

## **Study Guidelines**

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### **2017 – Study Question**

#### **Quantification of monetary relief**

##### **Introduction**

- 1) This Study Question concerns the quantification of monetary relief in relation to the infringement of intellectual property (*IP*) rights.
- 2) The primary objective of this Study Question is to study methods of quantification of damages in use in different jurisdictions, in all fields of technology, and explore which methodologies might lead to a more harmonised and consistent recovery of damages. A purpose of this Study Question is to examine how monetary damages should be calculated in accordance with fair and objective methodologies, as foreshadowed in AIPPI's Resolution on Q203 (see further below).

##### **Why AIPPI considers this an important area of study**

- 3) The problem faced by industry and owners of IP rights generally is that even though the 'same' IP right can be found infringed in several countries, and even though the basic rationale for awarding damages may be the same or similar, the remedies for infringement in those countries can differ substantially because the detailed methods of quantification can vary. This makes it practically difficult to enforce IP rights across a number of jurisdictions and consistently obtain relief which adequately compensates the rightholder.
- 4) If rightholders cannot obtain adequate compensation, then actions to enforce IP rights may become uneconomic in particular jurisdictions, especially if and when injunctive relief is not available.
- 5) The quantification of damages tends to vary from jurisdiction to jurisdiction not only because the actual methods of quantifying damages are different, but also because the gathering and stress-testing of evidence relevant to damages tends to vary from jurisdiction to jurisdiction. Thus, to improve the consistency of the quantification of

damages, it is desirable to harmonise both the methods of quantifying damages and the processes used to gather and stress-test evidence relevant to damages.

### Relevant treaty provisions

6) Article 45 of TRIPs provides that:

#### **Damages**

1. *The judicial authorities shall have the authority to order the infringer to pay the right holder damages adequate to compensate for the injury the right holder has suffered because of an infringement of that person's intellectual property right by an infringer who knowingly, or with reasonable grounds to know, engaged in infringing activity.*

7) In a number of jurisdictions, the knowledge of the infringer can be relevant to establishing liability for infringement (e.g. there may be strict liability for direct infringement and knowledge plays no part, but knowledge may instead be relevant to indirect/contributory/secondary infringement or to criminal infringement). Knowledge may also be a relevant factor at the stage when damages are assessed, once liability for infringement has been established (e.g. greater damages for wilful patent infringement under US law, or no damages or accounts of profit in relation to innocent patent infringement under UK law for a defendant who proves that at the date of the infringement they were not aware, and had no reasonable grounds for supposing, that the patent existed). In some jurisdictions, there is no distinction between liability for infringement and liability for damages.

8) This Study Question does not address the requirement for knowledge in relation to liability for infringement. However, the role played by knowledge in the quantification of damages is relevant to this Study Question.

9) The quantification of damages is regulated in the European Union also by Article 13 of the Enforcement Directive (2004/48/EC):<sup>1</sup>

1. *Member States shall ensure that the competent judicial authorities, on application of the injured party, order the infringer who knowingly, or with reasonable grounds to know, engaged in an infringing activity, to pay the rightholder damages appropriate to the actual prejudice suffered by him/her as a result of the infringement.*

*When the judicial authorities set the damages:*

(a) *they 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 rightholder by the infringement;*

*or*

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<sup>1</sup> Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights.

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

2. *Where the infringer did not knowingly, or with reasonable grounds know, engage in infringing activity, Member States may lay down that the judicial authorities may order the recovery of profits or the payment of damages, which may be pre-established.*

10) The Directive also states (Article 16) that Courts may order other appropriate sanctions:

*Without prejudice to the civil and administrative measures, procedures and remedies laid down by this Directive, Member States may apply other appropriate sanctions in cases where intellectual property rights have been infringed.*

### **Scope of this Study Question**

11) For the purposes of this Study Question:

a) the term **IP rights** includes patents and supplementary protection certificates, petty patents and utility models, trade marks, rights to prevent unfair competition or passing off, copyrights, semiconductor topography rights, database rights and design rights, but excludes trade secrets, rights of confidence and rights in know-how;

b) the term **damages** refers to monetary relief as provided for in relation to IP rights, including but not limited to:

i) actual loss suffered by the rightholder as a result of the infringing activity, e.g. loss of sales or price erosion;

ii) the "injury proven" as referred to in paragraph 6(a) of AIPPI's Resolution on Q134 (see further below); and

iii) reasonable royalties awarded when actual loss is not proven;

c) the term **IP rights in suit** refers to those IP rights found infringed in respect of which the Court will need to quantify damages.

12) In some jurisdictions, profits made by the infringer from the infringement are a proxy for the quantification of damage suffered by the rightholder, or are otherwise relevant to damage suffered by the rightholder, and in these cases such profits are included within the term "damages" for the purposes of this Study Question. However, where the profits made by the infringer are not classified under national law as damages, but fall into a different class of monetary relief (e.g. accounts of profit) those profits should not be classified as damages for the purposes of this Study Question.

- 13) This Study Question does not address quantification of monetary relief in relation to any criminal infringement, any monetary relief which is not classified as “damages” as defined above, statutory damages (or any damages which are quantified according to a scale set in law), any monetary judgment interest payments that may be ordered, or any payments of legal fees or costs that may be ordered.
- 14) Specific issues relating to FRAND (fair, reasonable and non-discriminatory) royalties in the context of standard essential patents are outside the scope of this Study Question. However, to the extent that reasonable royalties are relevant to the quantification of damages more generally, that is within the scope of this Study Question.

### **Previous work of AIPPI**

- 15) AIPPI has previously studied damages and accounts of profit in the following contexts.
- 16) In the Resolution on Q71 – "Assessment of damages for patent infringements" (Toronto, 1979), AIPPI resolved to move the discussion forward in a workshop at the Buenos Aires Congress.
- 17) In paragraph 6 of the Resolution on Q134 – "Enforcement of intellectual property rights – TRIPS" (Rio de Janeiro, 1998), AIPPI resolved that:
  - a) *It is desirable that the patentee or trademark owner has the right to choose between compensation for the injury proven (not less than a reasonable royalty) and the unlawful profits obtained by the defendants as a specific result of the infringement. This choice may be made before or after liability has been established, and the patentee or trademark owner has had an opportunity to obtain all relevant information.*
  - b) *In the case of negligent, knowledgeable or wilful infringement, no distinction should be made in the relief available to the plaintiff.*
  - c) *In case of innocent infringement the plaintiff shall be entitled at least to a reasonable royalty.*
  - d) *Compensation for the injury proven (not less than a reasonable royalty) shall include the profits lost on sales the plaintiff would have made, and a reasonable royalty on the remaining sales made by the defendant, together with an amount for loss, if any, of good will, reputation and potential market share and any other consequential damage, such as price erosion.*
  - e) *The unlawful profits of the defendant include all his profit made as a specific result of infringement.*
  - f) *The court should have discretion to fix the award of compensation for infringement in accordance with the provisions of article 43<sup>2</sup> of TRIPS.*

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<sup>2</sup> This appears to have been a reference to Article 45.

- g) *A patentee or trademark owner is entitled to claim as compensation the loss suffered by it, through damages to its subsidiaries, whether exclusive or non-exclusive licensees. In no case can the owner and the subsidiary both maintain claims based upon the same loss suffered by the licensee.*
  - h) *The exclusive licensee has the right to claim compensation for infringement of the licensed rights unless otherwise stipulated in the license agreement. In no case can such licensee and the licensor both maintain claims based upon the same loss suffered by the licensee.*
  - i) *A patentee or trademark owner shall always be at least entitled to a reasonable royalty.*
  - j) *A reasonable royalty should be calculated taking into account the economic value of the use of the right and should be no less than what would have been agreed between a willing licensor and a willing licensee.*
  - k) *Punitive damages are not desirable.*
- 18) In the Resolution on Q186 – "Punitive damages as a contentious issue of Intellectual Property Rights" (Berlin, 2005), AIPPI resolved that awards of compensatory damages equivalent to the losses of the IP rights owner or the profits of an infringer should be available.
- 19) In the Resolution on Q203 – "Damages for infringement, counterfeiting and piracy of Trademarks" (Boston, 2008), AIPPI resolved that:
- 1) *An award of damages for trademark violations should compensate the victim of the violation for all its injuries in order to remedy all such injuries and deter the further violation of trademark rights.*
  - 2) *The evaluation of damages for trademark violations should be assessed primarily on the basis of objective economic considerations.*
  - 3) *The following principles should also be applied:*
    - a) *It shall be presumed, subject to rebuttal, that the trademark holder has suffered injury. The extent of monetary damages should be calculated in accordance with fair and objective methodologies.*
    - b) *Proof of intent of the infringer should not be required to recover damages. Good faith on the part of the infringer should not prevent the imposition of damages.*
    - c) *In appropriate cases, the need to create economic deterrents for future trademark violations should be taken into account in assessing the amount of damages.*
    - d) *the trademark holder may be permitted to recover the infringer's financial gains obtained as a result of the violation. However, the trademark holder should not be allowed to recover both its own loss of*

*income and the infringer's financial gains caused as a result of the violation, save for the situations contemplated in point (vi) below.*

- e) *If damages are assessed through a royalty calculation, the award may be enhanced in appropriate cases so that (1) the trademark holder is fully compensated for its injury and (2) future violations are deterred.*
  - f) *In situations of grossly negligent or bad faith violations, damage awards may be appropriately enhanced. The same is true for certain especially serious types of violation that are highly likely to inflict substantial injury on the trademark owner and the consuming public. Wrongs of this nature may be appropriately addressed by statutory damages or statutory multipliers of actual damages.*
- 4) *In general, all relevant economic information should be taken into account in determining damages awards in trademark cases. This includes the following types of evidence, any one or more of which may contribute to the determination of the damages award, depending on the facts of each specific case:*
- a) *Evidence showing injury suffered by trademark holder as a result of the violation, such as evidence of the following:*
    - i) *Lost profits;*
    - ii) *Lost or diverted sales;*
    - iii) *Price erosion;*
    - iv) *Loss of market share and pricing advantage;*
    - v) *The extent of likelihood of consumer confusion or of consumer confusion that is actually occurring in the marketplace;*
    - vi) *Harm to consumer goodwill associated with the mark, including tarnishment and other reputational harm, such as harm resulting from the inferior quality of the violator's products;*
    - vii) *Cost of reasonable corrective or preventive measures taken by the trade mark holder in relation to the violation;*
    - viii) *Loss of commercial opportunities caused by the violation.*
  - b) *Evidence of damages related to the infringer:*
    - i) *The infringer's financial gains obtained as a result of the violation;*
    - ii) *The extent of advertisement, marketing, distribution, and sales of violating goods or services;*
    - iii) *Quality of violating goods or services (if the quality is substantially below that provided by the trademark holder, the injury to the trademark holder may be greater);*

iv) *Infringer's bad faith.*

c) *If damages are assessed through a royalty calculation, reasonable royalties in analogous situations.*

- 20) In Q236 – "Relief in proceedings other than injunctions or damages" (Helsinki, 2013), AIPPI studied other forms of relief. This study included accounts of profits as an alternative form of monetary relief to damages, rather than a proxy for the quantification of damages suffered by the rights holder in the sense described in paragraph 12) above.

## **Discussion**

- 21) Within the context of the principles set out in Article 45(1) of TRIPS, and the methods of calculating damages described in the Resolutions on Q134 and Q203 (each as extracted above), there still remains the question of how, in practice, damages should be quantified or calculated.
- 22) The two main aspects of damages that need to be quantified are (1) the damage caused to the rightholder (e.g. through the loss of sales or price erosion) and (2) in the absence of quantifiable damage to the rightholder (or as an alternative or complement), reasonable royalties.

## Actual loss

- 23) In paragraph 6(d) of the Resolution on Q134, AIPPI resolved that actual loss shall *"include the profits lost on sales the plaintiff would have made, and a reasonable royalty on the remaining sales made by the defendant, together with an amount for loss, if any, of good will, reputation and potential market share and any other consequential damage, such as price erosion."*
- 24) This Study Question aims to further refine the ways in which this type of actual loss can be quantified. For example, how should the loss of goodwill, reputation, or market share be quantified? How should the sales to be made in the future (in the case of damages in lieu of an injunction) be estimated or quantified? How should price erosion be quantified, especially further price erosion that may occur on a continuing basis after damages have been assessed? Should (and can) reputation and goodwill be quantified on a jurisdiction-by-jurisdiction basis, or can it only be quantified regionally or globally?
- 25) This Study Question also intends to define other categories of loss that are relevant and examine how they should be quantified. For example, when assessing the loss of sales, how should the loss of sales of non-infringing associated items be treated? In some jurisdictions, this type of loss can be referred to as damages for convoyed goods and/or smallest saleable component damages (see, for example, the decision of the US Supreme Court in *Samsung v Apple*, October 2016). As another example, when assessing the loss of sales, how should the loss of sales of genuine products competing with the infringing products but not making use of the patent be treated? In some jurisdictions, loss of sales of such products cannot be compensated by loss

profits and in other jurisdictions they might be taken into account for the assessment of lost profits.

- 26) A further question is whether the quantification of damages should be any different if the infringement is indirect/contributory, instead of direct, especially as indirect infringement is frequently alleged in relation to parts of a machine or assembly, and the question is whether losses linked to the whole machine or assembly should be quantified. In some jurisdictions, indirect infringement can be found even when there is no direct infringement and thus there may be no double recovery in relation to the whole assembly.

#### Reasonable royalties

- 27) In paragraph 6(j) of AIPPI's Resolution on Q134, AIPPI resolved that a "*reasonable royalty should be calculated taking into account the economic value of the use of the right and should be no less than what would have been agreed between a willing licensor and a willing licensee.*" This is consistent with the case law in a number of jurisdictions, and refers to a hypothetical negotiation. The economic value in question is the value of the "use", not the value of the IP right itself.
- 28) In *Georgia-Pacific Corp. v. United States Plywood Corp.* (SDNY 1970), the US Court explained that reasonable royalties can be determined by reference to a hypothetical negotiation, between a willing licensor and a willing licensee, proceeding on the assumption that the patent(s) in question are valid and infringed. The Court set out 15 factors relevant to quantification, not all of which are relevant in every case:
1. The royalties received by the patent owner for the licensing of the patent-in-suit, proving or tending to prove an established royalty;
  2. The rates paid by the licensee for the use of other patents comparable to the patent-in-suit;
  3. The nature and scope of the license, as exclusive or non-exclusive, or as restricted or non-restricted in terms of territory or with respect to whom the manufactured product may be sold;
  4. The licensor's established policy and marketing program to maintain its patent monopoly by not licensing others to use the invention or by granting licenses under special conditions designed to preserve that monopoly;
  5. The commercial relationship between the licensor and the licensee, such as whether they are competitors in the same territory in the same line of business, or whether they are inventor and promoter;
  6. The effect of selling the patented specialty in promoting sales of other products of the licensee; the existing value of the invention to the licensor as a generator of sales of its non-patented items; and the extent of such derivative or convoyed sales;
  7. The duration of the patent and the term of the license;



8. The established profitability of the product made under the patent; its commercial success; and its current popularity;
  9. The utility and advantages of the patent property over the old modes or devices, if any, that had been used for working out similar results;
  10. The nature of the patented invention; the character of the commercial embodiment of it as owned and produced by the licensor; and the benefits to those who have used the invention;
  11. The extent to which the infringer has made use of the invention, and any evidence probative of the value of that use;
  12. The portion of the profit or of the selling price that may be customary in the particular business or in comparable businesses to allow for the use of the invention or analogous inventions;
  13. The portion of the realizable profit that should be credited to the invention as distinguished from non-patented elements, the manufacturing process, business risks, or significant features or improvements added by the infringer;
  14. The opinion testimony of qualified experts; and
  15. The amount that a licensor (such as the patent owner) and a licensee (such as the infringer) would have agreed upon (at the time the infringement began) if both had been reasonably and voluntarily trying to reach an agreement; that is, the amount that a prudent licensee – who desired, as a business proposition, to obtain a license to manufacture and sell a particular article embodying the patented invention – would have been willing to pay as a royalty and yet be able to make a reasonable profit, and which amount would have been acceptable by a prudent patent owner who was willing to grant a license
- 29) There may also be additional factors relevant to determining reasonable royalties under US law, such as looking at the cost savings achieved through the use of the patented invention.
- 30) In the UK case *General Tire v Firestone* (House of Lords, [1975] F.S.R. 273), the Court indicated that in “economic” torts, damages should be assessed so as to put the injured party in the position he would have been in if he had not sustained the wrong, and thus the appropriate measure of damages where a patentee exploited a patent by granting licences was the “going rate” for such a licence at the time that infringement commenced. This involves a hypothetical negotiation. Licences negotiated in other situations, in different circumstances (e.g. prior to a determination that the patent in suit is valid) might not be directly applicable as comparables for establishing a going rate for a patent that has been found infringed and valid and in respect of which damages should next be determined. Where no useful evidence is available of a going rate, the Court should take into account other evidence that the rightholder may adduce, for example, a licensing practice in the industry, expert opinion, and profitability of the invention.

- 31) The application of the above principles for the quantification of reasonable royalties is relatively clear in the situation where there is a single patent for a product and that patent is found infringed. In contrast, in situation where the patent in suit is licensed together with other patents as part of a portfolio of patents, and any going rate relates to the whole portfolio, can be much more complex.
- 32) This portfolio-related problem arises because it is commonly accepted that when determining damages, the Court should only determine damages in relation to IP rights in suit that are actually found infringed. It is therefore relevant to examine if there are ways to quantify damages where the infringing IP right forms part of a portfolio of IP rights where only the only running rate that has been established relates to the portfolio as a whole.

***You are invited to submit a Report addressing the questions below. Please refer to the 'Protocol for the preparation of Reports'.***

## **Questions**

### **I. Current law and practice**

*Please answer all questions in Part I on the basis of your Group's current law.*

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

In particular, please describe:

- a) the method used to determine the diversion of sales, i.e the part of the infringing sales that the rightholder would have made but for infringement;

*The Malaysian Federal Court (which is the apex court in Malaysia) in **Taiping Poly (M) Sdn Bhd v. Wong Fook Toh & Ors [2011] 3 CLJ 837** applied the "loss of business profit" approach by multiplying the profit margin of the rightholder with the loss of sales suffered by the rightholder.*

- b) what level of profit margin is taken into account.

*The profit margin for each year is calculated as the rightholder's amount of profit before taxation divided by rightholder's total turnover.*

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

In particular, please describe:

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

There are no reported Malaysian cases to date on the assessment of damages on the basis of a reasonable royalty.

The High Court has however recognised that in certain cases, a “licence fee” approach (which in our view bears some similarity to the reasonable royalty approach) may be applicable but has pointed out that it may be impractical to use the ‘licence fee’ approach’ where licences are not used in the plaintiff’s business where the plaintiff sells its products directly and indirectly through authorised dealers.

In an unreported decision in 2014, the High Court permitted the plaintiffs to rely on the “licence fee” approach to determine the amount of licence fees payable if the defendants had properly obtained a licence. In that case, the plaintiffs claimed that the commercial licensing fee for each of the plaintiffs’ musical works for the unauthorised and unlicensed use that was made by the defendants in accordance with the market rate is RM 5,000 per recording or per copyrighted work. The figure of RM 5,000 consists of the synchronisation fee (RM2,500) and mechanical royalty (RM2,500). The plaintiffs’ claim was allowed by the High Court.

- 3) What rules and methods are applied when quantifying the infringer’s profits, as part of quantifying damages?

In particular, please describe:

- a) the method to determine the profits resulting from the infringement, i.e. resulting from the use of the IP right;

In *Wembley Gypsum Products Sdn Bhd v. Mst Industrial Systems Sdn Bhd [2007] 3 CLJ 848*, the Court of Appeal calculated damages by multiplying the defendant’s total sales with the defendant’s profit margin.

- b) what level of profit margin of the infringer should be taken into consideration.

The defendant in *Wembley* (supra) had failed to dispute the fact that the plaintiff would have made a profit of at least 30%-35% out of the loss in the sales of the products. The trial court adopted an average of 32.5% as the rate of profit margin. The Court of Appeal agreed with the trial court’s findings.

However, in light of the decision in the Federal Court in *Taiping Poly* (supra), the method which the courts would likely use to calculate profit margin would be amount of profit before taxation divided by annual turnover.

- 4) What rules and methods are applied, both when quantifying actual loss and quantifying a reasonable royalty:
- a) in relation to conveyed goods;
- b) where the infringing product forms part of a larger assembly; or
- c) where the IP rights found infringed are routinely licensed together with other IP rights as a portfolio?

- d) when the damage suffered by the rightholder is related to competing goods which do not implement the infringed IP rights?

There are no reported cases on the rules and methods that are applied for the abovementioned situations in 4(a) to (c).

The general rule that is laid down by the Federal Court in *Taiping Poly* (supra) is that the claimant should not be overcompensated and the objective of the damages awarded for the infringement of intellectual property rights is to restore the claimant to the position he would have been in had the defendant not infringed. Hence, if the damages suffered by the rightholder are related to competing goods which do not implement the infringed IP rights, we take the view that they may not to be taken into consideration in assessing damages.

- 5) Are any of the rules and methods addressed in your answers to I.1) to 0 above different when considering the damage suffered by the rightholder or by its licensee?

No.

- 6) What kinds and types of evidence are accepted for proving:

- a) the quantum of actual loss;  
b) the quantum of reasonable royalties.

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

For the assessment of quantum of actual loss, the following evidence had been taken into consideration by the court in several reported cases:

- (a) Testimony in trial from defendant's witness<sup>3</sup>  
(b) Testimony in trial from claimant's director and dealer/agent<sup>4</sup>  
(c) Testimony in trial from a person who is familiar with the market rate of the selling price of the works in the industry<sup>5</sup>  
(d) Audited accounts and loss of sales<sup>6</sup>  
(e) Expert accounting evidence<sup>7</sup>

Other examples of acceptable evidence may include sales invoices, receipts, order forms and shipping documents.

There are no reported cases on the assessment of quantum based on reasonable royalties. We are of the view that there is no restriction on the type of evidence that

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<sup>3</sup> *Wembley Gypsum Products Sdn Bhd v. Mst Industrial Systems Sdn Bhd* [2007] 3 CLJ 848

<sup>4</sup> *Megnaway Enterprise Sdn Bhd v Soon Lian Hock* [2009] 3 MLJ 525

<sup>5</sup> *Saleha Hussin v Ab Wahid Nasir & Yang Lin* [2004] 2 CLJ 204

<sup>6</sup> *Taiping Poly (M) Sdn Bhd v. Wong Fook Toh & Ors* [2011] 3 CLJ 837

are permitted to prove quantum of actual loss or reasonable royalties as long as they adhere to the principles and provisions in the Evidence Act 1950.

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

The rightholder may seek discovery of documents, or a subpoena may be issued for the production of documents.

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

There are no specific rules or methods that differentiate the quantification of damages for indirect/contributory infringement from the quantification of damages for direct infringement. The court has the discretion to determine the quantification of damages depending on the facts of the case (*Taipung Poly* (supra)). The court will likely take into consideration the role and culpability of the parties involved in determining apportionment of liability and damages.

- 9) Are forward-looking damages (e.g. damage in relation to an irreversible loss of market share) available:

- if an injunction has also been granted;
- only if an injunction has not been granted; or
- not at all?

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

As per *Taipung Poly* (supra), assessment of damages in cases involving infringement of intellectual property rights in Malaysia are based on principles of restitution. The objective is to restore the rightholder to the position he would have been in had the defendant not infringed. There are no reported decisions on this.

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

Yes, bad faith of the infringer may be taken into account in the assessment of the damage.

Under section 37(7) Copyright Act 1987, the court may, in assessing damages, award additional damages if it is satisfied that it is proper to do so having regard to the:

(a) the flagrancy<sup>8</sup> of the infringement or prohibited act;

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<sup>8</sup> 'Flagrancy' has been interpreted by the High Court in *Megnaway* (supra) as implying "the existence of scandalous conduct, deceit and the like; it includes deliberate and calculated copyright infringements, infliction of humiliation and loss, and dishonesty". See: *Ravenscroft v Herbert and New English Library Ltd* [1980] RPC 193

- (b) any benefit shown to have accrued to the defendant by reason of the infringement or prohibited act; and
- (c) all other relevant matters

Exemplary or aggravated damages can be awarded as additional damages in situations where the defendant may be deemed to have acted in bad faith. Additional damages had been awarded by the court in situations where:

- a) the defendant's conduct had been calculated by him to make a profit for himself which might well exceed the compensation payable to the plaintiff. (*Microsoft Corp v Conquest Computer Centre Sdn Bhd [2015] 7 MLJ 243*)
- b) the defendant had purposely infringed the plaintiff's copyright in the work in order to make a profit for itself; and have in all probability committed the same infringing act many times before the material date and probably continue to do so thereafter (*Microsoft Corp v Conquest Computer Centre Sdn Bhd [2015] 7 MLJ 243*)
- c) there is flagrancy of the infringement and defendant had behaved dishonestly (*Saleha Hussin v Ab Wahid Nasir & Yang Lin [2004] 2 CLJ 204*)

Although there are no reported decisions on this point, we are of the view that it is possible to argue that in cases of innocent infringement, the amount awarded may be lower.

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

There are no specific rules and methods. The rightholder can claim damages it has suffered until the date of judgment.

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

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

It would be desirable for there to be more uniformity in award of damages.

The Copyright Act 1987 provides for an award of statutory damages under Section 37(1)(d) of the Copyright Act 1987 and additional damages under Section 37(7) of the Copyright Act 1987 but there is no similar provision for trade marks, patents and industrial designs.

In the exercise of its discretion, the courts would have to consider the extent of damage suffered based on the evidence before the Court. However, this may lead to arbitrary figures being awarded depending on the evidence available.

The codification of statutory damages may, to some extent, address this issue as it serves as an indication as to the amount of damages which would be deemed to be reasonable. However, it should be noted that the amount provided may need to be regularly reviewed to take into consideration prevailing commercial and economic practices.

Further, while it is desirable for a certain amount of latitude to be given to the Court in assessing the amount of damages to be awarded, the codification of main guidelines as to how additional and/or statutory damages ought to be assessed removes a lot of uncertainty. Therefore, legislation governing other IP rights should ideally have specific provisions catering for statutory and/or additional damages.

13) If the Court determines a reasonable royalty by reference to a hypothetical negotiation, should:

- the Court's assessment of the hypothetical negotiation be under an assumption that all the IP rights in suit are valid and infringed?
- ✓ the Court first be required to find that all the IP rights in suit are valid and infringed?

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

The question of assessment of damages would not arise until after a finding of validity and infringement is made by the Court.

The Court may be in a better position to determine reasonable royalty after determining if all the IP rights in suit are valid and infringed. We take the view that reasonable royalties should not be based on IP rights which are invalid.

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

Licensing practices of similar IP rights in the same industry may be considered by the courts.

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

An inquiry as to the assessment of damages is normally separate from the grant of injunctive relief; and these reliefs are typically granted together after delivery of judgment in Malaysia. However, we take the view that forward looking damages for loss of market, if available, should only be granted if an injunction is granted to take into account foreseeable loss.

### III. Proposals for harmonisation

16) Is harmonisation of the quantification of damages desirable?

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

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

Yes, it would be desirable. However, we take the view the courts should not be bound by a rigid set of considerations when quantifying damages. The courts should be given latitude to take into account any other circumstances which may be relevant to ensure that justice is done.

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

- a) loss of profits that would have been made had the infringement not taken place;
- b) diversion of sales from the rights holder to the infringer;
- c) possible price erosion due to economic factors;
- d) possible depreciation in value of work caused by the passage of time;
- e) residual impact of the infringing act after cessation of infringement;
- f) demand for the product / work in the market;
- g) reasonable royalties and the bargaining power of parties;
- h) damage caused to the reputation and goodwill of the rights holder (including the loss of distinctiveness in the event of trade mark infringement);
- i) loss of market share and commercial opportunities by reason of the infringement;
- j) cost for corrective measures which may need to be taken to offset the effect of infringement (e.g. more aggressive advertising and promotional activities);
- k) include forward looking-damages but exclude damages which are speculative, which are not proven and which are remote.

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



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

In view of the principles already established by the courts in the United States and the United Kingdom, it would be desirable for Malaysia to adopt similar principles in quantifying reasonable royalties in the interest of harmonisation.

In determining what would be a reasonable amount of royalty, the assessment should be based on the assumption that the IP rights being negotiated were found valid and infringed.

Prior licensing practices or prior going rates for the licensing the IP rights in suit would be relevant and may be taken into consideration by the courts for the purpose of determining what would be a reasonable royalty.

Evidence of prior licensing practices or prior going rates for other IP rights which are not similar to the IP rights in suit may not be suitable for the purpose of determining what would be reasonable royalties. Even if the IP rights are similar, the Court should examine the suitability and relevance of such evidence before relying on such evidence in determining reasonable rate of royalties.

19) Please propose, in relation to actual loss and reasonable royalties:

- a) how conveyed goods should be dealt with;
- b) how competing goods of the rightholder, not making use of the patent, should be dealt with; and
- c) how damages should be determined when the infringing product forms part of a larger assembly.

Damages or royalties in relation to conveyed goods should not be granted if there is no functional relationship between the conveyed goods and the goods protected by the IP rights in suit. The conveyed goods and the goods protected by the IP rights in suit should form part of a single unit failing which, damages could arguably be said to be too remote.

Further, even if there is a functional relationship, in order for the Court to award damages or reasonable royalties for the product as a whole, the feature/s which is/are protected by the IP rights in suit must be the basis of the demand for the product.

If the rightholder distributes competing conveyed goods which do not infringe the IP rights in suit, adjustments to the quantum of damages should be made to take into account the fact that the conveyed goods are not the only goods which can be used together with the goods protected by the IP rights in suit. Consumers would have the option of selected the conveyed goods or the competing goods.

- 20) Please propose principles your Group considers should be applied when quantifying the damages for indirect/contributory infringement in circumstances where there is no direct infringement of the IP rights in suit.

In quantifying damages for indirect / contributory infringement, the Court should first consider the extent to which an indirect/contributory infringer can be said to have caused the infringement. For example, the Court may consider the extent of inducement or contribution to the manufacture, use, sale and / or importation goods protected by the IP in suit.

Thereafter, the Court should proceed to attempt to quantify damages in the manner set out above (i.e. to determine to what is the damage caused by the indirect infringement) and apportion the quantum of damage accordingly.

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

No further comments.

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