

The award of damages in the Unified Patent Court Agreement

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UPC: an Eldorado?



Damages

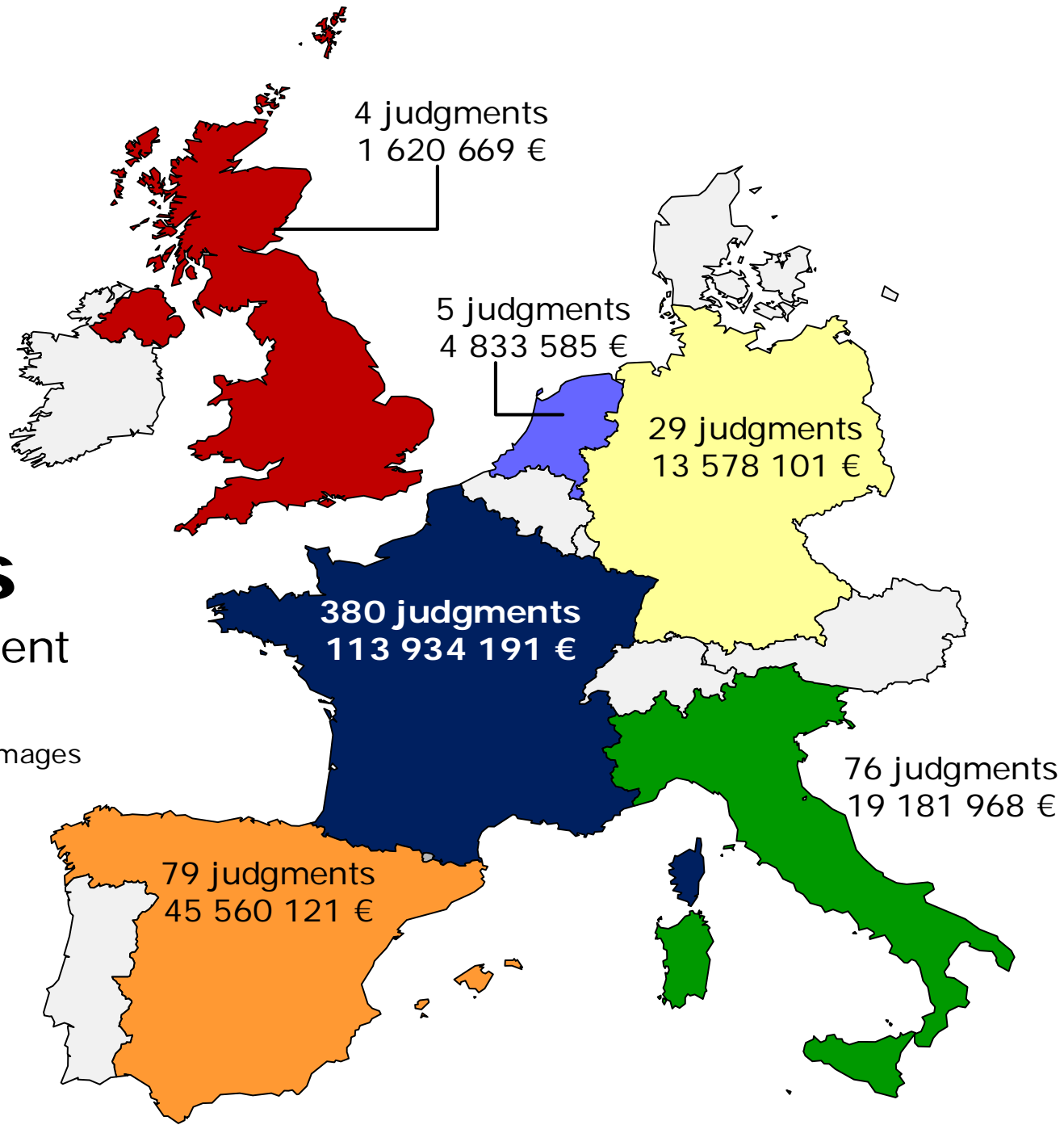
for patent infringement

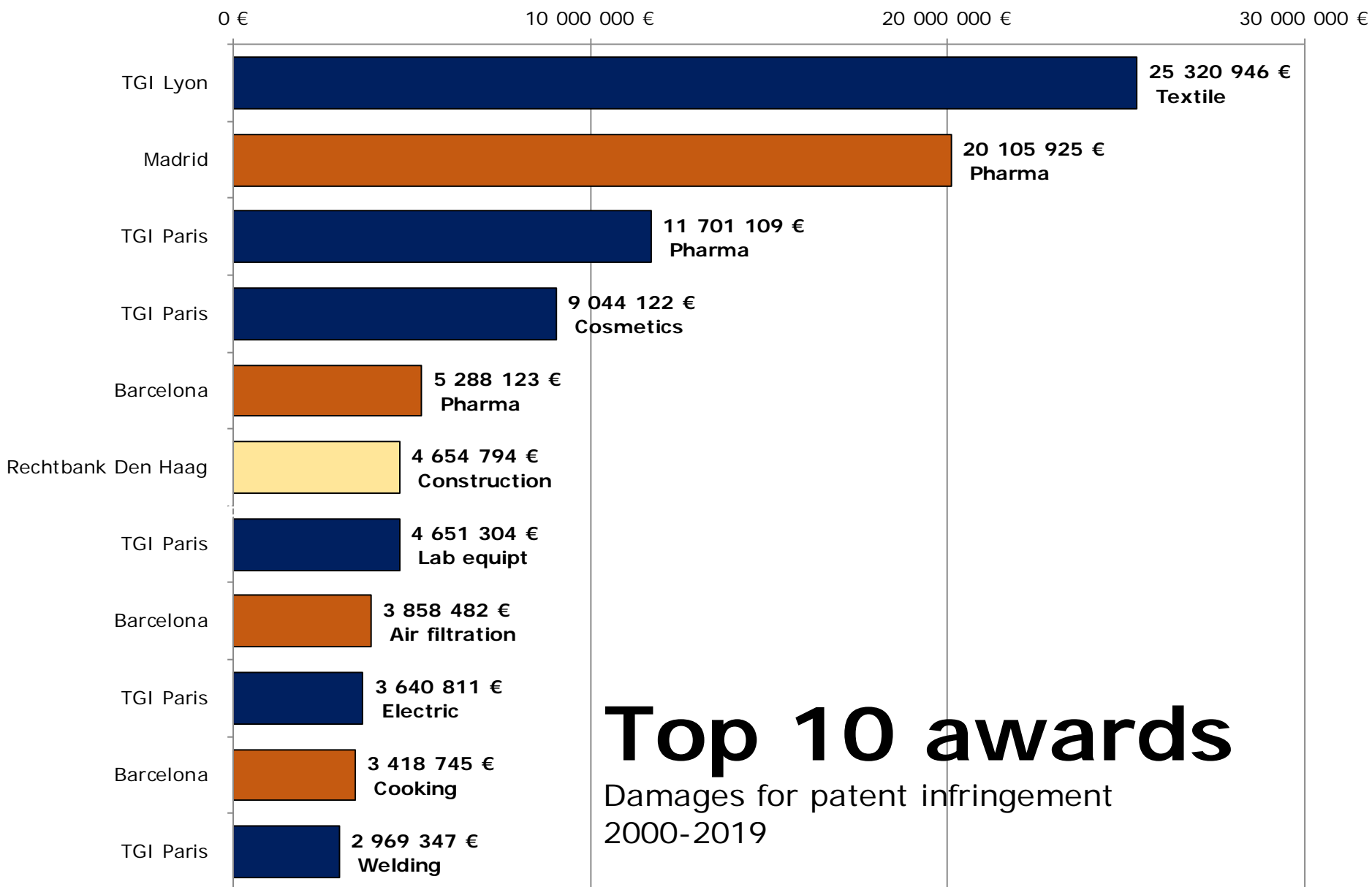
2000-2019

number of judgments granting damages

total amount granted €

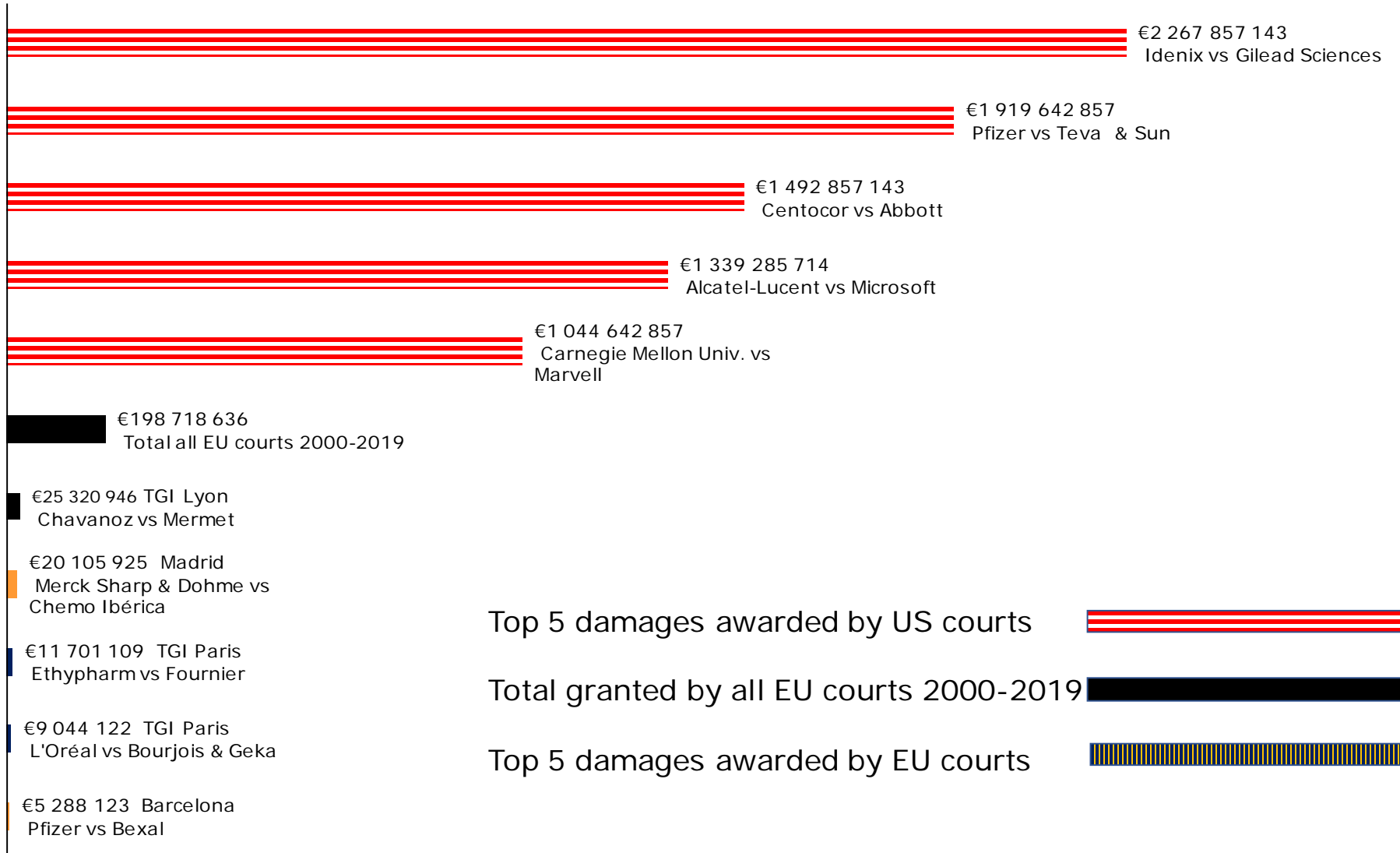
Source www.darts-ip.com






Top 10 awards

Damages for patent infringement
2000-2019



Top 5 damages awarded by US courts 

Total granted by all EU courts 2000-2019 

Top 5 damages awarded by EU courts 

UPC: an Eldorado? Simpler and cheaper



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



UPC: an Eldorado? Bigger



■ A wider market

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

■ HFCE (Household Final Consumer Expenditure)

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



The law

- Proceedings
- Substantive law



Legal sources



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

http://www.upc.documents.eu.com/PDFs/2013-02-19_Agreement_Uniformed_Patent_Court_JOUE_2013-06-20.pdf



19 October 2015
Draft Rules of procedure
of the Unified Patent Court (V18)

http://www.upc.documents.eu.com/PDFs/2015-10-19_UPC_Rules_of_Procedure_18th_Draft_clear.pdf



http://www.upc.documents.eu.com/PDFs/2015-10-19_Agreement_UPC_DE-EN-FR_and_Rules_Procedure_UPC_DE-EN-FR_Draft_18.pdf

The main publicly available documents can be found on www.upc.documents.eu.com

The screenshot shows a web browser window displaying the website <http://www.upc.documents.eu.com/>. The page features the UPC logo (a globe with stars) and the title "Unitary Patent and Unified Patent Court document repository". A navigation menu on the left includes "Main documents", "All documents", and "Updates". The main content area includes a video player showing a signing ceremony from February 19, 2013, with the caption "Signing ceremony of the Agreement on a Unified Patent Court - Brussels - 19 February 2013". Below the video, a text block states: "This webpage, created and maintained by VÉRON & ASSOCIÉS, 100% patent litigation French law firm, gives access to the main publicly available documents relating to the future Unitary Patent and Unified Patent Court. Please [click here](#) for possible recent updates in the official sites". The page is organized into two columns of document links. The left column is titled "Regulations on European Patent with Unitary Effect" and lists three items: "REGULATION (EU) No 1257/2012 of the Parliament and of the Council of 17 December 2012 implementing enhanced cooperation in the area of the creation of unitary patent protection", "2012-12-17_Verordnung_1257-2012_Verstärk_Zusam_Schaffu_Einheitlichen_Patentschutzes.pdf", "2012-12-17_Regul_1257-2012_Enhanced_coop_creation_Unitary_patent.pdf", and "2012-12-17_Rechl_1257-2012_Coop_renf_creation_protection". The right column is titled "Agreement on a Unified Patent Court" and lists three items: "Agreement on a Unified Patent Court", "2013-02-19_Ubereinkommen_Einheitliches_Patentgericht_JOUE_2013-06-20.pdf", "2013-02-19_Agreement_United_Patent_Court_JOUE_2013-06-20.pdf", and "2013-02-19_Accord_jurisdiction_uniflee". The browser's address bar and various toolbars are visible at the top of the window.



Proceedings

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



Rule 10 ROP

Stages of the proceedings

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

a) a written procedure;

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

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

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

e) a procedure for cost decisions.”



Damages assessment “bifurcation”

Rule 118 – Decision on the merits

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



Options for the Court

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



"Short tour"

when damages assessment is straightforward

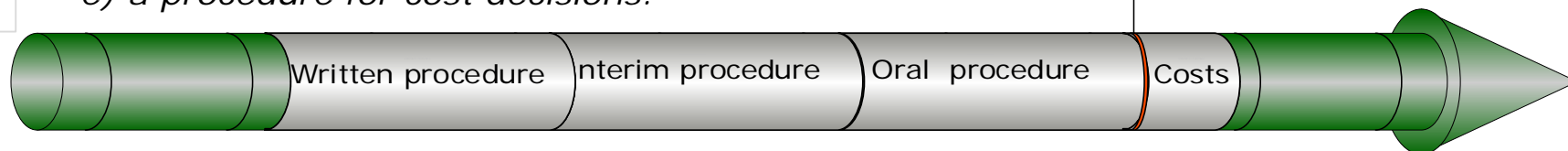
Rule 10 – Stages of the proceedings (*inter partes* proceedings)

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

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



Decision
on the merits
and on damages
R 118 §1



"Medium tour"

when damages assessment is complex but basic information is available

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

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

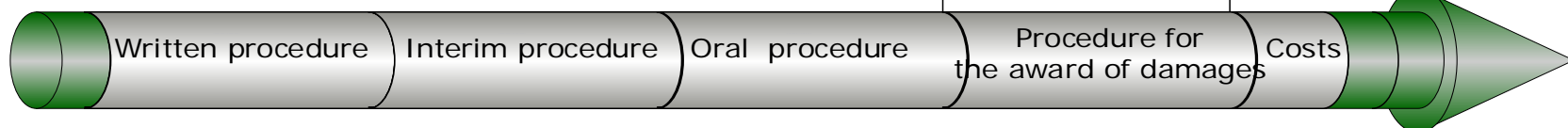
- a) *a written procedure;*
- b) *an interim procedure, which may include an interim conference with the parties;*
- c) *an oral procedure which, subject to Rules 116.1 and 117, shall include an oral hearing of the parties where necessary;*
- d) a procedure for the award of damages**, which may include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



Decision
on the merits
R 118



Decision
on damages
R 125--140



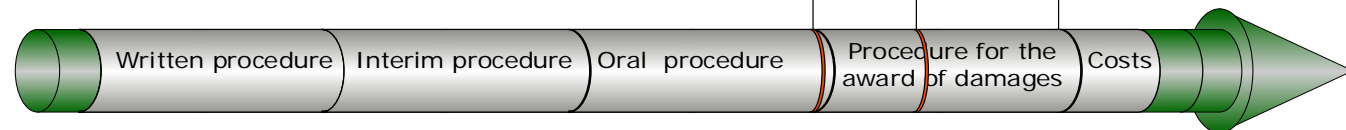
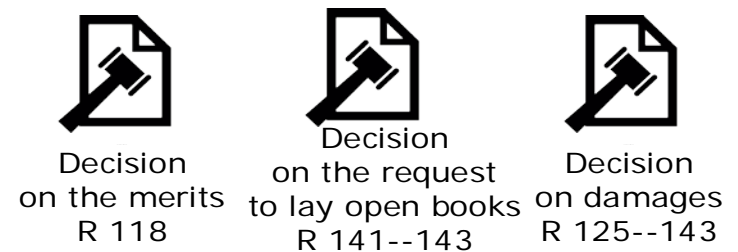
"Long tour"

when damages assessment is complex and basic information not available

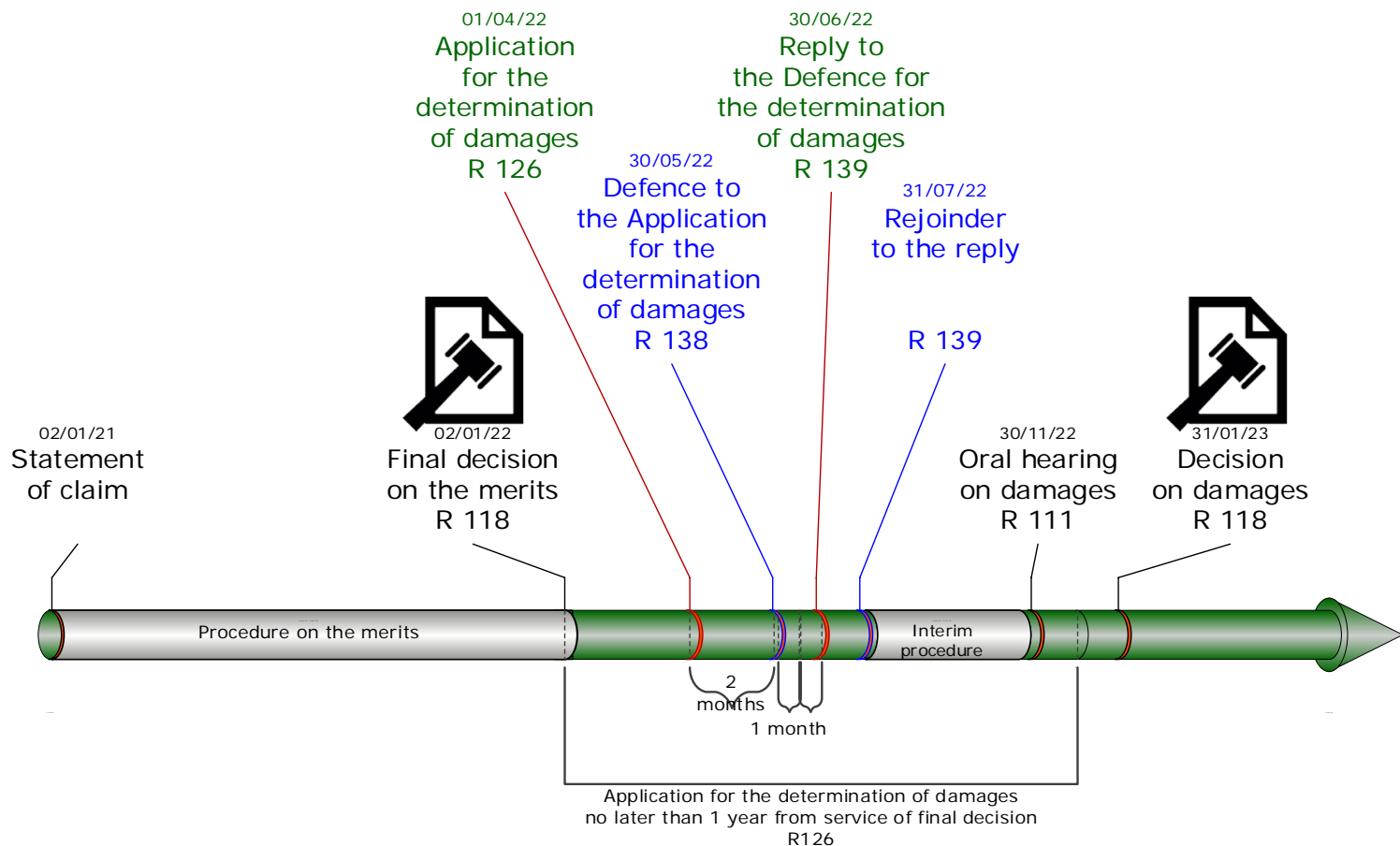
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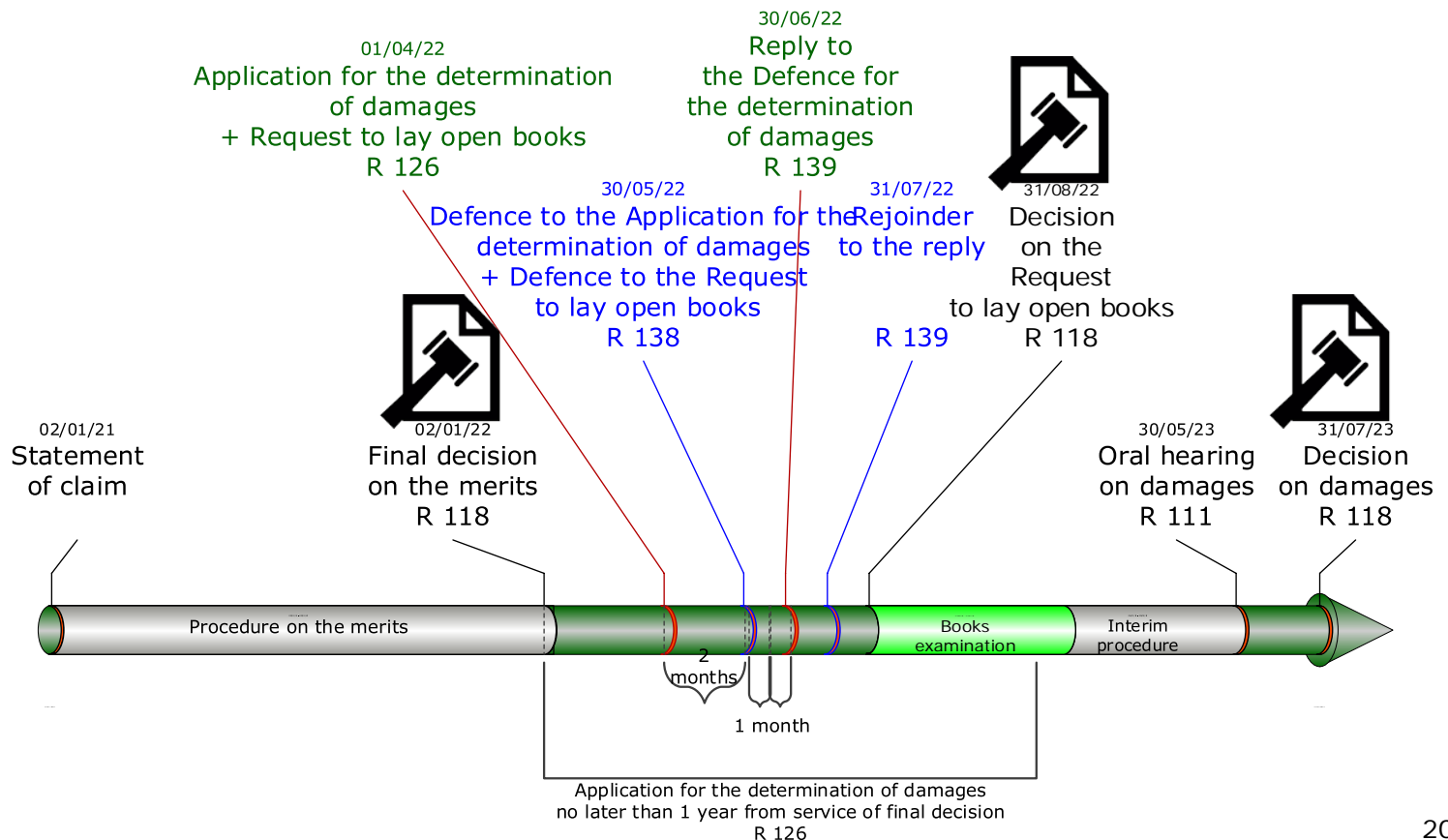
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- d) a procedure for the award of damages, which may include a procedure to lay open books;***
- e) a procedure for cost decisions.*



"Medium tour" Procedure for the determination of damages



"Long tour" Procedure for the determination of damages



Substantive law

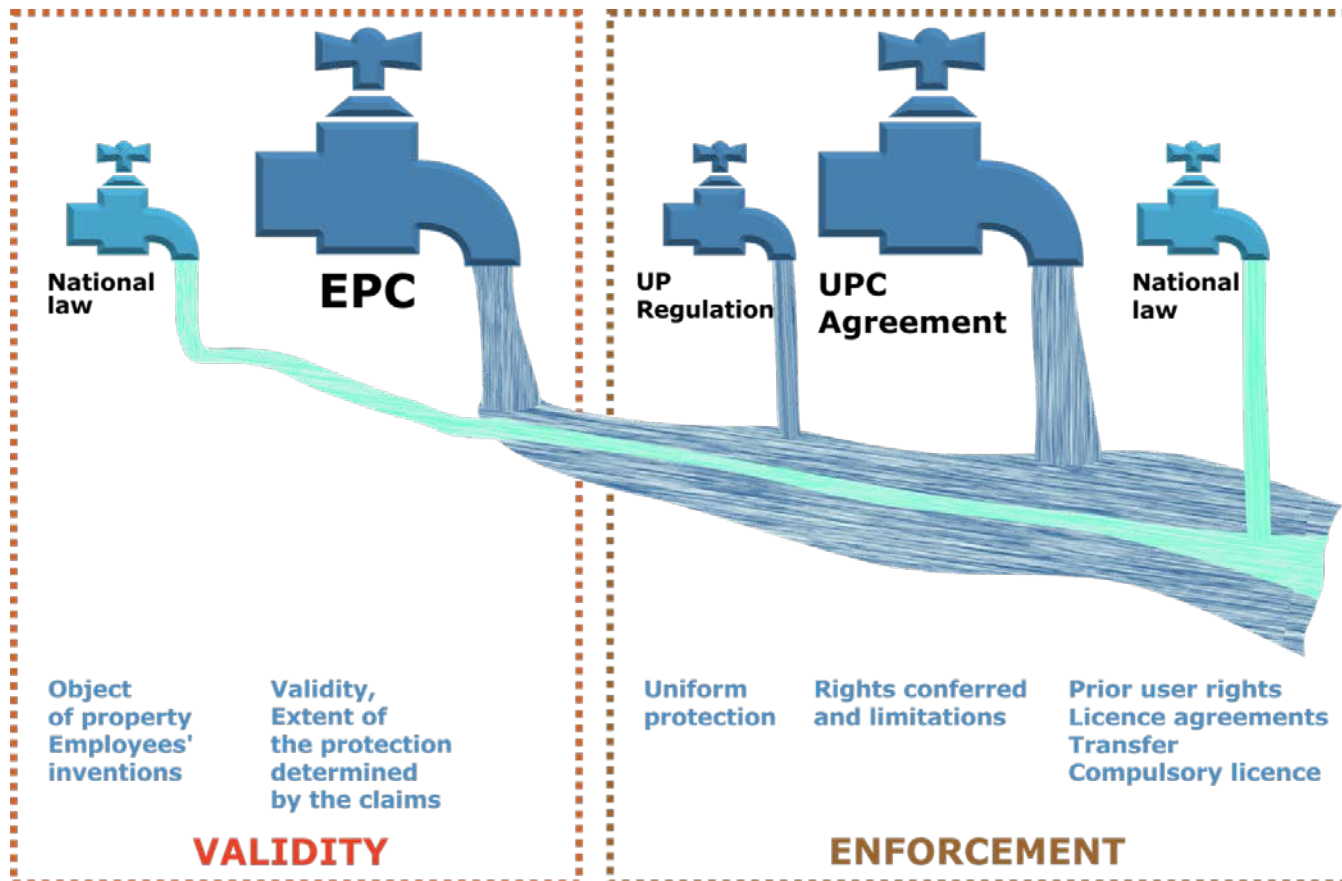
- Current national law no longer applies
- Instead, a new, common, substantive law applies



Current national law no longer applies



Sources of the law applicable before the Unified Patent Court



Substantive law

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



Article 68 Award of damages

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

**Not in the
Directive**



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

Article 68 Award of damages

" (3) When the Court sets the damages:

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

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

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



No major changes expected in the UPC approach

- The Enforcement Directive has already unified the national approaches



The crane hook case

An hypothetical scenario of damages calculation



The patented crane hook

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

Claim 1
covers the hook

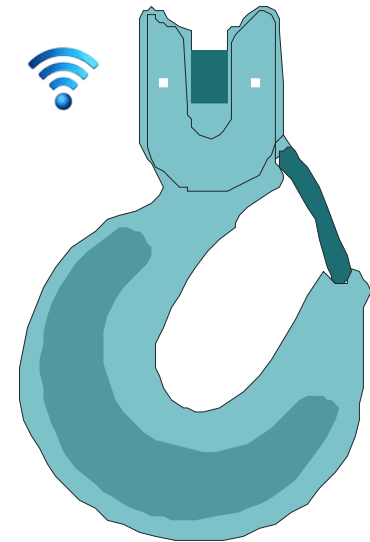


Claim 2
covers the crane fitted with the hook



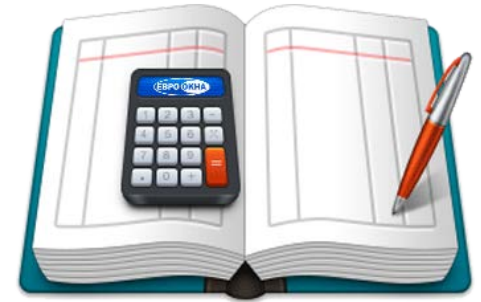
The infringing crane hook

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



* CCC is nicknamed by its employees
“Cost Conscious Company”

Results of the Request to lay open books



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





Data sheet

Defendant CCC	
Total infringing sales €	€ 960 000.00
Total infringing sales units	12 u
Average sales price per unit	€ 80 000.00
Profit margin	€ 55 000.00
Price per unit of hooks sold as spare parts	€ 8 000.00
Claimant 2M	
Average sales price per unit before infringement	€ 120 000.00
Costs before infringement	€ 80 000.00
Profit margin per unit before infringement	€ 40 000.00
Average sales price per unit of the 10 cranes sold after infringement	€ 105 000.00
Costs after infringement (unchanged)	€ 80 000.00
Profit margin per unit after infringement	€ 25 000.00
Market information	
Market shares of the players of the relevant market	
2M (claimant)	60%
CCC (defendant)	20%
NHC	20%
Total	100%



Defendant CCC

Total infringing sales €	€ 960 000.00
Total infringing sales units	12 u
Average sales price per unit	€ 80 000.00
Profit margin	€ 55 000.00
Price per unit of hooks sold as spare parts	€ 8 000.00

Claimant 2M

Average sales price per unit before infringement	€ 120 000.00
Costs before infringement	€ 80 000.00
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Market information

Market shares of the players of the relevant market	
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NHC	20%
Total	100%

Data about the claimant



■ Before the infringement

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

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

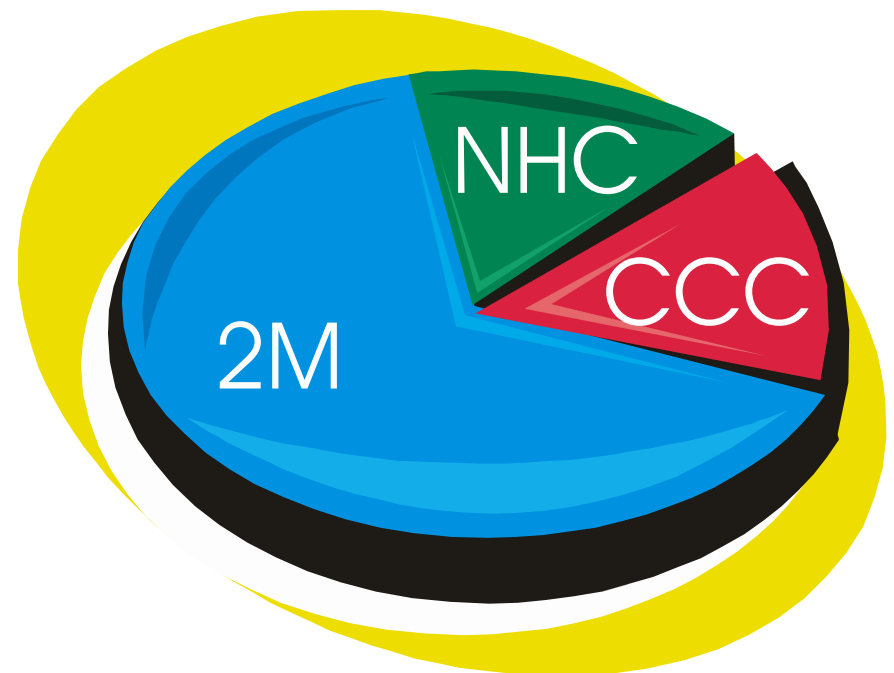
- ▶ Claimant 2M was forced to reduce its prices to try and maintain its market shares to €105,000
- ▶ Claimant 2M's costs did not change - €80,000
- ▶ Thereby reducing 2M's profit to €25,000



Data about the market agreed upon by both parties

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

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



Damages before
the Unified Patent Court



Total infringing sales

The Request to lay open books provided the following information:

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



Damages before
the Unified Patent Court



Claimant's position: lost profit

Claimant 2M claims for its lost profit as follows:

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

Total lost profit €630,000



Damages before
the Unified Patent Court



Claimant's position infringer's profit

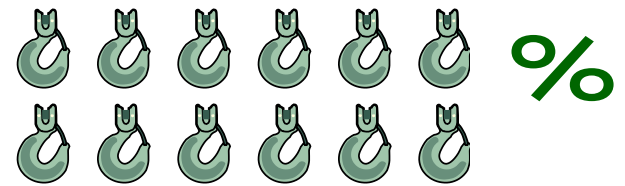
In addition, claimant 2M claims for the portion of the profit made by the infringer exceeding the claimant's profit, namely €30,000, assessed by difference between:

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

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



Damages before
the Unified Patent Court



Infringer's position

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

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

A small, low-resolution thumbnail of a document or spreadsheet, likely a legal or financial document, with some text and numbers visible but illegible.

Issues to be decided by the Court

- But for the infringement:
 - ▶ Would 2M have sold all the 12 infringing cranes sold by CCC (drift of sales = 100%)?
 - ▶ Would 2M have reduced the selling price of the patented crane?
- What should be the basis for the royalty (value of the crane fitted with the hook? or value of the hook?)?
- What should be the royalty rate?
- What about the profit made by the infringer beyond the claimant's profit?

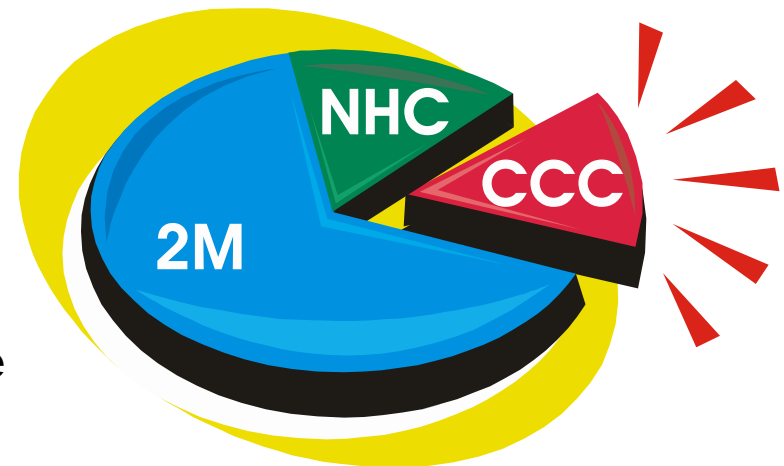


The sales drift

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

The Court should weigh evidence
that the patented feature was an
important reason of the purchase.

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



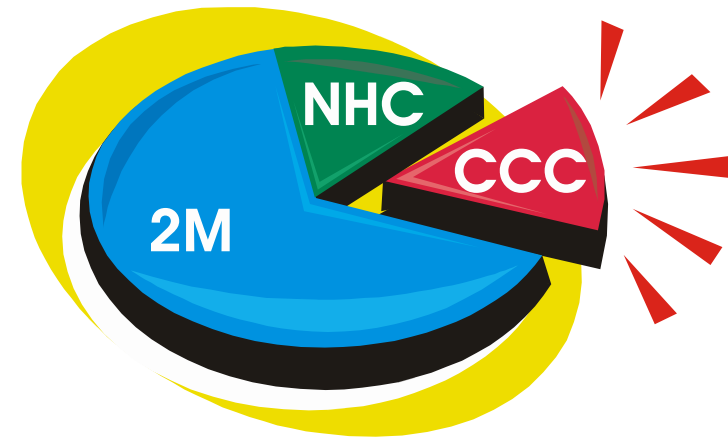
Calculation of 2M lost profit on derived sales

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



Calculation of royalty on non derived sales

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



Price depression

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



Profit made by the infringer beyond the claimant's profit

■ Profit made by the infringer =	€660,000
■ Negative economic consequences suffered by the claimant:	
▶ Lost profit	€360,000
▶ Royalty on non derived sales	€18,000
▶ Price erosion	€150,000
<hr/>	
▶ Total	€528,000
■ Infringer's profit beyond the claimant's profit :	
€660,000 - €528,000 =	€132,000



Grand Total

■ Lost profit	€360,000
■ Royalty on non derived sales	€18,000
■ Price erosion	€150,000
■ Infringer's profit (difference)	€132,000
<hr/>	
■ Total	€660,000



Pierre Véron

Thank you



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