



JUDICIARY OF
ENGLAND AND WALES

The Calculation of Damages for IP Infringements: Current Practice in the UK

WIPO/Hungarian IPO Regional Webinar

28 February 2023

(Lord Justice) Richard Arnold

1. Claimant's election between financial remedies

In the UK a successful claimant in an IP infringement case is entitled to choose between two different financial remedies: (1) damages (which are compensatory) and (2) an account of the defendant's profits (which is restitutionary). Since the remedies are mutually inconsistent, the claimant cannot have both.

Before the claimant elects, it is entitled to disclosure of basic financial information from the defendant. Typically, this will consist of (1) information as to the numbers of infringing products made and/or sold by the defendant, (2) the sums received or receivable from sales and (3) an estimate of the costs incurred by the defendant.

The election is normally made at the conclusion of the liability phase of the proceedings. Once the claimant has elected, the proceedings will enter a second phase which for practical purposes will lead to a second trial, although technically the two phases form part of the same proceedings.

2. Damages: basic principles

The basic principle is that the claimant is entitled to compensation for the loss suffered by the claimant as a result of the infringement. In general, compensation may be assessed in one of three ways:

- 1) Compensation for the claimant's lost profits where the claimant is a manufacturer or supplier of goods protected by the IP right and has lost sales due to the infringement – this involves determining what sales have been lost by the claimant and what the claimant's profit on such sales would have been.**
- 2) Compensation for the claimant's lost royalties where the claimant is a licensor of the IP right – such royalties are calculated at the going rate.**
- 3) A reasonable royalty where the claimant cannot prove lost sales or lost royalties – the reasonable royalty is assessed as what a willing licensor and a willing licensee would have agreed at the time of the infringement.**

3. Damages: lost profits in more detail

When ascertaining the claimant's lost profits, the following principles are applicable:

- **The infringements must have been the factual cause of the losses applying a simple “but for” test. It is irrelevant that the defendant could have sold non-infringing products.**
- **The losses must have been foreseeable at the time of the infringements.**
- **The infringements must have been the proximate or substantial cause of the losses. This involves a value judgment by the court.**
- **Provided these three tests are satisfied, there is no limit upon the losses that can be claimed. Thus, in principle, losses can be claimed for (i) “convoyed” products (non-infringing products sold together with infringing products), (ii) spare parts for infringing products, (iii) servicing of infringing products and (iv) sales outside the UK consequential upon the infringing supply of samples within the UK.**

4. Damages: reasonable royalties in more detail

When ascertaining a reasonable royalty, the following principles are applicable:

- **The royalty must reflect the infringing acts which the defendant has actually committed.**
- **The royalty must reflect the value of the IP right to the defendant, but disregarding personal characteristics of the defendant such as poverty.**
- **It is irrelevant that neither party would have been prepared to agree a licence.**
- **If comparable licences have entered into, particularly by the claimant or the defendant, then they may be used as a guide.**
- **If there are no comparable licences, a common approach is to apportion the profits available to the defendant from the infringing activity between the parties.**

5. Damages: combining claims for lost profits and reasonable royalties

It is possible to combine a claim for lost profits with a claim for reasonable royalties. If, for example, the claimant would only have made 50% of the sales made by the defendant, and thus the claimant has only lost profits in respect of 50% of the defendant's sales, the claimant may claim a reasonable royalty in respect of the other 50% of the defendant's sales.

6. Exemplary, aggravated and additional damages

In addition to pure compensation, a claimant may claim exemplary, aggravated or additional damages:

- **Exemplary damages are punitive damages. In practice they are not awarded in IP cases although theoretically available.**
- **Aggravated damages are compensatory damages but with an extra element to compensate the claimant for hurt feelings etc (“moral prejudice”) (which may be relevant in some copyright cases).**
- **Additional damages are a specific statutory remedy for copyright and unregistered design right infringement and enable damages to be awarded for flagrancy etc which go beyond strictly compensatory damages and may regarded as analogous to aggravated damages.**
- **Article 13 of the EU IP Enforcement Directive has been interpreted as potentially enabling the court to award additional damages for infringement of other IP rights, but so far no such award has been made.**

7. Account of profits: basic principles

The basic principle is that the claimant is entitled to restitution of profits made by the defendant as a result of the infringement. Calculating the profits made by the defendant can be difficult e.g.

- In calculating the profits, it is necessary to consider what deductions from gross turnover are permitted, which may depend on what other non-infringing products the defendant was making.**
- It may be necessary to apportion profits e.g. if the defendant makes and sells cars, but the infringement concerns a patent for an improved heating system, obviously the claimant cannot claim all of the profits made by the defendant from selling cars which include infringing heaters but only a fair proportion.**

8. Claims by exclusive licensees

Where the owner of the IP right has granted an exclusive licence to another party, the owner and the exclusive licensee can both claim damages for their own losses (it is probable that they cannot both claim an account of profits).

In the typical scenario, this will involve (1) the exclusive licensee claiming lost profits on its lost sales, (2) the right owner claiming lost royalties from the exclusive licensee in respect of the licensee's lost sales and (3) the right owner claiming a reasonable royalty in respect of sales of infringing products that the exclusive licensee has not lost to the infringer.