

A U.S. View on the UPC – Part 2: Damages

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On June 1, 2023, the new European Unified Patent Court (UPC) will open its doors, and enforcement of European patents in (currently) 17 contract member states will be possible with one action. This series of articles – directed at U.S. practitioners trying to familiarize themselves with the basic features of the UPC – aims to provide a high level view on the key aspects of the UPC system, compare them to patent litigation in the U.S., and consider their implications on U.S.-European parallel patent litigation.

To read other articles in this series, see [here](#).

This part of the series discusses the damages principles that will apply when the UPC determines damages for patent infringement.

One of the most significant changes to European patent litigation when the UPC opens its doors will be the ability to seek and obtain an award of damages for infringement in all of the member states in one action in the UPC, as opposed to having to bring separate actions in each country.¹

Article 68 of the UPC Agreement sets forth the substantive principles that will govern how the UPC will determine the amount of damages after finding infringement of a valid patent.² Several of the damages principles set forth in Article 68 are consistent with those that apply to determining patent infringement damages in the U.S., but there are several differences, as discussed below.³

¹ A related change that is just as significant will be the ability to seek and obtain injunctive relief for infringement in all of the member states in one action in the UPC. This will be discussed in a separate instalment of this series.

² Agreement on a Unified Patent Court (“UPC Agreement”), Article 68.

³ The procedure in the UPC for litigating and determining damages is discussed in Part 1 of this series.

**ARTICLE 68 OF THE UPC AGREEMENT IS
BASED ON ARTICLE 13 OF EU DIRECTIVE
2004/48/EC**

Article 68 of the UPC Agreement is based in large part on Article 13 of EU Directive 2004/48/EC (Enforcement Directive).⁴ The Directive, adopted in 2004, requires member states to “provide for the measures, procedures and remedies necessary to ensure the enforcement of the intellectual property rights” as set forth in the Directive.⁵ Article 13 sets forth principles for courts to determine damages for infringement of IP rights, including patents.⁶ Both member state courts and the Court of Justice of the EU have issued decisions interpreting aspects of Article 13. It is beyond the scope of this article to discuss any of those decisions, except to note that presumably the UPC will consider those decisions in interpreting Article 68.

**DAMAGES IN THE UPC WILL BE
COMPENSATORY**

Article 68 of the UPC Agreement makes clear that an award of damages is intended only to compensate the patent owner⁷ for the harm actually caused to it by the infringement. Paragraph 1 of Article 68 states that “[t]he 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.”⁸ Paragraph 1 is based on paragraph 1 of Article 13 of the Directive.⁹ Paragraph 2 of Article 68 reinforces this compensatory principle by stating that “[t]he injured party shall, to the extent possible, be placed in the position it would have been in if no infringement had taken place.”¹⁰ Paragraph 2 also states that “[t]he infringer shall not benefit from the

infringement,” and that, “[h]owever, damages shall not be punitive.”¹¹ These provisions in Paragraph 2 are not found in Article 13 of the Directive.

With one exception discussed below in the next section, paragraphs 1 and 2 of Article 68 appear to be generally consistent with the U.S. patent statute, which also seeks to compensate the patent owner for the harm caused by the infringement. Section 284 states in relevant part that “[u]pon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement.”¹² The U.S. Supreme Court has explained that damages under Section 284 are “compensation for the pecuniary loss he (the patentee) has suffered from the infringement” and that they “constitute the difference between [the patentee’s] pecuniary condition after the infringement, and what his condition would have been if the infringement had not occurred.”¹³

DAMAGES IN THE UPC WILL NOT BE PUNITIVE

As noted above, paragraph 2 of Article 68 expressly forbids damages from being punitive.¹⁴ In contrast, punitive damages are available in certain circumstances under the U.S. patent statute. Section 284 grants U.S. courts the discretion to “increase the damages up to three times the amount found or assessed.”¹⁵ However, this discretion to award “enhanced damages” is “limit[ed] ... to egregious cases of misconduct beyond typical infringement,” not “garden-variety cases.”¹⁶

Even though enhanced damages are only permitted for “egregious cases of misconduct,” patent owners in U.S. patent lawsuits routinely allege that enhanced damages are warranted because the defendant’s infringement was “willful.” As a result, the issues of whether the defendant’s alleged infringement was willful and, if so, whether that warrants enhanced

⁴ Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights.

⁵ EU Directive 2004/48/EC, Article 3.

⁶ EU Directive 2004/48/EC, Article 13.

⁷ An exclusive licensee may also bring an action with the patent owner. See UPC Agreement, Article 47.

⁸ UPC Agreement, Article 68(1).

⁹ See EU Directive 2004/48/EC, Article 13(1) (“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.”).

¹⁰ UPC Agreement, Article 68(2).

¹¹ UPC Agreement, Article 68(2).

¹² 35 U.S.C. § 284.

¹³ *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 507 (1964) (citations and quotation marks omitted).

¹⁴ See UPC Agreement, Article 68(2).

¹⁵ 35 U.S.C. § 284.

¹⁶ *Halo Elecs., Inc. v. Pulse Elecs., Inc.*, 579 U.S. 93, 109, 110 (2016). As the U.S. Supreme Court explained in *Halo*, “enhanced damages ... are not to be meted out in a typical patent infringement case, but are instead designed as a ‘punitive’ or ‘vindictive’ sanction for egregious infringement behavior” such as conduct that is “willful, wanton, malicious, bad-faith, deliberate, consciously wrongful, flagrant, or—indeed—characteristic of a pirate.” *Id.* at 103-104.

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damages are the subject of considerable time and effort in many U.S. patent litigations, including motion practice, written and document discovery, and depositions. And willful infringement is routinely tried to the jury (unless disposed of before trial) along with infringement, validity, and damages. Finally, if there is a verdict of willful infringement, the parties typically will make additional submissions regarding whether the judge should exercise his or her discretion to enhance the damages and, if so, by how much, after which the judge will issue a reasoned decision, which likely will be appealed. In contrast, none of these issues will be litigated in or decided by the UPC, in which damages will only be compensatory.

DAMAGES IN THE UPC WILL TAKE INTO ACCOUNT THE PATENT OWNER'S LOSS

Article 68 sets forth two alternative methodologies for the UPC to determine the amount of damages. The first is in paragraph 3(a), which states that “[w]hen the Court sets the damages: (a) it shall take into account all appropriate aspects, such as...,” after which it lists three examples:

- (1) “the negative economic consequences, including lost profits, which the injured party has suffered,”
- (2) “any unfair profits made by the infringer”
- (3) “and, in appropriate cases, elements other than economic factors, such as the moral prejudice caused to the injured party by the infringement.”¹⁷

Paragraph 3(a) is virtually identical to paragraph 2(a) of Article 13 of the Directive.¹⁸

Taking the three examples in paragraph 3(a) of Article 68 above in turn, example (1) requires the UPC to take into account the harm caused to the patent owner by the infringement, including the profits the patent owner lost due to the infringement.¹⁹ This is consistent with the approach to patent infringement damages in many countries, including the U.S. A U.S. court can award as damages the profits the patentee lost due

¹⁷ UPC Agreement, Article 68(3(a)).

¹⁸ See EU Directive 2004/48/EC, Article 13(2(a)) (“2. 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.”).

¹⁹ See UPC Agreement, Article 68(3(a)).

to the infringing sales, including price erosion damages, provided the patentee can prove that, but for the infringing sales, it would have made the sales that the infringer made.²⁰

There is an extensive body of U.S. case law addressing how courts should determine lost profits damages, including how to analyze the hypothetical “but for” market and the impact of available non-infringing alternatives.²¹ Presumably the UPC will consider decisions of its member state courts interpreting Article 13 of the Directive as it develops its own lost profits damages case law under Article 68. However, it will be interesting to see if litigants in the UPC cite—and the UPC considers—U.S. damages case law as well, even though U.S. law is of course not one of the sources of law for UPC decisions listed in Article 24.²² In principle, U.S. damages case law could be helpful given that much of the analysis in these cases is based on economic principles as opposed to specific U.S. legal principles.

DAMAGES IN THE UPC WILL TAKE INTO ACCOUNT THE INFRINGER'S GAIN

Per example (2) in paragraph 3(a) of Article 68 above, the UPC must take into account the infringer’s “unfair profits” earned from the infringing sales.²³ In some countries, including the UK and Canada, courts can award an “accounting” of the infringer’s profits from infringing sales as an alternative to damages based on the patentee’s loss. An accounting of profits is no longer available in the U.S.; the accounting remedy was removed when the U.S. statute was amended in 1946.²⁴

Paragraph 3(a) of Article 68 does not expressly state that the UPC should consider either the patent owner’s lost profits or the infringer’s profits as alternatives; instead, it appears to require the court to consider

²⁰ See, e.g., *Grain Processing Corp. v. American Maize-Prods. Co.*, 185 F.3d 1341, 1349-56 (Fed. Cir. 1999); *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1544-49 (Fed. Cir. 1995) (en banc).

²¹ See, e.g., *Grain Processing*, 185 F.3d at 1349-56; *Rite-Hite*, 56 F.3d at 1544-49.

²² Article 24 of the UPC Agreement states that the UPC “shall base its decisions on” EU law, the UPC Agreement, the European Patent Convention, other binding international agreements related to patents, and national law determined per applicable private international law (i.e. conflict of laws) rules. See UPC Agreement, Article 24.

²³ See UPC Agreement, Article 68(3(a)).

²⁴ See *Aro*, 377 U.S. at 504-507.

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both.²⁵ On the other hand, the UPC Rules of Procedure suggest they are alternatives by stating that the patent owner’s application requesting damages must include “calculations concerning lost profits or profits made by [the infringer].”²⁶

DAMAGES IN THE UPC WILL TAKE INTO ACCOUNT NON-ECONOMIC FACTORS (WHERE APPROPRIATE)

Finally, per example (3) in paragraph 3(a) of Article 68 above, the UPC is to take into account, “in appropriate cases, elements other than economic factors, such as the moral prejudice caused to the injured party by the infringement.”²⁷ Presumably this could include damage to the patent owner’s reputation or goodwill caused by the infringement. This type of damage is not typically considered in awarding patent infringement damages in the U.S.²⁸

DAMAGES IN THE UPC CAN ALTERNATIVELY BE LUMP SUM ROYALTY DAMAGES

The second, alternative methodology for determining damages in the UPC is set forth in paragraph 3(b) of Article 68, which states: “(b) as an alternative to point (a), [the court] 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.”²⁹ Thus, the UPC can award lump sum damages of “at least” the amount of the royalty that should have been paid. Paragraph 3(b) is virtually identical to paragraph 2(b) of Article 13 of the Directive.³⁰ Royalty damages will presumably be awarded as an alternative in cases where

the patent owner does not have lost profits or is unable to adequately prove them.³¹

Paragraph 3(b) of Article 68 appears to be generally consistent with Section 284 of the U.S. statute, which requires the damages awarded to be “in no event less than a reasonable royalty for the use made of the invention by the infringer.”³² There is an extensive body of U.S. case law addressing how courts should determine a “reasonable royalty,” including cases addressing the so-called “Georgia-Pacific” factors, which take into account, inter alia, royalty rates in comparable license agreements, the benefits of the invention, the infringer’s profits from infringing sales, and the royalty that would have been agreed to in a “hypothetical negotiation” between the patentee and infringer at the time the infringement began.³³ In particular, many decisions address the issue of apportionment, which seeks to ensure that the reasonable royalty reflects the value of only the patented invention, not other unpatented technology in the infringing device.³⁴

As with lost profits damages, presumably the UPC will look to decisions of its member state courts interpreting Article 13 of the Directive as it develops its own royalty damages case law under Article 68. However, once again, it will be interesting to see if litigants cite—and the UPC considers—U.S. damages case law as well, especially given that much of the royalty analysis in these cases relates to economic principles as opposed to specific U.S. legal principles.

DAMAGES IN THE UPC WHEN THE INFRINGER DID NOT KNOWINGLY INFRINGE

Paragraphs 1, 2 and 3 of Article 68 discussed above address damages in the case of “the infringer who knowingly, or with reasonable grounds to know, engaged in a patent infringing activity.”³⁵ In contrast, Paragraph 4 addresses damages in the case “[w]here the infringer did not knowingly, or with reasonable

²⁵ See UPC Agreement, Article 68(3(a)).

²⁶ UPC Rules of Procedure, Rule 131(2(b)) (emphasis added).

²⁷ UPC Agreement, Article 68(3(a)).

²⁸ However, in one decision the U.S. Federal Circuit cited evidence that the infringer’s products “seriously damaged [the patentee’s] goodwill” in the course of affirming lost profits damages. See *Lam, Inc. v. Johns-Manville Corp.*, 718 F.2d 1056, 1068 (Fed. Cir. 1983).

²⁹ UPC Agreement, Article 68(3(b)).

³⁰ See EU Directive 2004/48/EC, Article 13(2(b)) (“2. When the judicial authorities set the damages: ... (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.”).

³¹ Recital 26 of the Directive states that lump sum royalty damages (as set forth in paragraph 2(b) of Article 13) may be appropriate “[a]s an alternative, for example where it would be difficult to determine the amount of the actual prejudice suffered.” EU Directive 2004/48/EC, Recital 26.

³² 35 U.S.C. § 284.

³³ See *Georgia-Pacific v. U.S. Plywood Corp.*, 318 F. Supp. 1116, 1120 (S.D.N.Y. 1970).

³⁴ See, e.g., *VirnetX, Inc. v. Cisco Systems, Inc.*, 767 F.3d 1308, 1326-28 (Fed. Cir. 2014).

³⁵ UPC Agreement, Article 68(1).

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grounds to know, engage in the infringing activity.”³⁶ Paragraph 4 states that, in such a case, the court “may order the recovery of profits or the payment of compensation.”³⁷ Paragraph 4 is similar to paragraph 2 of Article 13 of the Directive, which states that in such a case, “the judicial authorities may order the recovery of profits or the payment of damages, which may be pre-established.”³⁸

The terms “recovery of profits” and “payment of compensation” in paragraph 4 of Article 68 are not explained. However, given that paragraph 4 addresses damages for innocent, unknowing infringement, presumably “recovery of profits” refers only to recovery of the patent owner’s lost profits, not the infringer’s “unfair profits” included in paragraph 3(a). Similarly, presumably “payment of compensation” refers to lump sum royalty damages per paragraph 3(b).

In the U.S., whether the infringer knew they were infringing does not affect the type or amount of compensatory damages. Knowledge of infringement is not required to directly infringe (*i.e.* make, use, sell, etc.) and be liable for damages. And although knowledge of infringement is required to indirectly infringe (*i.e.* inducing infringement and contributory infringement), the principles for determining compensatory damages (whether lost profits or a reasonable royalty) are generally the same for both direct and indirect infringement, and are not affected by whether the infringer knew about the infringement. However, knowledge of infringement is required to willfully infringe (*i.e.* intentionally or deliberately infringe)³⁹ and, if willful infringement is found, the infringer’s knowledge and state of mind likely will be relevant in determining whether it engaged in “egregious misconduct beyond typical infringement” that warrants enhanced damages.⁴⁰

FIVE-YEAR DAMAGES LIMITATION PERIOD IN THE UPC

A five-year limitation period will apply to the recovery

³⁶ UPC Agreement, Article 68(4).

³⁷ UPC Agreement, Article 68(4).

³⁸ EU Directive 2004/48/EC, Article 13(2).

³⁹ See *Eko Brands, LLC v. Adrian Rivera Maynez Enters., Inc.*, 946 F.3d 1367, 1378 (Fed. Cir. 2020).

⁴⁰ See *Halo*, 579 U.S. at 110; see also *id.* at 103-104 (“enhanced damages ... are designed as a ‘punitive’ or ‘vindictive’ sanction for egregious infringement behavior” such as conduct that is “willful, wanton, malicious, bad-faith, deliberate, consciously wrongful, flagrant, or—indeed—characteristic of a pirate.”).

of infringement damages in the UPC. Article 72 states that “actions relating to all forms of financial compensation may not be brought more than five years after the date on which the applicant became aware, or had reasonable grounds to become aware, of the last fact justifying the action.”⁴¹

The five-year damages limitation period in Article 72 is one year shorter than the six-year period in the U.S. statute, under which a patentee can only recover damages for infringement that occurred during the six years before the filing of the infringement claim. In particular, Section 286 states that “[e]xcept as otherwise provided by law, no recovery shall be had for any infringement committed more than six years prior to the filing of the complaint or counterclaim for infringement in the action.”⁴²

In addition to the one-year difference, Article 72 appears to be less clear and more likely to result in disputes than Section 286. Section 286 creates a bright-line rule that damages can only be recovered for infringement that occurred within the six years leading up to the lawsuit, regardless of when the patentee learned about the infringement.⁴³ In contrast, Article 72 appears to be a more traditional statute of limitations with a discovery rule, in which the limitation period begins when the patent owner becomes aware (or reasonably should have become aware) of the cause of action.⁴⁴ Thus, Article 72 may result in disputes about when “the last act justifying the action” occurred and when the patent owner “became aware, or had reasonable grounds to become aware” of this “last act.”⁴⁵

CONCLUSION

The ability to bring one action in the UPC for patent infringement in all of the member states presumably should make it simpler, easier, and less expensive for patent owners to seek and obtain larger damages awards. It will be interesting to see whether this results in more infringement cases being filed, in

⁴¹ UPC Agreement, Article 72.

⁴² 35 U.S.C. § 286.

⁴³ See 35 U.S.C. § 286.

⁴⁴ See UPC Agreement, Article 72. The “reasonable grounds to become aware” clause of Article 72 presumably was included for cases in which the patent owner may not reasonably have known about the infringement because, for example, the infringer was using the patented invention behind closed doors.

⁴⁵ UPC Agreement, Article 72.

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particular by patent-assertion entities seeking to use the specter of a large damages award as leverage to negotiate a settlement, as happens frequently in the U.S. On the other hand, presumably potential damages awards determined by judges in the UPC will be more certain and predictable than damages awards determined by juries in U.S. courts. Moreover, defendants in the UPC will not have to worry about enhanced damages awards, unlike in U.S. courts.

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