

The award of damages in the Unified Patent Court Agreement

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Damages before
the Unified Patent Court

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- Proceedings
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Damages before
the Unified Patent Court

UPC: an Eldorado?



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Damages before
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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



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Damages before the Unified Patent Court

UPC: an Eldorado?
Bigger

A wider market

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






Damages before the Unified Patent Court

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

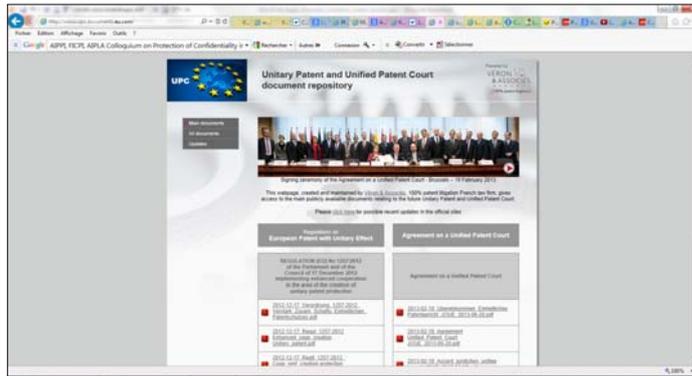





http://www.upc.documents.eu.com/PDFs/2015-10-19_Agreement_UPC_DE-EN-FR_and_Rules_Procedure_UPC_DE-EN-FR_Draft_18.pdf

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



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Proceedings



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Rule 10 ROP

Stages of the proceedings

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.



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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].



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Damages before
the Unified Patent Court

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*")



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Damages before
the Unified Patent Court

"Short tour" when damages assessment is straightforward

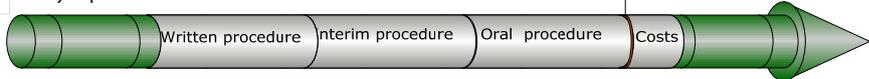
**Rule 10 – Stages of the proceedings
(*inter partes* proceedings)**

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Decision
on the merits
and on damages
R 118 §1

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“Medium tour” when damages assessment is complex but basic information is available

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the Unified Patent Court

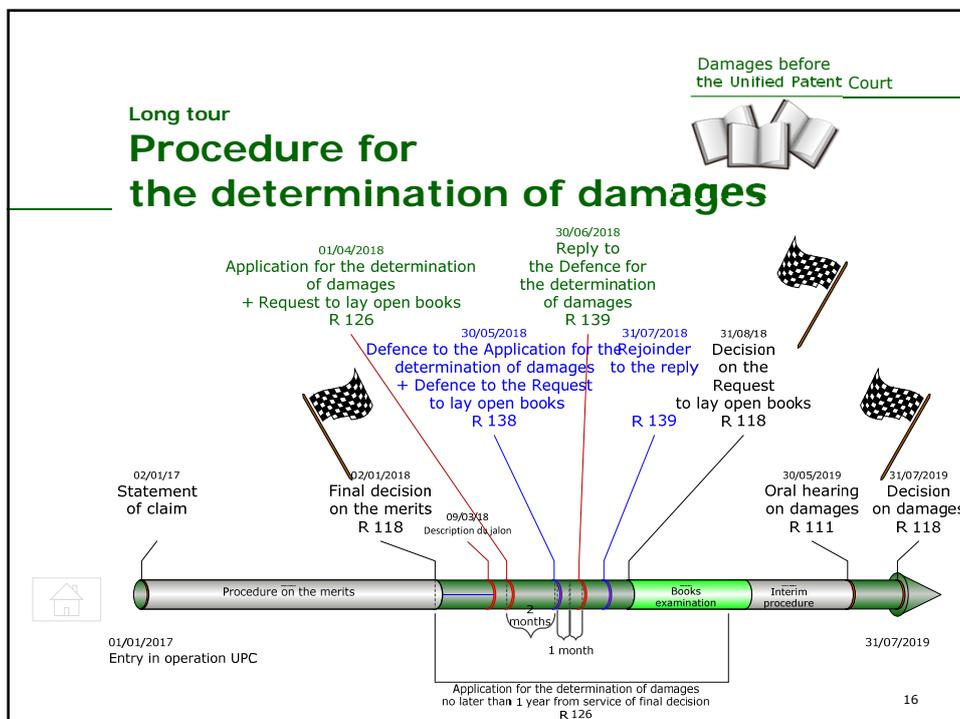
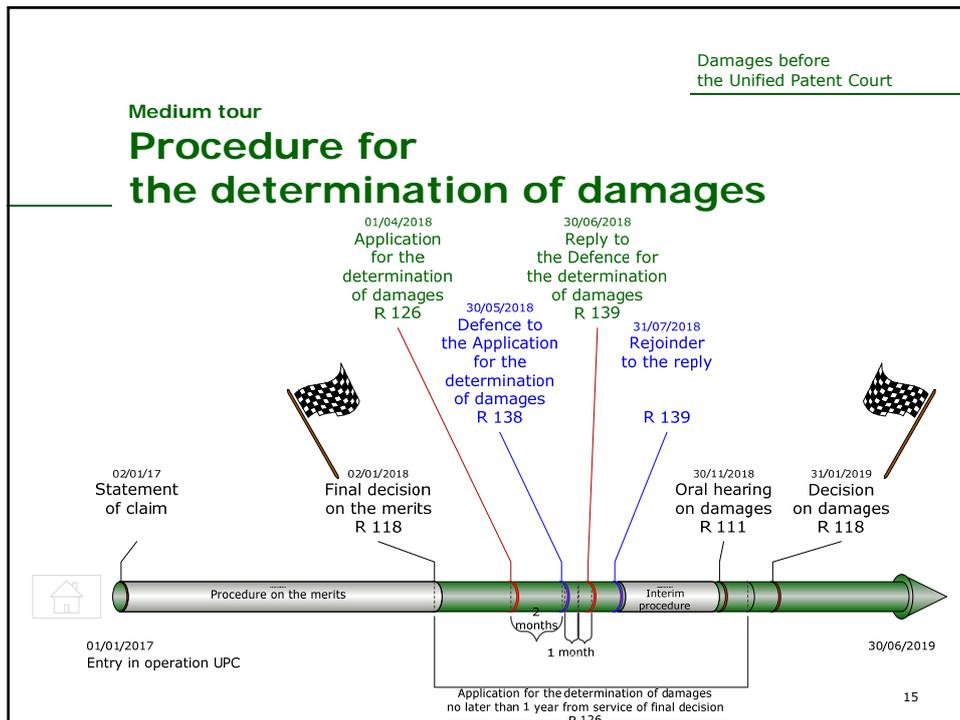
“Long tour” when damages assessment is complex and basic information not available

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

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Damages before
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Substantive law



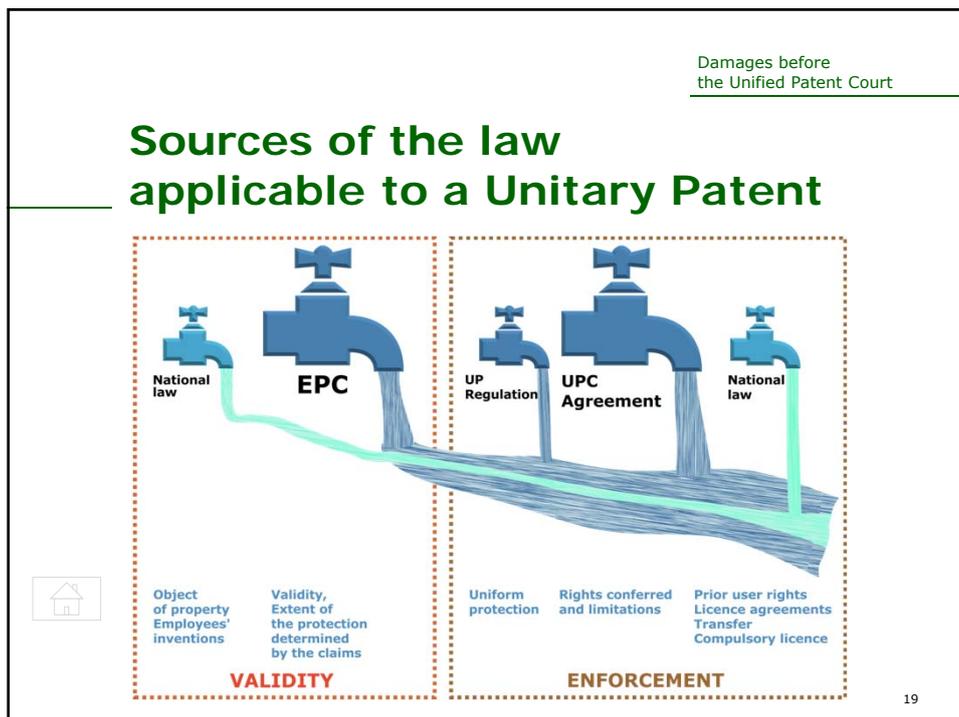
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Current national law no longer applies



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Damages before the Unified Patent Court

Substantive law

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

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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.
- (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...

Not in the
Directive

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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.



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No major changes expected in the UPC approach

The Enforcement Directive has already
unified the national approaches



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The crane hook case

An hypothetical
scenario of
damages
calculation



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The patented crane hook

Montana Mining Company ("2M"), based in Montana, holds a patent on a new, improved, hook for a crane

Claim 1 covers the hook

Claim 2 covers the crane fitted with the hook

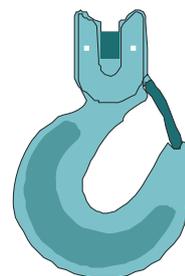


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The infringing crane hook

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"

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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:

- ▶ number of cranes sold
- ▶ turnover generated
- ▶ profit margin related to the cranes sold



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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%



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Data about the claimant

Claimant 2M sold its patented cranes for €120,000 per unit before the infringement; the costs are €80,000 hence a profit margin of €40,000

But CCC's aggressive price policy forced 2M to reduce its prices to try and maintain its market shares: while 2M price was €120,000 before infringement, it was reduced to €105,000 for 10 cranes sold after infringement, thereby reducing 2M's profit margin to €25,000



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the Unified Patent Court

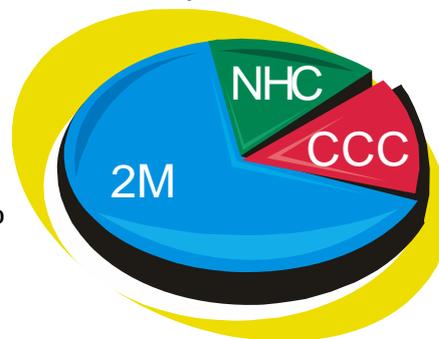
Data agreed upon by both parties

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

2M (claimant) 60%

CCC (infringer) 20%

NHC (third party) 20%



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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 (due to its low cost operation model) was €55,000
- CCC offered for sale the hooks as spare parts for €8,000



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Claimant's position

Claimant 2M claims for a total lost profit of €630,000:

- ▶ 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) :
 $€15,000 \times 10 = €150,000$



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Claimant's position

In addition it 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




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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:
 $(€8,000 \times 12 = €96,000) \times 1\% = €960$




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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?



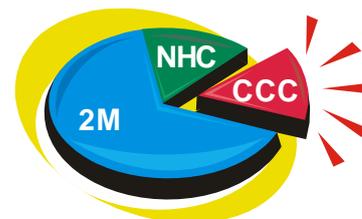
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The sales drift

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. 75% or 9 cranes



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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
 $€ 40\,000 \times 9 \text{ cranes} = €360\,000$



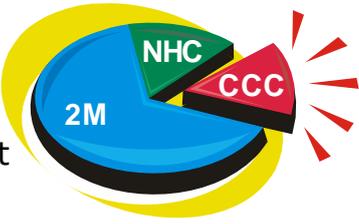


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Calculation of royalty on non derived sales

- 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
 $80\,000 \times 3 \times 7.5\% = €18,000$




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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 X 10 = €150,000

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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
 - ▶ **Total** **€528,000**
- **Infringer's profit beyond the claimant's profit :**
 $€660,000 - €528,000 = €132,000$

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		Damages before the Unified Patent Court
Grand Total		
■ Lost profit		€360,000
■ Royalty on non derived sales		€18,000
■ Price erosion		€150,000
■ Infringer's profit		€132,000
 ■ Total		€660,000

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Thank you



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