone Tyre & Rubber Co Ltd* (1975) RPC 197 at 212; (1975) 1B IPR 713 at 726 (a patent case):

*"As in the case of any other tort (leaving aside cases where exemplary damages can be given) the object of damages is to compensate for loss or injury. The general rule at any rate in relation to "economic" torts is 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: Livingstone v Rawyards Coal Co (1880) 5 App Cas 25 at 39, per Lord Blackburn.*

*In the case of infringement of a patent, an alternative remedy at the option of the plaintiff exists by way of an account of profits made by the infringer: see Patents Act 1949 (UK) s 60. The respondents did not elect to claim an account of profits, their claim was only for damages. There are two essential principles in valuing that claim: first, that the plaintiffs have the burden of proving their loss: second, that the defendants being wrongdoers, damages should be liberally assessed but that the object is to compensate the plaintiffs and not punish the defendants: Pneumatic Tyre Co Ltd v Puncture Proof Pneumatic Tyre Co Ltd (1899) 16 RPC 209 at 215."*

15. The compensation principle has been generally applied in Australia regarding damages in patent, design and trade mark cases: *Pearce v Paul Kingston Ltd* (1992) 25 IPR 591 at 592 (Ashley J; Patents); *Review Australia Pty Ltd v Innovative Lifestyle Investments Pty Ltd* (2008) 75 IPR 289 (Jessup J; Designs); *Paramount Pictures Corporation v Hasluck* (2006) 70 IPR 293 at para [42] (French J; Trade Marks); *Nokia Corporation v Liu* (2009) 82 IPR 452 at para [46] (Finn, Sundberg, Edmonds JJ; Trade Marks).
16. An award of compensatory damages is not discretionary, despite the statutory language being that the Court *may* order damages. An award of damages is non-discretionary in the sense that if the wrongful act of the defendant causes damage to the plaintiff, damages should be awarded: *Review Australia Pty Ltd v Innovative Lifestyle Investments Pty Ltd* (2008) 75 IPR 289 at paras [33], [40] (Jessup J). Equitable principles concerning the plaintiff's conduct, such as it being required to come to the Court with clear hands, do not affect the exercise of the Court's statutory power to order compensatory damages: *Review v Innovative Lifestyle* at para [40].
17. As with all legal principles stated at a high level of abstraction, difficulty can arise in the application of the compensation principle in the circumstances of a particular patent, design or trade mark infringement case. Common law-based control mechanisms on the nature and extent of compensable loss and damage such as causation, remoteness, foreseeability and consequential loss are relevant, given the tort-based compensation principle which applies.

### **The conduct of the parties**

18. The Court in deciding whether to award damages against the defendant infringer and in favour of the plaintiff proprietor, considers the evidence led regarding the conduct of both parties.
19. Where the Court finds infringement, there will be evidence as to what the defendant's infringing conduct was. The *infringing nature* of that conduct will be identified. In other words, the conduct will be identified as falling within the scope or ambit of at least one of the monopoly rights conferred upon the proprietor by registration. On a damages hearing, the Court will receive evidence of the *extent* of the defendant's conduct. For example how many sales of infringing articles were made, at what price, over what period of time. The plaintiff, bearing the onus of proof in seeking an award of damages, may have difficulty in proving the extent of the defendant's conduct, dependent upon whether interlocutory steps have revealed

a full or clear position about that, and whether relevant defence witnesses give evidence.

20. In a Court hearing on liability in a patent, design or trade mark infringement case, the trial mainly concerns the *defendant's* conduct. For the plaintiff, and the Court, the touchstone is the registered patent, design or trade mark as that defines the ambit of the monopoly. The nature and extent of the plaintiff's use and exploitation of its monopoly is not relevant here. For example, in a trade mark infringement case proof of the plaintiff's reputation in the mark, or derived from the proprietor's use of the mark, is not an element of the cause of action, although such evidence must be led if passing off/misleading or deceptive conduct causes of action are also run.
21. However when damages are tried, the hearing is principally about the *plaintiff's* conduct. For the Court to adequately assess what impact the defendant's infringing conduct has had upon the plaintiff, the plaintiff needs to lead evidence about its business and the market in which it operates. The plaintiff must show how it has used the patent, design or trade mark in its business apart from the defendant's conduct, and the nature and extent of such use. In a patent or design case, has the proprietor manufactured and sold articles made in accordance with the registered right, and if so, to what extent at what price, to achieve what profit, over what period of time? Has the proprietor licensed others to do so, in what circumstances, where, for what fee or royalty? Does the proprietor exploit the patent or design at all? In a trade mark case, the Court should receive evidence of how the plaintiff has used the mark, to achieve what sales and profits. The trade mark may or may not have been licensed. Where the trade mark is the basis of a franchised business operation, evidence must be led about that. The general point is that the Court needs to understand the market in which the proprietor operates.
22. For practitioners acting for the proprietor, evidence of this kind needs to be marshalled as it will drive or dictate how the damages case should be put: what heads, or types, of damages should be claimed and in what sum?
23. The Court's task is to assess whether the defendant's infringing conduct has caused the plaintiff to suffer the loss and damage which it alleges, and if so what dollar sum ought be struck to compensate the plaintiff for that loss and damage. What would have been the financial position of the plaintiff had the defendant's conduct not occurred? What is the difference between that position and the position that the plaintiff in fact is in, given that the defendant's conduct did occur?



24. Necessarily, the Court makes an assessment here of hypothetical events. The defendant's infringing conduct *did occur*, but the Court must assess the impact of that on the plaintiff upon the assumption that that conduct *did not occur*. To ask: What would have happened in those circumstances?, is to ask a hypothetical question. However, the answer that the Court provides must be based on evidence. Given the nature and extent of the plaintiff's business, based upon the way in which it has exploited its registered right and the applicable market conditions, what *would have* happened differently? The Court decides, on the balance of probabilities, whether the defendant's conduct was *a* cause of the loss and damage in respect of which an award of damages is claimed. If there were other causes which are relevant, that is no bar to the claim succeeding.

### **Main heads of damages**

25. A common claim by the proprietor is that sales achieved by the infringer *would have been* made by the plaintiff instead, and so the plaintiff has lost the profit it would have made on those sales. The Court will not assume that, but will look to evidence as to whether the plaintiff and the defendant compete in the same market, and consider price differentials and differences in the quality of products, where that is relevant.
26. Damages for diminution in value of the chose in action constituted by the registered right, or for a loss of the value in the plaintiff's goodwill or reputation derived from its exploitation of its chose in action, are in principle available to be claimed against the infringer, even in a patent or design infringement case: *Pearce v Paul Kingston Pty Ltd* (1992) 25 IPR 591 at 592 (Ashley J); *Advanced Building Systems Pty Ltd v Ramset Fasteners (Aust) Pty Ltd* (2001) 52 IPR 305 at paras [142]-[144] (Hill J). Such damages, if they can be proven, are not too remote because the value of the patent or design per se, or as reflected in the value of the plaintiff's business, is derived from conduct of the plaintiff falling within the scope of the monopoly which registration confers. The question for the Court, where adequate evidence of such matters is led by the plaintiff, is whether the defendant's infringing conduct has reduced that value to the plaintiff, and if so to what extent? An award of damages for loss of value does not depend upon there having been any loss of sales by the plaintiff due to the defendant's infringement.
27. Loss of value damage of this kind is often difficult to prove and quantify. Additional, punitive, rather than compensatory, damages can be particularly important for the plaintiff here. However proof of the plaintiff's reputation or goodwill in its business is commonly-enough achieved in passing off and misleading and deceptive conduct cases to establish liability, so that loss of value damages in patent, design and trade

mark infringement cases perhaps ought be more vigorously pursued by plaintiffs, based upon thorough evidence preparation.

28. In particular in cases of blatant infringement, I suggest that those representing plaintiff proprietors should not be slow to pursue loss of value damages just because such damages are difficult to quantify. As a matter of principle, I find unconvincing the infringer's retort: no-one would mistake our infringing product for the genuine patent/design/trademark-based product, and so there was no diversion of sales, or diminution in the plaintiff's reputation. Where the defendant's conduct is sufficiently extensive to justify the legal costs to the plaintiff of proving its reputation in or derived from its registered right and its value, I suggest that the Courts will not be shy in awarding loss of value damages. Reputations are difficult to establish, but easy to lose. The cases are replete with statements to the effect that Courts ought not fail to award compensatory damages in favour of plaintiff proprietors because of the intangible nature of intellectual property rights and the difficulty in valuing them. The judges just want the evidence. A Full Court (Sheppard, Morling and Wilcox JJ) in *Enzed Holdings Ltd v Wynthea Pty Ltd* (1984) 4 FCR 450, 3 IPR 619 at 637, concerning breach of copyright/misleading or deceptive claims stated, in an oft-cited passage, stated that:

*"The principle is clear. If the court finds damage has occurred it must do its best to quantify the loss even if a degree of speculation and guess work is involved. Furthermore, if actual damage is suffered, the award must be for more than nominal damages. We should add that we can see no reason why this principle should not apply in cases under the Trade Practices Act as well as in cases at common law. We emphasize, however, that the principle applies only when the court finds that loss or damage has occurred. It is not enough for a plaintiff merely to show wrongful conduct by the defendant."*

### **Permanent injunctions**

29. The Court under the empowering statutory provisions has a discretion whether or not to grant a permanent injunction when the Court finds infringement. The plaintiff must show that there is a risk that the defendant will, unless restrained, engage in infringing conduct: *Louis Vuitton Malletier SA v Knierum* [2004] FCA 1584 at para [15] (Finkelstein J). In some cases declaratory relief recording the Court's infringement finding is sufficient: *Sporte Leisure Pty Ltd v Paul's International Pty Ltd (No 3)* (2010) 88 IPR at 242 at para [138]; *(No 4)* [2011] FCA 201 (Nicholas J).
30. Crennan J in *Nokia Corporation v Truong* (2005) 66 IPR 511 at para [46] (references omitted), decided to grant a permanent injunction in a trade mark case on the following basis:

*“Permanent injunctions are granted conventionally, in respect of cases of intellectual property infringement against proven infringement and a proven threat to continue infringing as this avoids multiplicity of proceedings: ... There is clear evidence that the respondents have continued to sell the infringing products, despite being aware of these proceedings, and the respondents have given no undertakings not to infringe. I therefore consider it appropriate to exercise my discretion to grant a permanent injunction”.*

31. Unlike the position under United States law (*Ebay Inc v Mercexchange LLC* 547 US 1 (2006)), at the permanent injunction stage, by comparison to the interlocutory stage, there is no requirement that the Court must find that an award of damages would be an inadequate remedy before a permanent injunction is granted. The reason is that the Court’s power to order a permanent injunction derives from the statutory provisions, so that common law/equitable principles do not govern that.

### **Damages for patent infringement**

32. A useful statement of principle was provided by Ashley J in *Pearce v Paul Kingston Ltd* (1992) 25 IPR 591 at 592:

*“Authorities show that damages are to be awarded, as in the case of other tortious conduct, to compensate the patentee so as to restore him by monetary compensation to the position he would have been in had the infringement not occurred. Where a patentee utilises his monopoly by seeking profit as a manufacturer, loss of profits resulting from the infringement enable measurement of damage. Where a patentee licences another to make use of his invention in consideration of royalty payments, damages may be assessed by reference to the amount of royalty payments which, upon the terms normally granted by the patentee, the infringer would have had to pay had he obtained a licence. But even if a patentee has taken no steps to exploit his patent he is not to be denied relief. Damages may be assessed on an assumed royalties basis, as explained by Fletcher Moulton LJ in *Meters Ltd v Metropolitan Gas Meters Ltd* (1911) 28 RPC 157 at 164-5. A similar approach obtains where a patentee cannot show, in a claim based upon loss of profits, that goods which he manufactured were likely to have been sold in a market established by the infringer; see *Watson, Laidlaw & Co Ltd v Pott, Cassels and Williamson* (1914) 3 RPC 10 per Lord Shaw at 117-20. In that case the plaintiff recovered damages based upon lost manufacturer’s profits for such sales as were diverted to the infringer; but in respect of sales that the plaintiff would not have made, damages in the form of royalties were imposed. Such an approach was also taken in *Catnic Components Ltd v Hill & Smith Ltd* [1893] FSR 512. Where the patentee has not licensed exploitation of his patent in fact in the past, the court fixes the notional royalty payable by the infringer on the basis of what the infringer as a willing licensee would have been prepared to pay and the patentee as a willing licensor to accept; see *General Tire & Rubber Co v Firestone Tyre & Rubber Co Ltd* [1976] RPC 197 per Lord Wilberforce at 24-15 and 221, and per Lord salmon at 225. It should, however, be borne in mind that these various methods adopted in ascertaining the measure of damage are, as Lord Shaw said in *Watson Laidlaw* at 117 “practical working rules”. The core issue is always one of determining what is the proper measure of compensation, bearing in mind the futility of seeking mathematical precision. The onus of proof of damage lies, of course, upon the plaintiff.”*

33. Where the patentee is a manufacturer and the defendant has made infringing sales in competition with the plaintiff, the patentee will typically claim a loss of profits on the basis that the infringing sales were diverted from it by the defendant's wrongful conduct. The claim is for the profit that the plaintiff would have made if the sales had been made by it, instead of by the infringer.
34. A helpful check-list for the patentee comes from the United States Court of Appeal for the Federal Circuit in *Panduit Corporation v Stahl Bros Fibre Works Inc* 575 F. 2d 1152, cited with apparent approval by the English Court of Appeal in *Coflexip SA v Stolt Offshore Ltd* [2003] FSR 41; [2003] EWCA Civ 296 at para [39]:
- "To obtain as damages the profits on sales he would have made absent the infringement, ie the sales by the infringer, a patent owner must prove: (1) demand for the patented product, (2) absence of acceptable non-infringing substitutes, (3) his manufacturing and marketing capability to exploit the demand, and (4) the amount of the profit he would have made."*
35. If there were many non-infringing substitutes for the plaintiff's product, the patentee may fail in its loss of profits claim for want of causation. However, although the plaintiff may not succeed in making good a loss of profits claim based on a one for one sales diversion, loss of profits damages in a lesser sum may still be successfully claimed on the basis of loss of a chance. The English Court of Appeal in *Gerber Garment Technology Inc v Lectra Systems Ltd* [1997] RPC 443, at 459-460, 461, 481, accepted that in assessing loss of profits damages in patent infringement cases, loss of a chance damages are available following the approach of the High Court to misleading or deceptive conduct damages claims in *Sellars v Adelaide Petroleum NL* (1994) 179 CLR 332. A very useful illustration of a successful loss of profit damages claim is provided by the decision of Kitchin J in *Ultraframe (UK) Ltd v Eurocell Building Plastics Ltd* [2006] EWHC 1344 (Pat.) at paras [59]-[148].
36. *Gerber Garment Technology* is also authority for the proposition that a patentee's loss of profits claim can extend to loss of profits on the sale of articles ordinarily sold together with the patented product, provided that causation is established and that the claim is not too remote: [1997] RPC 443, 453-456, 461, 481. Loss of profits on the sale of spare parts fall into the same category. In *Ultraframe*, the Court considered a claim for loss of profits on sales of non-patented products, but the claim failed on the facts as the losses claimed were not foreseeable: [2006] EWHC 1344 (Pat), at paras [156]-[181].
37. Subject again to questions of causation and remoteness, damages can be claimed for so-called "price depression". That is where the patentee's price for its product has

been reduced to meet the competition provided by the infringer. Such an effect on the plaintiff can continue after the infringer's conduct has ceased. An example is again provided in *Ultraframe* [2006] EWHC 1344 (Pat), at paras [154], [155].

38. An argument by the infringer which is repeatedly run is to the effect that the patentee has not suffered any loss of profits as a result of the defendant's conduct, because the defendant could have competed lawfully by using a non-infringing product and caused the same impact on the plaintiff. Judges have repeatedly rejected the argument as being irrelevant: *United Horse Shoe Nail Co Ltd v Stewart* (1888) 5 RPC 260, 268 (per Lord Macnaughten); *Coflexip SA v Stolt Offshore Ltd* [2003] FSR 41; [2003] EWCA Civ 296 (CA) at para [25]-[37]; cf *Advanced Building Systems Pty Ltd v Ramset Fasteners* (2001) 52 IPR 305 at paras [121]-[133] (Hill J). Although damages are assessed on the basis of what would have happened if the defendant had not infringed, this does not mean the defendant can successfully contend that it ought be assumed that it would not have infringed, when the Court has found that it has.
39. Where the plaintiff licences the patented invention, prima facie the plaintiff's loss is measured by the licence fees or royalties that the defendant would have paid had the defendant's (infringing) conduct been licensed by the patentee. The licence fees or royalties charged by the patentee to others will be strong prima facie evidence of the rates to be charged. In *Pearce v Paul Kingston Pty Ltd* (1992) 25 IPR 591, Ashley J assessed damages on a lost notional royalties basis. The Court assumes, on the basis that the defendant should have acted lawfully, rather than unlawfully as it did, that a hypothetical negotiation occurred between a willing patentee, and a willing prospective licensee. In other words the issue is what fee or royalty, on the balance of probabilities, the infringer would have had to pay in order to obtain lawfully that which in fact it obtained unlawfully: *Irvine v Talksport Ltd* [2003] FSR 35; [2003] EWCA Civ 423 (CA) at para [106].
40. The Court will also use this method to strike a notional royalty/licence fee in two other situations:
  - (a) when the plaintiff claims damages for loss of profits, but is not able to persuade the Court on the evidence to make an award of damages on this basis as to part, or as to the whole, of the loss of profits claimed; and
  - (b) (even) when the plaintiff has not exploited the invention at all, either by manufacture or licensing.

41. In these situations, the plaintiff may struggle to lead sufficient evidence of what the “market” for the licensing of the invention would have been. However, in *Advanced Building Systems Pty Ltd v Ramset Fasteners (Aust) Pty Ltd* (2001) 52 IPR 305 at paras [191]-[203], Hill J made an alternative obiter assessment of damages on a notional royalty basis, although there was no evidence of the amounts which might be charged by patentees at arm’s length in comparable situations.
42. Where the Court awards damages on a notional or assumed royalty basis where loss of profits damages cannot be proven, that is consistent with the compensation principle because the right to licence a patented invention is one of the monopoly rights enjoyed by the proprietor and the value of that right is diminished by the defendant’s infringement. The measure of that is the monetary advantage that would have accrued to the proprietor by the infringer having acted lawfully by seeking a licence, rather than acting as it did unlicensed. “*Otherwise that property which consists in the monopoly of the patented articles granted to the patentee has been invaded, and indeed abstracted, and the law when appealed to would be standing by and allowing the invader or abstractor to go free*”: *Watson, Laidlaw & Co Ltd v Pott, Cassels and Williamson* (1914) 31 RPC 104 at 120 per Lord Shaw. In other words, the infringer cannot rely upon a patentee’s difficulties in proving loss of profit damages to eliminate any compensatory damages claim by the patentee where the defendant has infringed.
43. In the United States, until recently, a “reasonable royalty for use made of the invention by the infringer” was assumed to be 25 per cent of the patentee’s expected profits if the patentee had manufactured products incorporating the invention. A hypothetical negotiation between the patentee and the infringer as a lawful prospective licensee was assumed. If the patentee’s net profit from sales would have been 16 per cent, then the royalty rate would be struck at 4 per cent being a quarter of that.
44. The United States Court of Appeal for the Federal Circuit on 4 January 2011 in *Uniloc USA, Inc v Microsoft Corporation* 632 F3d 1292 (2011), decided that there was no permissible 25 per cent rule of thumb for a reasonable royalty, and that in each case there must be evidence to relate a particular royalty rate to the particular assumed hypothetical negotiation between the patentee and the infringer as to that. Although the *Uniloc* decision is unsurprising to Australian patent lawyers, it is a timely reminder as to the importance of evidence, and that while the Court will overcome a lack of precision in a damages claim concerning royalty rates, it will not speculate in favour of the patentee in the absence of evidence.

### Damages for design infringement

45. In principle, the law concerning damages for patent infringement applies equally where compensatory damages for design for design infringement are sought, although patents protect a manner of manufacture but designs protect the shape of an article.
46. Of interest are three recent cases where design infringement compensatory damages were sought:
- *Review 2 Pty Ltd v Redberry Enterprise Pty Ltd* (2008) 79 IPR 214 (Kenny J);
  - *Review Australia Pty Ltd v New Cover Group Pty Ltd* (2008) 79 IPR 236 (Kenny J);
  - *Review Australia Pty Ltd v Innovative Lifestyle Investments Pty Ltd* (2008) 75 IPR 289 (Jessup J).

In each case, the infringed registered design was for women's dresses.

47. In *Review v New Cover*:
- (a) The proprietor failed to establish any loss of profits claim. There was no evidence of any opportunity for loss of sales of the proprietor's dresses, particularly as the infringer's dresses were only on sale at a time when the proprietor's dresses were not on sale: (2008) 79 IPR 236 at para [43].
  - (b) However, the proprietor succeeded in obtaining an award of \$35,000 due to a diminution in the value of the design as a chose in action. The Court took into account the prospect of future sales of garments made in accordance with the registered design. Kenny J found that the reproduction by the infringer of the design under a cheaper label had the distinct potential to diminish customer interest in, and hence demand for, the proprietor's garments which embodied the design: (2008) 79 IPR 236 at paras [41]-[46].
48. In *Review v Redberry*, Kenny J found that the registered design was not infringed, but nonetheless went on to make obiter comments as to what the Court would have found on an assessment of damages if the design had been found valid and infringed:
- (a) Damages would not have been awarded for a loss of profits due to sales diversion. The Court did not accept the assumption that the infringer's sales would have been the proprietor's sales, especially as the proprietor's dresses sold for \$169.95, but the infringer's retailed at \$59. In any event, the

proprietor's dresses were not on the market at the time of the making of sales by the infringer: (2008) 79 IPR 214 at paras [65]-[68].

- (b) Diminution in value damages would only have been awarded in a sum of \$3,500, particularly as there was no satisfactory evidence as to the sales history of dresses made in accordance with the design, although there was some evidence of as to the value to the proprietor of its designs and the images they created: (2008) 79 IPR 214 at para [69].

49. In *Review v Innovative Lifestyle*:

- (a) The proprietor did not contend that had the infringer's dresses not been on the market, it would have achieved additional sales to the extent of the infringing sales. However Jessup J indicated the sort of evidence that would have been required: evidence of the proximity of the proprietor and the infringer's stores and evidence as to the market for the dresses to demonstrate a likelihood of sales diversion, particularly evidence to exclude other possibilities such as the consumer buying another non-infringing dress of the respondent, or of another manufacturer, or of making no purchase: (2008) 75 IPR 289 at para [26].
- (b) Jessup J awarded the proprietor \$7,500 being a capital value representing the probable diminution of the applicant's reputation for originality brought about by the infringement. The respondent had sold between 185-190 infringing dresses: (2008) 75 IPR 289 at paras [31], [25]. Jessup J reasoned, at para [30]:

*"I accept the applicant's evidence that it put considerable value by the perceived originality of its garments. It was an important aspect of the applicant's image in the market. I can well understand that, if the applicant had a reputation, however diffuse, for originality of design, a consumer might well show a particular interest in the applicant's range of products, and be alert to the appearance of new designs from time to time. And if she took that approach, she would have to enter one of the applicant's stores or outlets to satisfy her curiosity. If garments bearing a substantial similarity to those of the applicant started to appear in other outlets and under other brands, the consumer's perception of the originality of the applicant's designs would necessarily be weakened. In an extreme case, the consumer's perception may be that the applicant's garments were nothing very special at all, and that she might as well spend her discretionary dollar at any outlet where she noticed something to her taste. I could not, of course, find that the present was anything like an extreme case, but I am prepared to find, on the probabilities, that the market presence of the respondents' dress did bring about some minor dilution of the applicant's reputation for originality."*



### **Additional damages for patent and design infringement**

50. Jessup J in *Review v Innovative Lifestyle* drew attention to the difference between copyright and design infringement concerning copying, as a result of which cases concerning an award of additional damages under s 115(4) of the *Copyright Act* 1968 have no necessary application in design infringement cases. Jessup J noted that whereas proof of copying was essential in a copyright infringement case, in a design infringement case infringement may occur whether or not copying has taken place: (2008) 75 IPR 289 at para [53]. Plainly enough, such comments have equal application in a patent infringement case.

51. To like effect, Kenny J in *Review v New Cover* stated, at (2008) 79 IPR 236 at para [55]:

*“In the designs context, copying per se is not, however, unlawful and does not establish a design infringement. There is nothing relevantly reprehensible in this business practice providing it does not result in design infringement. Accordingly, copying alone does not attract additional damages. Copying resulting in design infringement can, of course, justify an award of general damages, but, in general, such copying must be flagrant to justify additional damages.”*

52. Kenny J awarded \$50,000 additional damages under s 75(3), despite finding that the infringer’s copying was not flagrant. The Court put weight here upon the infringer failing to adequately make discovery and respond to a notice to produce, and to lead evidence as to the extent of the infringing conduct or the commercial benefit which it obtained: *Review v New Cover* (2008) 79 IPR 236 at pars [55]-[62].

53. Jessup J in *Review v Innovative Lifestyle* awarded \$10,000 additional damages. The Court held that the infringer did not proceed to manufacture and sell its own dresses notwithstanding that they ought reasonably to have supposed that the design of the dress which they copied was most probably registered, or in the process of becoming so: (2008) 75 IPR 289 at para [54]. However, Jessup J considered that the infringer’s continued trade in its dresses after receipt of the letter of demand specifically identifying the registered design, justified the making of the award of additional damages: (2008) 75 IPR 289 at para [55], [56].

### **Damages for trade mark infringement**

54. It is fair to say that an award of substantial damages for trade mark infringement is more difficult to obtain than in cases of patent or design infringement.

55. One reason is explained in a passage from *Kerly’s Law of Trade Marks & Trade Names* (13th edition) cited with approval by French J in *Paramount Pictures Corporation v Hasluck* (2006) 70 IPR 293 at para [46]:

*“It is important to note that in assessing damages for lost sales on a compensatory basis, it will be necessary for the court to determine what proportion of the defendant’s customers have been confused. The claimant is not entitled to damages for sales to persons who have not been misled, since he has suffered no loss in respect of them, and, arguably, no actionable wrong has been committed in respect of sales to them. If he were to recover damages in relation to such persons, he would be over-compensated. This principle distinguishes passing-off and trade mark infringement from other intellectual property proceedings such as those for patent infringement, where all the defendant’s activities of a given kind infringe.”*

56. It is inherently more difficult for the proprietor in a trade mark infringement case, to make good a loss of profits claim based on sales diversion caused by the infringer’s sales. The proprietor is likely to face competition from others selling the same or very similar goods or services, but under different trade marks (registered or unregistered). It is difficult for the proprietor to demonstrate sales diversion in such a competitive situation. Patent and design protection relates to products or methods per se, rather than very similar products or services sold under different names.
57. As to loss of value damages (diminution in the value of the chose in action constituted by the registered mark, or in the value of the reputation or goodwill of the proprietor’s business built on sales of trade-marked products), it is difficult to value the contribution the mark makes, as opposed to the product or service sold bearing or using the mark.
58. In recent cases the Court has rejected claims for trade mark infringement damages, or made limited awards, based upon a lack of evidence of diversion of sales and quantification of loss of value damages: *Paramount Pictures Corporation v Hasluck* (2006) 70 IPR 293 at paras [33]-[56] (French J); *Bing! Software Pty Ltd v Bing Technologies Pty Ltd (No 1)* (2008) 79 IPR 454 at paras [121]-[126] (Collier J); *Nokia Corporation v Liu* (2009) 80 IPR 286 at paras [15]-[21] (Jessup J); on appeal (2009) 82 IPR 452 at paras [45]-[46] (Finn, Sundberg & Edmonds JJ).
59. However, trade mark proprietors in Australia appear from the cases not yet to have pursued damages on a notional licence fee/royalty basis as applies in patent infringement cases, where loss or damage having been suffered as a result of the infringing conduct cannot otherwise be satisfactorily proven. *General Tire & Rubber Co* has been cited with approval as having application in trade mark cases, but has not yet been applied in this way.
60. It will be recalled that a notional licence fee/royalty basis for the assessment of compensatory damages can apply whether or not the registered right has previously been licensed, but is (obviously) more difficult to prove if no prior licensing has occurred.

61. A useful example where prior licensing had occurred, is provided by the decision of the English Court of Appeal in *Irvine v Talksport Ltd* [2003] FSR 35; [2003] ECWA Civ 423. That was a common-law passing off case concerning a photo endorsement made by a Formula 1 racing car driver, Mr Eddie Irvine, of a radio station when no permission had been given. The plaintiff on appeal succeeded in being awarded £25,000 on a notional licence basis. At trial Mr Irvine led evidence as to the amounts charged by him in previous endorsement deals, expert evidence as to what reasonable licence fee was and gave evidence that he would not have “bothered to get out of bed” for less than £25,000. The Court of Appeal applied that evidence to find, based on *General Tire & Rubber Co* principles, that a hypothetical negotiation between Mr Irvine and the infringer, on the assumption that the infringer had acted lawfully and sought Mr Irvine’s licence before endorsing the radio station, would have led to Mr Irvine being paid a licence fee of £25,000.
62. Where the proprietor of the mark has previously licensed the mark to others, that evidence, supplemented by expert evidence, could be successfully relied on to prove, on the balance of probabilities, what the “going rate” was for a licence for others to use the mark as a basis for an award of notional licence fee/royalty damages.
63. As indicated above, the proprietor will have more difficulty proving such a claim on this basis in the absence of prior licensing of the mark. However, it is important to note that the better view of the English authorities is that as a matter of principle, a notional licence fee/royalties basis for assessing compensatory damages is available in a trade mark infringement case, just as it is in a patent infringement case, even where no loss of sales can be proven and there was no prior licensing by the proprietor; *National Guild of Removers & Storers Ltd v Silveria* [2010] FSR 9; [2010] EWPC 15; *National Guild of Removers & Storers Ltd v Jones* [2011] EW PCC 4. Judge Birss QC in *National Guild of Removers Ltd v Silveria* [2010] FSR 9 at para [17] held as follows:
- “In my judgment, as a matter of principle, where a defendant uses a mark without permission and thereby infringes a registered trade mark or commits an act of passing off, that act is capable of damaging the claimant’s property in the mark ... or property in the goodwill attaching to his business. That is so whether or not a lost sale has taken place. It is the same kind of damage as the damage to a patent monopoly caused by an infringing sale which is not a lost sale to the patentee and for which a reasonable royalty is payable. It is an invasion of a (lawful) monopoly. Thus there is no reason in principle why damages should not be available, calculated on a “user” basis for trade mark infringement and for passing off. Of course it will be a question of fact in any given case to decide the amount of the damages.”*
64. With sufficient evidence being led by the proprietor to enable the Court to make a finding as to what a reasonable (notional) royalty or licence fee was, this may be a

way forward for trade mark proprietors who otherwise cannot make good damages claims for a loss of profits due to sales diversion, or due to diminution of value of the mark, or of the reputation or goodwill of its business based on the mark.

### **Conclusion**

65. The principles which apply in the assessment by the Court of an award of damages for patent, design and trade mark infringement are well enough settled. Careful attention to them should drive evidence preparation and the heads of damages claimed. For practitioners acting for the successful proprietor, the cases show that the judges require cogent evidence to be led on the basis of which an award of damages can be made. For practitioners acting for the infringer, there is considerable scope to challenge the cogency of the proprietor's evidence.

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2 June 2011