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IP Enforcement Directive: damages for infringement

Summary

The European Court of Justice (ECJ) has held that the Intellectual Property Enforcement Directive (*2004/48/EC*) (the Directive) does not preclude EU member states from enacting legislation which provides for punitive damages for intellectual property (IP) infringement.

Background

The Directive requires member states to implement measures, procedures and remedies necessary to ensure the enforcement of IP rights. The measures must be fair and equitable, not unnecessarily complicated or costly, without unreasonable time limits or unwarranted delays, and must be effective, proportionate and dissuasive. They must also not be applied in a manner which creates barriers to legitimate trade and must provide for safeguards against their abuse.

The Directive requires member states to ensure that their courts order an infringer who knowingly, or with reasonable grounds to know, engaged in an infringing activity, to pay the rights holder damages appropriate to the actual prejudice suffered by him as a result of the infringement.

The court can take one of two alternative approaches to calculating damages:

- Taking 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 rights holder by the infringement.

- Setting the damages as a lump sum, where appropriate, 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 IP right in question (*Article 13, the Directive*) (Article 13).

Recital 26 of the Directive (Recital 26) states that its aim is not to introduce an obligation to provide for punitive damages but to allow for compensation based on an objective criterion while taking account of the expenses incurred by the rights holder, such as the costs of identification and research.

Section 97(2) of the Copyright, Designs and Patents Act 1988 (section 97(2)) gives the court the power to award additional damages for flagrant copyright infringement.

In *Absolute Lofts South West London Limited v Artisan Home Improvements Limited and another*, the Intellectual Property Enterprise Court held that an award of additional damages under section 97(2) provided an alternative route for the recovery of additional damages also available under Article 13 for unfair profits or moral prejudice (*www.practicallaw.com/4-619-6999*).

Under Polish copyright law, the rights holder can demand a sum of money corresponding to twice the amount of the appropriate fee which would have been due at the time it was sought if the rights holder had given permission for the work to be used.

Facts

A Polish copyright licensing body, SO, issued a claim against a cable TV broadcaster, SF, which had distributed television programmes containing copyright-protected works in Poland without the rights holder's consent.

The Polish Court referred to the ECJ the question of whether the Directive precluded member states from enacting legislation which required, as an alternative to damages for actual loss suffered, the payment of a set amount of damages equivalent to double the hypothetical royalty rate.

Decision

The ECJ held that the Polish legislation was compliant with the Directive even if it imposed no obligation on the rights holder to prove their actual loss or any causal link between the infringement and that loss.

The Directive merely laid down a minimum standard, and applied without prejudice to national legislation that was more favourable for rights holders. It was also necessary to bear in mind the relevant international agreements such as the Paris Convention for the Protection of Industrial Property, several of which permitted signatories to grant wider protection than those agreements provided for.

Despite Recital 26, the Directive did not expressly rule out the payment of punitive damages. In rare cases where a double royalty would exceed the loss actually suffered so clearly and substantially that a claim to that effect could constitute an abuse of rights, the Polish court would have had discretion as to whether to award that sum. Also, the fact that Article 13 contemplated payment of lump sum damages did not make sense if one assumed that damages had to be assessed at the level of loss actually caused.

Comment

Interestingly, the ECJ did not follow the Advocate General's opinion that the Polish law ignored the principle that compensation should be appropriate to the actual prejudice suffered, instead opting for a measure that was primarily punitive rather than compensatory. As a result of this decision, member states are free to enact laws which provide for damages equivalent to a multiple of the cost of a licence fee to use the IP legitimately.

The ECJ assumed that the limitation in Recital 26 ruled out punitive damages, although it noted that the assessment could where appropriate include a restitutionary element, based on the unjust enrichment of the defendant, going beyond compensatory damages focusing on the damage to the claimant.

Case: Stowarzyszenie Olawska Telewizja Kablowa v Stowarzyszenie Filmowcow Polskich C-367/15.

Patents: compensation for employee inventions

Summary

The Court of Appeal has held that an employee was not entitled to compensation under sections 40(1) and 41 of the Patents Act 1977 (1977 Act) (section 40(1)) (section 41).

Background

For patents applied for before 1 January 2005, an employee may be awarded compensation where he has made an invention belonging to the employer for which a patent has been granted and the patent is of outstanding benefit to the employer (*section 40(1)*). The court will take into account the size and nature of the employer's undertaking when considering "outstanding benefit".

An award of compensation to an employee under section 40(1) in relation to a patent for an invention must secure for the employee a fair share, having regard to all the circumstances, of the benefit that the employer has derived, or may reasonably be expected to derive, from the patent (*section 41*).

Section 40(1) was amended by the Patents Act 2004 to make compensation payable when the invention, and not just the patent, has been of outstanding benefit.

In *Kelly v GE Healthcare Ltd*, the Patents Court awarded two employees a total of 3% of the benefit which their employer had derived from the patents, amounting to a total of £1.5 million (*[2009] EWHC 181 (Pat)*).

Facts

S was employed by a company within the U group, and was responsible for an invention in a series of related patents (the patents), which was used in blood glucose testing kits. The patents were transferred to an associated company for nominal consideration. That company was later sold to a third party for £103 million. The sale agreement provided for the buyer to receive expected licence payments of £2.9 million.

In 2006, S began proceedings in the Intellectual Property Office (IPO) claiming compensation under sections 40 and 41. The IPO concluded that, although the benefit to U from the patents was £24.5 million, it was not outstanding. The IPO thought that if the benefit had been outstanding a fair share for S would have been 5%. S and U appealed.

The High Court dismissed the appeals (*www.practicallaw.com/8-572-1368*). It held that the patents were not of outstanding benefit to U, and therefore S was not entitled to compensation under section 40(1).

S appealed, arguing that, if the benefit could not be regarded as outstanding compared to the overall scale of U’s business, large organisations would never be liable to pay employee compensation.

Decision

The court dismissed the appeal. It held that S was not entitled to compensation under sections 40(1) and 41.

Although an "outstanding" benefit to U was required to trigger compensation, there was no statutory definition of that word, so it must have its ordinary meaning. Attempts to redefine the meaning in the case law were generally unhelpful, but it was useful to consider whether the benefit to U exceeded what would normally be expected to result from the work for which S was paid, bearing in mind that the focus was on the benefit to U and not the inventiveness of S. The IPO hearing officer had made careful findings of fact, and had not misdirected himself on the law.

A simple comparison between the income from the patents and the overall turnover and profitability of U was not the right approach and so it was not necessary to show that financial benefit from the patents exceeded a particular percentage of U's total profits. "Outstanding" was a relative concept which had to be judged in the overall context of a multi-factorial assessment of the relevant factors in each case. In a large conglomerate like U, turnover and profitability were relevant factors but not the only factors. There was no statutory definition of "undertaking" and the correct approach required assessment of the economic and business realities of U's business.

The court rejected S's argument about the overall scale of U’s business. The size and nature of the employer’s undertaking is specifically referenced as a factor in section 40(1). It was not limited in terms of group profits generated by other patents and must be capable of including the whole of the employer’s business. Here, it was relevant to take into account the fact that, although the patents produced a high rate of return in terms of licence fee income at little risk or cost to U, much of U's profit would come from manufactured products derived from patents and not from licence fees.

While the issues of the effect of tax on the benefit to U and the time value of money did not have to be decided, the court agreed that corporation tax should not be deducted. However, only two of the three judges thought that the time value of money should be taken into account when calculating the employee's fair share of the benefit.

Comment

Unusually, here all the benefit to U from the patent came from licensing because the invention was outside the scope of U's business. In view of its finding of no outstanding benefit, this decision does not provide any further guidance after *Kelly* on the appropriate percentage to be awarded as a fair share. However, the decision has provided general guidance as to what should be taken into account in determining the amount of the benefit to the employer and whether or not it was outstanding.

Both the adverse result, and the fact that this case has taken over ten years to be finally decided, are likely to deter employees from making similar claims.

Case: Shanks v Unilever Plc and others [2017] EWCA Civ 2.

Data protection: proportionality of search and legal professional privilege

Summary

The High Court has refused an application to order compliance with a subject access request where the data controller's searches had been proportionate and the legal professional privilege (LPP) exemption had been properly claimed.

Background

Individuals have the right of access to their personal data by means of a subject access request (SAR) (*section 7, Data Protection Act 1998*) (DPA) (section 7). If a court is satisfied that the data controller has failed to comply with the SAR in breach of section 7, the court may order compliance (*section 7(9)*).

A copy of the personal data and related information must be provided to an individual in response to a SAR, unless this is not possible or would involve disproportionate effort (*section 8(2), DPA*).

There is an exemption from the requirement to provide personal data in response to a SAR where LPP could be maintained in respect of the data. (*paragraph 10, Schedule 7, DPA*).

The Court of Appeal has clarified the scope of "disproportionate effort" and whether a SAR is an abuse of section 7 if its predominant purpose is litigious in *Dawson-Damer v Taylor Wessing LLP, Deer v University of Oxford and Ittihadieh v 5-11 Cheyne Gardens RTM Co Ltd*.

Civil Procedure Rule (CPR) 31 sets out the requirements for disclosure of documents in civil proceedings. Generally, a document that is disclosed under CPR 31 may only be used for the purpose of the proceedings in which it is disclosed (CPR 31.22).

The court will only inspect material protected by LPP if there is credible evidence that those claiming privilege have either misunderstood their duty or are not to be trusted with decision making or there is no reasonably practicable alternative (*West London Pipeline and Storage Limited and Another v Total UK Ltd and Others, www.practicallaw.com/7-383-1237*).

Facts

H issued proceedings against C and CP in relation to a loan agreement from CP to H.

H applied to the court to order compliance with his SAR.

C and CP responded to the SAR but relied on the LPP exemption in relation to some documents.

H argued that C and CP had not carried out adequate searches when responding to the SAR, and as to the validity of C's reliance on the LPP exemption. H also argued that C should not be allowed to rely on LPP as the data for which LPP was claimed might reveal a breach of the fundamental right to privacy. In addition, H argued that iniquity had a broader meaning than crime or fraud and extended to breaches of fundamental human rights.

Decision

The court held that the searches were reasonable and proportionate and the data controller had complied with the obligations under section 7. There was no basis on which to require further searches. C had properly claimed the LPP exemption.

Although a significant purpose of the SAR was to obtain disclosures for litigation, the court decided that it was better not to rule on whether the SAR was an abuse until the *Dawson-Damer* decision on this issue became available.

The data controller's implied obligation to carry out a search on receipt of a SAR is limited to what is reasonable and proportionate. The searches undertaken were reasonable, proportionate and compliant with section 7. The searches had involved a review of over 17,000 individual documents. The court did not accept the flaws alleged by H, failure to ask C or CP whether any investigations or surveillance of H had been commissioned and the failure to search private email accounts (other than C's).

There was no evidence that CP's directors had used private email accounts for company business. If a company director uses a personal email account for corporate business then he may owe the company a duty to allow access to that account if necessary to enable the company to comply with a SAR. However, the company is not required to ask the question unless there is some sufficient reason to do so. Nor does the company have a general right of access to check the position.

LPP may be lost if the communication or document in question came into being for the purpose of furthering a fraudulent or criminal design. A court will refuse to uphold privilege if there is a strong prima facie case of wrong doing. A speculative case that there might be iniquity will not suffice to displace LPP. H argued that LPP could not be relied on because the underlying surveillance and investigation activities were tainted by criminal conduct. However, there was not sufficient evidence for concluding that the iniquity exception applied.

The court rejected H’s argument that extending the iniquity principle to breaches of fundamental human rights and noted this could erode the right to LPP, itself a fundamental human right.

Following *West London* Pipeline, the court will only inspect material protected by LPP to determine whether the privilege has been properly applied as a last resort.

Comment

Data controllers will welcome this decision which concluded that the searches were reasonable and proportionate and that the LPP exemption was properly claimed. The court’s comments that the data controller's obligation to carry out a search on receipt of a SAR is limited to what is reasonable and proportionate are particularly helpful. The decision also provides useful guidance on when corporate data controllers should consider searching directors' private email accounts when responding to a SAR.

Case: Holyoake v Candy and another [2017] EWHC 52 (QB).

Patents: Arrow declarations

Summary

The Court of Appeal has held that the availability in principle of a declaration that an intended product was not new or was obvious at the priority date of a patent application which the owner reserved the right to assert against that product on grant.

Background

The validity of a patent may be put in issue as a defence in proceedings for: patent infringement; for groundless threats; for declarations of non-infringement; or in revocation proceedings. Patent validity may not be put in issue in any other proceedings and proceedings cannot be brought seeking only a declaration of validity or invalidity (*section 74, Patents Act 1977*) (section 74).

In *Arrow Generics Ltd v Merck & Co Inc*, the High Court held that it had a discretionary power to grant a declaration (an *Arrow* declaration) that a generic pharmaceutical was known or obvious at the priority date of divisional patent applications (*[2007] EWHC 1900 (Pat)*). An *Arrow* declaration can be used as a *Gillette* defence to any later claim for infringement of a granted patent.

A *Gillette* defence consists of showing that a product or process was neither new nor obvious over the prior art at the priority date of a patent it was said to infringe (*Gillette Safety Razor Co v Anglo-American Trading Co Ltd (1913) 30 RPC 465*). In such a case the patent would be invalid if there was infringement.

In *Nokia Corp v Interdigital Technology Corp*, the High Court confirmed its jurisdiction to grant declarations of non-essentiality in relation to standard essential patents (*www.practicallaw.com/9-380-5181*).

Facts

A owned patents protecting a drug used to treat inflammatory diseases, and a related supplementary protection certificate (SPC), which were due to expire soon. A filed numerous applications for secondary patents protecting dosing regimes, formulations and uses of the drug (the secondary applications).

F intended to launch a biosimilar equivalent in the UK when the SPC expired, so wanted to clear the way of any patents granted on A's secondary applications. F brought an action against A seeking revocation of two European patents and an *Arrow* declaration (the first action). The High Court dismissed A's application to strike out the claim for an *Arrow* declaration.

F brought an action against A (the second action) seeking:

- An *Arrow* declaration to provide F with protection against subsequent claims for infringement of any patents within a family of the secondary applications.
- An injunction to restrain A from threatening or commencing proceedings for patent infringement in respect of acts covered by the declaration.

The High Court dismissed A’s application to strike out the second action (*www.practicallaw.com/3-634-9064*). A appealed against the decisions in both actions.

Decision

The court dismissed the appeals.

The first issue was whether it was permissible to grant an *Arrow* declaration. The modern approach was that the grant or refusal of declaratory relief in relation to commercial disputes should not be constrained by artificial limits, but by the exercise of the court's discretion. Negative declarations were an unusual remedy, but could be granted when useful to do so. Statutory remedies, if available, should in principle be regarded as exclusive, but, for example, *Nokia* had shown that declarations were permissible if they served a legitimate and useful purpose beyond that achievable by the statutory remedy.

The correctness of the *Arrow* decision depended on section 74. As the validity of an application cannot be challenged, if there were no relevant granted patents validity could not be put in issue. Section 74 also did not apply where the patent had been revoked. Section 74(2) prohibited proceedings seeking only a declaration of validity or invalidity of a patent. The word "only" made it clear that there was nothing to prevent a declaration of invalidity being sought in conjunction with revocation of the patent. The declarations sought here did not ask for a declaration that a granted patent was invalid. *Arrow* declarations could still be covert attacks on the validity of a patent, in breach of section 74. However, here the declarations did not correspond to the claims of a granted patent, so they did not offend against section 74.

A declaration that a product, process or use was old or obvious at a particular date did not necessarily offend against section 74 simply because it was sought against the background of pending applications. However, the existence of pending applications was not a sufficient justification for granting a declaration. Whether a declaration was justified depended on the exercise of the court's discretion in accordance with established principles. The court preferred not to give detailed criteria for the grant of *Arrow* declarations, leaving these to be developed by the Patents Court.

An important factor in the exercise of the discretion was the existence of statutory proceedings for revocation, which should be regarded as the normal vehicle for obtaining any findings of invalidity. Here it appeared that A was deliberately trying to shield the claims of their patents from scrutiny in the EPO and in the national court. Had the patents not been voluntarily de-designated or revoked by A, F would have had the opportunity to seek findings of invalidity of granted patents in the usual way, and so establish its freedom to operate before launch. Because of the way A had acted, the court could intervene by way of declaration to provide F with useful commercial certainty.

As to the second issue, the court doubted whether the grant of an injunction would be justified in the wide terms sought, but that the question was whether there was a real prospect of any injunction being granted at trial. It held that the claim for an injunction ought not to be struck out at this stage, because an appropriately framed injunction might be an alternative to the declaration.

Comment

This is an interesting example of the UK courts' ability to devise equitable remedies where statutory remedies are inadequate. An earlier example was the creation in *Nokia* of a declaration of non-essentiality of patents which had been declared essential to a standard. Here, the decision was clearly influenced by the behaviour of A and it remains to be seen how far it will be confined to its particular facts and whether it will be used in areas other than life sciences. Confirmation of the availability in principle of *Arrow* declarations may provide useful ammunition for generic pharmaceutical companies confronted by delaying or other tactics effectively preventing the usual remedy of revocation proceedings in respect of granted patents. More broadly, for businesses in any technology faced with patent applications in the pipeline but not yet granted, *Arrow* declarations may be available to provide commercial certainty, allowing them to test intended products or processes before launch in order to avoid potential damages claims for infringement of granted patents.

No *Arrow* declarations have as yet been granted after full trial. Judicial consideration has only taken place, as here, on applications by patentees to strike out or obtain summary judgment dismissing such declaratory relief.

Case: Fujifilm Kyowa Kirin Biologics Co, Ltd v AbbVie Biotechnology Ltd & Another [2017] EWCA Civ 1.

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