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ASSESSMENT OF DAMAGES IN INTELLECTUAL PROPERTY CASES

Some Recent Examples of “the Exercise of a Sound Imagination and the Practice of a Broad Axe”?

There are few cases outside the US that deal with the assessment of damages for infringement of intellectual property rights. When they do, as Lord Shaw said: “[It involves] the exercise of a sound imagination and the practice of the broad axe.” This article discusses decisions where the infringer has ended up paying at the low end of what it would have paid as a legitimate user. One of the fundamental rights of the owner of an intellectual property right is the freedom to decide if others can use it, so the courts’ concern to avoid high awards can mean that damages awards may not reflect the value that society places on innovation and creativity.

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I. Introduction

1 The owner of intellectual property rights in both Singapore and the UK is vested with certain exclusive rights, the unauthorised use of any of which gives rise to the possibility of a court ordering a variety of remedies, including damages or an account of profits, an injunction, delivery up (or destruction on oath) of infringing articles and costs. As a general matter, the successful plaintiff is entitled at trial to an injunction to restrain further infringement¹ and in addition can choose whether and how to pursue its claim for other remedies.

2 It is appropriate at the outset to sound a note of caution about use of the term “intellectual property rights” (“IP rights”), which has come into common use only relatively recently (previously, patents and similar rights were usually termed “industrial property”, with “copyright” and

1 The form that this injunction should take is often contentious: for example, in breach of confidence cases it may be for a limited period: in *Clearlab SG Pte Ltd v Ting Chong Chai* [2014] SGHC 221, for five years from the date of issue of the writ.

“trade marks” generally treated separately).² Indeed, the term “intellectual property” was defined for the first time in a UK statute only in 1981: s 72(5) of the Supreme Court Act of that year stated: “‘intellectual property’ means any patent, trade mark, copyright, registered design, technical or commercial information or other intellectual property”.

3 Although useful shorthand, the fact is that the different legal rights included within the term “intellectual property” differ significantly in nature and scope: some are registered, others are not; some are monopoly rights (like the patent or the registered design), others are not (like copyright, which is a right to stop copying); some arise under statute, others at common law.³ As will be seen below, the different nature of the rights can cause difficulty when considering the proper basis for assessment of damages for their infringement or unauthorised use: what may seem sensible in relation to a monopoly right such as a patent that covers a novel product, which a third party cannot make without infringing, may well be doubtful when considering unauthorised use of a registered trade mark which the infringer did not need to have used in order to sell its products quite successfully.

4 Somewhat surprisingly for legal rights that, in the common law world at least, are in the main about money, or money’s worth in the sense of securing a competitive advantage, cases on the assessment of damages for infringement of intellectual property rights are relatively few and far between outside the US. The principal reasons for this are, first, that once a defendant has been found by a court to infringe, an out of court settlement is usually cheaper and quicker, for both plaintiff and defendant, than proceeding to the separate inquiry as to damages that the procedural rules dictate in most cases (although, as explained below, this is changing); and, secondly, that the most important remedy for many successful plaintiffs is the injunction restraining further infringement rather than the often expensive and protracted process of obtaining an award of damages that then has to be enforced.

2 For example, it was only in its 4th edition in 1993 (authors Sir Robin Jacob, Daniel Alexander and Lindsay Lane) that the concise introduction to the different rights by Thomas Blanco White QC first published in 1970 as *Patents, Trade Marks, Copyright and Industrial Designs* morphed into *A Guidebook to Intellectual Property: Patents, Trade Marks, Copyright and Designs* (Sweet & Maxwell, 4th Ed, 1993).

3 In the UK, the different rights were dealt with for the first time in comprehensive fashion in a single textbook with the title *Intellectual Property* only in 1981 with the publication of the first edition of *Intellectual Property: Patents, Copyright, Trade Marks and Allied Rights* (Sweet & Maxwell) by Professor William Cornish, then at the London School of Economics. In Singapore, such a textbook appeared in 2008: *Law of Intellectual Property of Singapore* (Sweet & Maxwell Asia) by Professor Ng-Loy Wee Loon.

5 By its very nature, under which – on the basis of often incomplete or flimsy evidence – it tries to estimate the likelihood of certain events happening which were never in the contemplation of the parties, the inquiry that assesses damages (or an account of profits) for infringement of an intellectual property right not infrequently results in a rough and ready financial estimate by the court of “loss” (or profit) which neither party to the dispute views as totally satisfactory. Indeed, in the words of Lord Shaw of Dunfermline: “[the assessment of damages sometimes involves] the exercise of a sound imagination and the practice of the broad axe”.⁴

6 As long as the overall results are perceived to be as fair as can reasonably be expected when taking into account the many crystal ball gazing aspects of the process, this rough and ready cutting of the Gordian knot must be accepted and is practically inevitable. However, it must be said that there are certain aspects in the way recent cases in the UK have treated the assessment in intellectual property infringement matters that give rise to some concern as to whether the wronged plaintiff was adequately compensated for the infringement of its rights.

7 Seeking to overcome some of the evidential problems encountered by plaintiffs in trying to prove their loss in relation to a conventional damages claim, Singapore has introduced into its IP legislation in recent years the notion of “statutory damages”. However, this additional remedy has been introduced only for a particular category of registered trade mark infringement⁵ and for copyright:⁶ the traditional law of damages applies otherwise.

II. The general principles

8 Although most intellectual property rights today owe their existence to statute rather than the common law, it is generally accepted that infringement should be treated as a statutory tort⁷ and therefore the rules relating to the award of damages in the law of tort apply. When it comes to the assessment of damages, no distinction is drawn between the tort of passing off and the registered trade mark that is a creature of a

4 *Watson, Laidlaw & Co Ltd v Pott, Cassels and Williamson* (1914) 31 RPC 104 at 117–118; 1914 SC (HL) 18 at 29–30.

5 Introduced in 2004 to provide an additional remedy only in relation to infringement by the use of a “counterfeit trade mark” (as defined in s 3(6) of the Trade Marks Act) and now found in s 31(5) of the Trade Marks Act (Cap 332, 2005 Rev Ed).

6 Introduced by the Copyright (Amendment) Act 2004 (Act 52 of 2004) and now provided for in s 119(2)(d) of the Copyright Act (Cap 63, 2006 Rev Ed). The provision was applied in *Wong Wan Chin v Wang Choong Li* [2015] 4 SLR 41 in relation to infringing copies of wedding photographs.

7 See, for example, Belinda Ang J in *Main-Line Corporate Holdings Ltd v United Overseas Bank Ltd* [2010] 1 SLR 189 at [18]: “Patent infringement is a statutory tort.”

detailed statutory regime. On the other hand, when it comes to the assessment of damages for breaches of confidence (or, as the IP lawyer may characterise them, misuse of trade secrets), different considerations may apply in view of the nature of the cause of action, which lies in equity rather than in the law of tort.

9 The leading UK case on the assessment of damages in relation to “economic torts” such as infringement of IP rights arose from infringement of a patent: *General Tire & Rubber Co v Firestone Tyre & Rubber Co Ltd*⁸ (“*General Tire*”) in the House of Lords.

10 *General Tire* affirmed that the general rule is that the award of damages is to put the injured party (eg, the owner of the patent) back in the position he would have been in had the tort not occurred⁹ and that “two essential principles” apply: (a) the plaintiff has the burden of proving its loss; and (b) as the defendant is a wrong-doer, damages should be assessed liberally, bearing in mind that the object is to compensate the plaintiff and not to punish the defendant.¹⁰

11 In the Singapore Court of Appeal in *Kickapoo (Malaysia) Sdn Bhd v The Monarch Beverage Co (Europe) Ltd*,¹¹ a case involving trade mark infringement and passing off, Andrew Phang JA summarised the position thus:¹²

[T]he overarching guideline is that the aim is to put the plaintiff in question (so far as is possible) in the same position it would have been if the wrong(s) had not been committed and that the plaintiff bears the burden of specifically proving its loss; put simply, the main aim is to compensate the plaintiff and not to punish the defendant (see the House of Lords decision of *General Tire & Rubber Co v Firestone Tyre & Rubber Co Ltd* [1975] 1 WLR 819 at 824 (which, while dealing with a patent

8 [1975] 1 WLR 819.

9 *General Tire & Rubber Co v Firestone Tyre & Rubber Co Ltd* [1975] 1 WLR 819 at 824, per Lord Wilberforce, citing *Livingstone v Rawyards Coal Co* (1880) 5 App Cas 25 at 39, per Lord Blackburn.

10 *General Tire & Rubber Co v Firestone Tyre & Rubber Co Ltd* [1975] 1 WLR 819 at 824, per Lord Wilberforce, citing *Pneumatic Tyre Co Ltd v Puncture Proof Pneumatic Tyre Co Ltd* (1899) 16 RPC 209 at 215. Although s 4 of the Statute of Monopolies 1624 provided for the award of treble damages in England, this possibility has survived only in the US.

11 [2010] 1 SLR 1212.

12 *Kickapoo (Malaysia) Sdn Bhd v The Monarch Beverage Co (Europe) Ltd* [2010] 1 SLR 1212 at [55]. In *Dootson Investment Corp v Highway Video Pte Ltd* [1997] 3 SLR(R) 823, G P Selvam J held that, in relation to copyright infringement, damages were “at large”, although loss of profits that could be proved by the plaintiff would likely be the decisive element (at [8] and [11]); it is difficult to reconcile this with the summary of the law by Andrew Phang JA in *Kickapoo*, with its emphasis on the plaintiff’s burden of “specifically proving its loss”.

infringement, laid down general principles which are applicable in the present context as well)).

12 Those general principles laid down by Lord Wilberforce in *General Tire* were:¹³

(a) If the plaintiff exploits the patent by manufacturing and selling goods at a profit and the effect of the infringement has been to divert sales to the defendant, the “measure of damages will ... normally be the profit which would have been realised by the owner of the patent if the sales had been made by him”.

(b) If the plaintiff exploits his patent by granting royalty-bearing licences, “the measure of damages [the defendant] must pay will be the sums which he would have paid by way of royalty if, instead of acting illegally, he had acted legally”.

(c) Where it is not possible to prove either that there is a normal rate of profit or a normal royalty, damages fall to be assessed by considering what price could reasonably have been charged for permission to carry out the infringing acts.

III. Foreseeability and causation

13 Other intellectual property cases have held that, in common with the assessment of damages in other tortious claims, the plaintiff is entitled to recover loss that was (a) foreseeable; (b) caused by the wrong; and (c) not excluded from recovery by public or social policy.¹⁴ With regard to causation, it is not enough for the plaintiff to show that the loss would not have occurred *but for* the tort. The tort must be, “[b]y the application of the court’s common sense”,¹⁵ a cause of the loss although it need not be the sole or dominant cause of the loss.¹⁶ An inquiry may require the court to make a comparison between, on the one hand, future events that would have been expected to occur had the tort not been committed and, on the other hand, events that are expected to occur, the tort having been committed. A rough and ready calculation is almost inevitable.¹⁷

13 *General Tire & Rubber Co v Firestone Tyre & Rubber Co Ltd* [1975] 1 WLR 819 at 824–826.

14 *Gerber Garment Technology Inc v Lectra Systems Ltd* [1997] RPC 443 at 452 (CA).

15 *Galoo Ltd v Bright Grahame Murray* [1995] 1 All ER 16 at 29, *per* Glidewell LJ, cited by Jacob J (as he then was) in *Work Model Enterprises Ltd v Ecosystem Ltd and Clix Interiors Ltd* [1996] FSR 356 at 361.

16 *Gerber Garment Technology Inc v Lectra Systems Ltd* [1997] RPC 443 at 452 (CA); *Work Model Enterprises Ltd v Ecosystem Ltd and Clix Interiors Ltd* [1996] FSR 356 at 359–360.

17 At first instance in *Gerber Garment Technology Inc v Lectra Systems Ltd* [1995] RPC 383 at 395–396, *per* Jacob J (as he then was).

14 As a general matter in the assessment of damages for tortious acts, where the plaintiff is required to prove a causal link between an act done by the defendant and the loss sustained by the plaintiff, the court must decide on the balance of probabilities whether the damages “directly and naturally arise from the tort”.¹⁸ If, on balance, the tortious act caused the loss (or, in other words, it was not too remote),¹⁹ the plaintiff is entitled to be compensated in full for that loss. It is irrelevant whether the court thinks that the balance only just tips in favour of the plaintiff or that the causation claimed is overwhelmingly likely.²⁰ As Jacob J (as he then was) stated in *Gerber Garment Technology Inc v Lectra Systems Ltd*,²¹ a case concerning damages for breach of confidence:²²

The general policy of the law of tort in modern times is to provide compensation for damage which is foreseeably caused by the wrong. I think that is the right test here. Indeed it is a particularly appropriate test because, as a business matter, the defendant himself can not only foresee the consequence of the wrong to the plaintiff but also foresee (and so include as part of his business plans) the corresponding benefit to himself.

15 Where quantification of the plaintiff’s loss depends on future uncertain events, such questions are decided not on the balance of probability but on the court’s assessment, often expressed in percentage terms, of the loss occurring. This may depend in part on the hypothetical acts of a third party. Where the claim for loss depends on the hypothetical act of a third party, *ie*, the plaintiff’s case is that if the tort had not been committed the third party would have acted to the benefit of the plaintiff (or would have prevented a loss) in some way, the plaintiff need only show

18 *Claydon Architectural Metalwork Ltd v DJ Higgins & Sons Ltd* [1997] FSR 475 at [480], *per* Mann QC (sitting then as a deputy judge), an inquiry as to damages under s 96(2) of the Copyright, Designs and Patents Act 1988 (c 48) (UK). Despite the fact that s 96(2) creates a strict liability statutory tort, “[t]he doctrine of remoteness is no less applicable”: at [480].

19 In *Work Model Enterprises Ltd v Ecosystem Ltd and Clix Interiors Ltd* [1996] FSR 356, the plaintiff sought damages in respect of sales of the defendant’s product on the grounds that the brochures used by the defendant to promote its product infringed the plaintiff’s copyright although the products themselves were not infringing. Jacob J (as he then was) struck out the relevant paragraphs in the plaintiff’s pleading on the grounds that “the competition from the defendant was not effectively caused” by the defendant’s unauthorised copying in the brochure: at 361.

20 *Allied Maples Group v Simmons & Simmons* [1995] WLR 1602 at 1609–1610 (CA), *per* Stuart Smith LJ.

21 [1995] RPC 383.

22 *Gerber Garment Technology Inc v Lectra Systems Ltd* [1995] RPC 383 at [403]: the issue was whether the plaintiff could claim for the profit lost on ancillary supplies such as spare parts and maintenance servicing arising from sales of fabric cutting machines that were made using confidential information. It was held that since the plaintiff would have earned that profit if the customers had bought its machines rather than the defendant’s infringing machines, the additional lost profits were recoverable.

that he had a substantial chance, rather than a speculative one, of enjoying the benefit conferred by the third party. Once over this hurdle, the likelihood that the benefit or opportunity would have occurred is relevant only to the quantification of damages.²³

16 If the successful plaintiff claims damages based on a royalty, evidence that he had in fact offered a licence at a royalty rate that the defendant found unreasonable and rejected will not be taken by the court to indicate the “normal royalty”: to do so would allow the plaintiff to dictate its own level of damages.²⁴ Instead, the damages must be assessed objectively, taking into account any evidence of licences previously granted at particular rates. Thus, in the context of an infringement of copyright in the lyrics of a song “I am the Way (New York Town)” by songwriter Loudon Wainwright III through its inclusion in a later song “Jesus in a Camper Van” by pop star Robbie Williams, Pumfrey J (as he then was) awarded damages on the basis of a 25% royalty share, in addition to granting injunctive relief preventing further pressings of the album (although existing pressings were franked through the damages award).²⁵

IV. Damages for breach of confidence

17 In the damages inquiry in the long-running *Vestergaard Frandsen A/S v Bestnet Europe Ltd* case,²⁶ in which misuse of confidential information was found after a 19-day trial,²⁷ Rose J considered the question of the level of damages to be awarded in relation to “derived (or

23 *Allied Maples Group v Simmons & Simmons* [1995] WLR 1602 at 1611–1614, per Millett LJ (as he then was).

24 As was noted by Sargant J in *Aktiengesellschaft fuer Autogene Aluminium Schweissung v London Aluminium Co Ltd (No 2)* (1923) 40 RPC 107 at 113–114:

[T]he successful patentee [cannot] ascribe any fancy sum which he says he might have charged, but in cases where he has dealt with his property merely by way of licence, and there have been licences at certain definite rates, there *prima facie*, apart from any reason to the contrary, the price or royalty which has been arrived at by means of a free bargain ... has been taken as being the price or royalty that presumably would have been paid by the infringer.

25 *Ludlow Music Inc v Williams* [2002] FSR 57. Importantly, the judge refused to grant damages in lieu of the injunction (at [62]):

[T]he problem lies in the duration of the copyright and the multitude of uses on [*sic*] which the work can be put. There are a range of relevant rights in the lyrics of a song, including sheet music rights, mechanical rights, and synchronisation rights ... To refuse an injunction is to deprive the owner of the first copyright any direct share in the profits of future exploitation and no control over the nature of such exploitation ... It is to this extent indistinguishable from an expropriation.

26 [2014] EWHC 3159 (Ch).

27 Thereafter the case resulted in a further four judgments of the High Court (including the inquiry), two Court of Appeal judgments and a Supreme Court judgment.

derivative) products”, for which she adopted the description used by Laddie J in *Ocular Sciences Ltd v Aspect Vision Care Ltd (Part 2)*:²⁸ products sold by the defendants which, although they did not themselves incorporate any of the confidential information misused by the defendants, “were brought into existence or were perfected or owe their commercial success to the fact that confidential information was used in the past”. Thus, it is important to emphasise, the derived products were *not* ongoing uses of the confidential information in the sense that a derivative work would be of the original work in the field of copyright law, where damages would be awarded on the basis of an assessed royalty for the infringing part of the derivative work.

18 In an earlier judgment on the remedies sought in the case,²⁹ Arnold J had considered the conflicting authorities in relation to the general issue of whether damages could be awarded for breach of an equitable obligation and concluded:³⁰

It is not necessary for me to decide whether Lord Cairns’ Act is applicable or whether equitable compensation is available, although I am inclined to the view that the answers to these questions are no and yes. What seems clear is that, either way, financial compensation can be awarded to a claimant who has suffered loss as a result of a defendant’s breach of an equitable obligation of confidence. In the alternative, of course, a claimant can claim an account of the profits made by the defendant as a result of the breach.

19 In her task of deciding the level of damages that should be awarded in respect of “derived products”, which ultimately is a question of causation and remoteness, Rose J referred to the comments by Floyd LJ in the unsuccessful appeal³¹ against Arnold J’s further judgment in which he had refused to strike out the plaintiff’s claim in respect of damages for “derivative products”:³²

28 [1997] RPC 395 at 396.

29 *Vestergaard Frandsen A/S v Bestnet Europe Ltd* [2009] EWHC 1456 (Ch).

30 *Vestergaard Frandsen A/S v Bestnet Europe Ltd* [2009] EWHC 1456 (Ch) at [35]. In *Clearlab SG Pte Ltd v Ting Chong Chai* [2015] 1 SLR 163, Lee Seiu Kin J, after granting an injunction – for five years from the date of issue of the writ – to restrain continued breaches of confidence, rejected the plaintiff’s claim for *Wrotham Park* damages (*Wrotham Park Estate Co Ltd v Parkside Homes Ltd* [1974] 1 WLR 798) (which he characterised as damages in lieu of an injunction and confirmed could be awarded for breach of confidence, at [335]) as it is not possible to have both an injunction and such damages, which would be assessed on the basis of a hypothetical licence fee for use of the confidential information (and is therefore conceptually inconsistent with the grant of an injunction that prevents such use), at [343]. The plaintiff’s claim for ordinary damages was dismissed summarily as no evidence of loss was adduced, at [345].

31 [2013] EWCA Civ 428.

32 [2012] EWHC 2002 (Ch).

29. ... I do not consider that the distinction which the Judge drew in the remedies judgment^[33] for the purposes of deciding to grant an injunction necessarily means that the only basis for assessment of damages in the case of the derived products will be the head start or accelerated entry basis. Injunctions and damages are distinct remedies and the principles which govern their availability are not the same ...

30. Still further, it seems to me that, when it comes to considering damages, the distinction between the two classes of product sold by Bestnet may not be as material as it is when considering the grant of an injunction. Both classes, to some, although a differing degree, benefit from the VF confidential information. Whether it is right, in the end, to limit VF to head start damages in respect of the derived products is a decision which can only properly be made when the extent of that benefit has been established on the facts.

20 After noting Floyd LJ's earlier conclusion in the strike out appeal that there was no authority directly on point as to the assessment of damages in a breach of confidence case involving a derived product (although it was clear that the underlying principles must be those expressed by Lord Wilberforce in *General Tire* and by Lord Shaw in *Watson, Laidlaw & Co Ltd v Pott, Cassels and Williamson*³⁴ ("Watson")), she decided:³⁵

[O]n the facts of this case, it would be wrong in my judgment to base the quantum of damages on an assumption that having misused the confidential information, the Defendants must compensate [the plaintiff] by making good their profit on lost sales and paying a royalty on other sales indefinitely, unless and until they can point to some intervening event that produces a definite break in the causal chain ...

...

I consider that the two-fold approach put forward by the Defendants is a fair and proportionate approach. One head of damage should be a lump sum, quasi-consultancy fee to reflect the extent to which the sales of Later Formula nets were brought about by the use of the confidential information by the Defendants. In order to decide how much this should be, one needs to consider how closely linked the Later Formula is to the First Formula and in what other ways the Defendants made use of that information, beyond simply building on the experimental results in the Fence database to arrive at the Later Formula.

113. The second head of damage is a payment of compensation in respect of sales made in any period when the Defendants were on the market selling Netprotect when they would not have been on the market if they had not misused VF's confidential information."

33 *Vestergaard Frandsen A/S v Bestnet Europe Ltd* [2009] EWHC 1456 (Ch), see para 18 above.

34 (1914) 31 RPC 104; 1914 SC (HL) 18.

35 *Vestergaard Frandsen A/S v Bestnet Europe Ltd* [2014] EWHC 3159 (Ch) at [111]–[113].

21 Under the first head, the judge painstakingly went through each of the different steps taken by the defendant, including the extensive testing and alterations made on the basis of the defendant's own expertise to the formula used, and assessed the "quasi-consultancy fee" at US\$150,000 (essentially on the basis of the "user principle").³⁶ On damages for accelerated entry, she considered both the time saved at the outset of the product development through the unauthorised use of the plaintiff's confidential information and the link between that and the defendant's launch of the derived product, and concluded that, as the product approval would not have been obtained earlier than it was, there was no accelerated entry and therefore no damages were payable.³⁷ In other words, the derived products were too remote from the unauthorised use to justify an award of damages on the basis of the first of Lord Wilberforce's methods of assessment in *General Tire*.

V. The user principle

22 The third of the methods of assessment identified by Lord Wilberforce in *General Tire* is a manifestation of what has subsequently been described as the "user principle", a term coined by Nicholls LJ (as he then was) in *Stoke-on-Trent City Council v W & J Wass Ltd*³⁸ to refer to the principle that a person who has wrongfully used another's property can be liable to pay, as damages, a reasonable sum for such use.³⁹ As the by then Lord Nicholls of Birkenhead went on to explain in *Attorney-General v Blake*:⁴⁰

A trespasser who enters another's land may cause the landowner no financial loss. In such a case damages are measured by the benefit received by the trespasser, namely, by his use of the land. The same principle is applied where the wrong consists of use of another's land for depositing waste, or by using a path across the land or using passages in an underground mine. In this type of case the damages recoverable will be, in short, the price a reasonable person would pay for the right of user: see *Whitwham v Westminster Brymbo Coal and Coke Co* [1896] 2 Ch 538, and the 'wayleave' cases such as *Martin v Porter* (1839) 5 M & W 351 and *Jegon v Vivian* (1871) LR 6 Ch App 742. A more recent

36 See paras 17–51 below.

37 [2014] EWHC 3159 (Ch) at [176].

38 [1988] 1 WLR 1406 at 1416.

39 In *Universal Thermosensors Ltd v Hibben* [1992] 1 WLR 840 at 846, Sir Donald Nicholls V-C (as he then was) suggested in an *obiter dictum* that damages for breach of confidence could be awarded on the basis of the user principle which he had explained in *Stoke-on-Trent v City Council v W & J Wass Ltd* [1988] 1 WLR 1406 even where the claimant had suffered no loss of profits; cf *Force India Formula One Team Ltd v 1 Malaysia Racing Team Sdn Bhd* [2012] EWHC 616 (Ch) (below) and the review of the authorities by Arnold J at [395]–[423].

40 [2001] 1 AC 268 at 278–279.

example was the non-removal of a floating dock, in *Penarth Dock Engineering Co Ltd v Pounds* [1963] 1 Lloyd's Rep 359.

The same principle is applied to the wrongful detention of goods as in the much cited decision of the Court of Appeal in *Strand Electric and Engineering Co Ltd v Brisford Entertainments Ltd* [1952] 2 QB 246, concerning portable switchboards. But the principle has a distinguished ancestry. The Earl of Halsbury LC famously asked in *The Mediana* [1900] AC 113, 117, that if a person took away a chair from his room and kept it for 12 months, could anybody say you had a right to diminish the damages by showing that I did not usually sit in that chair, or that there were plenty of other chairs in the room? To the same effect was Lord Shaw's telling example in *Watson, Laidlaw & Co Ltd v Pott, Cassels and Williamson* (1914) 31 RPC 104, 119. It bears repetition:

'If A, being a liveryman, keeps his horse standing idle in the stable, and B, against his wish or without his knowledge, rides or drives it out, it is no answer to A for B to say: "Against what loss do you want to be restored? I restore the horse. There is no loss. The horse is none the worse; it is the better for the exercise."

Lord Shaw prefaced this observation with a statement of general principle:

'wherever an abstraction or invasion of property has occurred, then, unless such abstraction or invasion were to be sanctioned by law, the law ought to yield a recompense under the category or principle ... either of price or of hire.'^[41]

23 Under the "user principle" as applied in patent infringement cases, the reasonable sum is assessed on the basis of what the willing licensor and willing licensee would have agreed in all the circumstances. In the words of Lord Wilberforce in *General Tire*:⁴²

The 'willing licensor' and 'willing licensee' to which reference is often made (and I do not object to it so long as we do not import analogies from other fields) is always the actual licensor and the actual licensee who, one assumes, are each willing to negotiate with the other – they bargain as they are, with their strengths and weaknesses, in the market as it exists. It is one thing (and legitimate) to say of a particular bargain that it was not comparable or made in comparable circumstances with the bargain which the court is endeavouring to assume, so as, for example, to reject as comparable a bargain made in settlement of litigation. It is quite another thing to reject matters (other than any

41 In *ACES System Development Pte Ltd v Yenty Lily* [2013] 4 SLR 1317, Andrew Phang JA reviewed exhaustively (from [13]–[53]) the authorities in this "rather thorny area of the law of damages" before concluding "it would be appropriate, in our view, to defer arriving at a conclusive or definitive view as to what the law ought to be" (at [54]).

42 *General Tire & Rubber Co v Firestone Tyre & Rubber Co Ltd* [1975] 1 WLR 819 at 833.

doubt as to the validity of the patent itself) of which either side, or both sides, would necessarily and relevantly take account when seeking agreement.

24 In *Blayney v Clogau St David's Gold Mines*,⁴³ an inquiry in a copyright infringement case, the defendant argued that the “user principle” should not be extended to copyright. This was firmly rejected by Morritt V-C:⁴⁴

I can see no reason not to apply it. In each case the infringement is an interference with the property rights of the owner ... Whilst, no doubt, there are differences between the rights granted to a patentee and those enjoyed by the owner of the copyright they draw no distinction between the effect of an infringement of a patent rather than a copyright.

25 Of course, unlike many other kinds of property, intellectual property may well be “used” by an infringer without in any way affecting the condition or value of the property in its owner’s hands. Additionally, if one assumes, contrary to the fact, a “willing licensor” and “willing licensee”, there is a serious risk of excluding factors important in the real world, such as the “sword of Damocles” – effect of the grant of an interim injunction to prevent a possible infringement (which, on any sensible analysis, would weigh heavily on the hypothetical licensee’s mind). This point is expanded below⁴⁵ in relation to the assessments in both the *Force India Formula One Team Ltd v 1 Malaysia Racing Team Sdn Bhd*⁴⁶ (“*Force India*”) breach of confidence case and the *32Red plc v WHG (International) Ltd*⁴⁷ (“*32Red/WHG*”) trade mark infringement case.

26 Thus, as can be seen even from Lord Wilberforce’s second method of assessment (the normal royalty), it would be incorrect to characterise the object of the assessment of damages exercise in relation to intellectual property infringement as a restoration of the *status quo ante* in the sense that an award of damages may achieve in other tortious situations such as negligence. This can be seen well in the House of Lords case concerning damages for patent infringement that was referred to by Lord Nicholls in *Attorney-General v Blake: Watson*. Even though the patent owner had lost no trade and therefore the infringer argued that that should be the end of the matter as far as damages were concerned, Lord Shaw of Dunfermline held that:⁴⁸

43 [2003] FSR 19, CA.

44 *Blayney v Clogau St David's Gold Mines* [2003] FSR 19 at [20].

45 See paras 40 and 48 below.

46 [2012] EWHC 616 (Ch).

47 [2013] EWHC 815 (Ch).

48 *Watson, Laidlaw & Co Ltd v Pott, Cassels and Williamson* (1914) 31 RPC 104 at 120; 1914 SC (HL) 18 at 32.

[I]n addition there remains that class of business which the [infringers] would not have done [had they not infringed]; and in such cases it appears to me that the correct and full measure is only reached by adding that a patentee is also entitled, on the principle of price or hire, to a royalty for the unauthorized sale or use of every one of the infringing machines in a market which the patentee if left to himself, might not have reached. Otherwise that property which consists in the monopoly of the patented articles granted to the patentee has been invaded, and indeed abstracted, and the law, when appealed to, would be standing by and allowing the invader or abstracter to go free. In such cases a royalty is an excellent key to unlock the difficulty, and I am in entire accord with the principle laid down by Lord Moulton in *Meters, Limited* [see below]. Each of the infringements was an actionable wrong, and although they may have been committed in a range of business or of territory which the patentee might not have reached, he is entitled to hire or royalty in respect of each unauthorized use of his property. Otherwise the remedy might fall unjustly short of the wrong.

27 In *Meters Ltd v Metropolitan Gas Meters Ltd*⁴⁹ (“*Meters Ltd*”), Fletcher Moulton LJ said:⁵⁰

The defendants seek to diminish the damages by a variety of affidavits intended to show that the particular purchasers for whom they manufactured these infringements were customers who would not have purchased from the plaintiffs if they had not purchased from them. I am not for a moment going to say that evidence of that kind may not be relevant, but the argument based upon it was, that where a plaintiff proves the sale of infringing instruments by the defendants he does not establish any right to damages unless he shows how many of those particular instruments would have been purchased from him if the defendant had not sold them; and the counsel for the defendants were bold enough to say that in this case of infringement on a large scale there ought to be only nominal damages.

28 But:⁵¹

In the assessment of damages every instrument that is manufactured or sold, which infringes the rights of the patentee, is a wrong to him, and I do not think that there is any case, nor do I think that there is any rule of law which says that the patentee is not entitled to recover in respect of each one of those wrongs.

49 (1911) 28 RPC 157 (CA).

50 *Meters Ltd v Metropolitan Gas Meters Ltd* (1911) 28 RPC 157 at 163.

51 *Meters Ltd v Metropolitan Gas Meters Ltd* (1911) 28 RPC 157 at 164.

29 Thus, where the patent owner and the infringer are in direct competition, the assessment of damages may be a relatively straightforward one of working out the lost sales,⁵² and it will not avail the defendant to argue that it could have competed without infringing the patent. In *The United Horse Shoe and Nail Co Ltd v John Stewart & Co*,⁵³ the plaintiff's patent for a machine for making horse-shoe nails had been infringed and Lord Macnaghten said of the defendant's argument that it could have competed fairly:⁵⁴

The decision in the patent action and the minute of admission in the present case establish beyond question that in selling the 'Shoe' brand nails, the [defendants] infringed the [plaintiff's] rights. The sale of each and all of those nails was unlawful. It appears to be beside the mark to say that the [defendants] might have arrived at the same result by lawful means, and that, without infringing the [plaintiff's] rights, they might have produced a nail which would have proved an equally dangerous rival of the 'Globe' nail.

30 The plaintiff's case was that "in all probability [it] would have effected all these sales if the [defendants] had not effected them, and consequently obtained the profit thereon";⁵⁵ this is therefore an example that would have fallen within the first of the three ways of assessment outlined by Lord Wilberforce in the later *General Tire* case.

31 Unfortunately, whilst the general rule restated in *General Tire* (and to which subsequent cases refer routinely), of putting the plaintiff back in the position it would have been in had the tort not occurred, makes eminent sense both (a) where a patent owner and infringer are competitors and sales by one will in all likelihood result in lost sales for the other (because of the monopoly nature of a patent); and (b) where the right owner is in the business of licensing others, it does not function as well either where the owner has not exercised the right at all (except possibly in a negative fashion, *ie*, he owns it, so no one else can), either himself or through licensing, or the nature of the right differs from the

52 This is not to suggest that the evidence will be neither extensive nor undisputed, but rather that the method of assessment will be relatively straightforward once the facts and figures have been discerned.

53 (1888) LR 13 App Cas 401 (HL).

54 *The United Horse Shoe and Nail Co Ltd v John Stewart & Co* (1888) LR 13 App Cas 401 at 415.

55 *The United Horse Shoe and Nail Co Ltd v John Stewart & Co* (1888) LR 13 App Cas 401 at 406.

monopoly granted by a patent.⁵⁶ In these circumstances, application of Lord Wilberforce's third method can lead to unfairness at worst and unduly complicated (and therefore expensive) inquiries with highly uncertain results as to awards of damages at best.

32 The right owner can end up obtaining (a) at best, an unexpected windfall based on a royalty under a hypothetical licence he never envisaged entering into, to be paid by a hypothetical licensee who had no impact upon his business or trade and who occasioned a "loss" to him in a theoretical (or perhaps the correct word is nominal) way only;⁵⁷ or (b) at worst, a damages award assessed on a basis that ignores the fact that the infringer has knowingly done without payment what others have agreed to pay for and suffered the competitive consequences of doing so.

33 Likewise, to take Lord Justice Fletcher Moulton's *dictum* in *Meters Ltd* cited above and apply it to the assessment of damages arising from infringement of a service mark (where obviously no instruments have been manufactured or sold) would be to ignore the fundamentally different nature of the right granted to a patent owner from that accorded by statute upon the owner of a trade mark registered for services. It was perhaps a recognition of this difference that led Jacob LJ to note in *Reed Executive v Reed Business Information*⁵⁸ that he was "by no means convinced that the 'user' principle *automatically* applies in trade marks and passing off cases, especially where the mark concerned is not the sort of 'mark' available for hire" [emphasis in the original].

56 This danger was recognised by Goff LJ in *Paterson Zochonis & Co Ltd v Merfarken Packaging Ltd* [1986] 3 All ER 522 (CA), when he cautioned, in relation to a claim for damages not by reason of the infringement found of the plaintiff's copyright but "for the passing off of other goods as their own on the basis that such passing off has been facilitated by the defendant's infringement of their own copyright in the cartons and accompanying leaflets" (at [481]), that "[i]t would be undesirable as a matter of policy to extend the statutory remedies available for the protection of that [copyright] interest to the recovery of damages in respect of the invasion of a different interest" (at [482]).

57 By describing this as a "windfall" it is not intended to suggest there is anything wrong with an award of damages in these circumstances but instead to point out that the adjective "compensatory" applied to such an award in intellectual property infringement cases is correct only in a highly theoretical way that relies on the fiction that the property in an intellectual property right is in some way harmed or devalued as a result of such unauthorised use. This is important when examining the impact on the common law position of the 2004 EU Enforcement Directive, Art 13 of which requires Member States to ensure that remedies are "effective, proportionate and dissuasive".

58 [2004] RPC 20 at [165] (CA).

VI. Spinning the roulette wheel in recent damages inquiries in England

34 A recent case in which the user principle was applied by the court at the inquiry stage in relation to a trade mark infringement was *32Red/WHG*. The defendant had contended in its pleadings that the principle did not apply to trade marks but by the time of the inquiry had conceded that it did *potentially*: the judge seems to have taken this as an agreement that it did and proceeded on that basis. Thus, he adopted the summary of the principles by Arnold J in *Force India*:⁵⁹

(i) The overriding principle is that the damages are compensatory: see *Attorney-General v Blake* at 298 (Lord Hobhouse of Woodborough, dissenting but not on this point), *Hendrix v PPX* at [26] (Mance LJ, as he then was) and *WWF v World Wrestling* at [56] (Chadwick LJ).

(ii) The primary basis for the assessment is to consider what sum would have [been] arrived at in negotiations between the parties, had each been making reasonable use of their respective bargaining positions, bearing in mind the information available to the parties and the commercial context at the time that notional negotiation should have taken place: see *PPX v Hendrix* at [45], *WWF v World Wrestling* at [55], *Lunn v Liverpool* at [25] and *Pell v Bow* at [48]–[49], [51] (Lord Walker of Gestingthorpe).

(iii) The fact that one or both parties would not in practice have agreed to make a deal is irrelevant: see *Pell v Bow* at [49].

(iv) As a general rule, the assessment is to be made as at the date of the breach: see *Lunn Poly* at [29] and *Pell v Bow* at [50].

(v) Where there has been nothing like an actual negotiation between the parties, it is reasonable for the court to look at the eventual outcome and to consider whether or not that is a useful guide to what the parties would have thought at the time of their hypothetical bargain: see *Pell v Bow* at [51].

(vi) The court can take into account other relevant factors, and in particular delay on the part of the claimant in asserting its rights: see *Pell v Bow* at [54].

35 It should be emphasised at this point that where Arnold J, as have many other judges before and after, reiterates that the “overriding principle is that the damages are compensatory”, he does so only to

59 *Force India Formula One Team Ltd v 1 Malaysia Racing Team Sdn Bhd* [2012] EWHC 616 (Ch) at [386]. References to the authorities referred to are *Attorney-General v Blake* [2001] 1 AC 268; *Experience Hendrix v PPX Enterprises Inc* [2003] EWCA Civ 323; *WWF v World Wrestling* [2007] EWCA Civ 286; *Lunn Poly Ltd v Liverpool & Lancashire Properties Ltd* [2006] EWCA Civ 430 and *Pell v Bow* [2009] UKPC 45.

distinguish them from “punitive damages”. The nature of “user principle” or “negotiating” damages was identified clearly by Neuberger LJ (as he then was) in *Lunn Poly Ltd v Liverpool & Lancashire Properties Ltd*,⁶⁰ a case involving “user principle” damages for breach of the covenant of quiet enjoyment in a lease.⁶¹

[P]rinciple and practice suggest that the normal three bases [for the assessment of damages in such a case] are (a) traditional compensatory damages – *ie* a sum which compensates the claimant for past present and future losses as a result of the breach but not for the loss of the covenant; (b) negotiating damages – *ie* a sum based on what reasonable people in the position of the parties would negotiate for a release of the right which has been, is being, and will be breached; and (c) an account –

60 [2006] EWCA Civ 430.

61 *Lunn Poly Ltd v Liverpool & Lancashire Properties Ltd* [2006] EWCA Civ 430 at [22]. In relation to the assessment of damages for breach of contract, with which this article does not deal, there has been much debate as to whether the damages are to be correctly viewed as compensatory or restitutionary, after the *Wrotham Park* decision of Brightman J (*Wrotham Park Estate Co Ltd v Parkside Homes Ltd* [1974] 1 WLR 798). See, for example, the extensive analysis of the authorities and some of the academic literature by Smith J in *WWF v World Wrestling* [2006] EWHC 184 (Ch) at [98]–[168]. In *Experience Hendrix v PPX Enterprises Inc* [2003] EWCA Civ 323 at [25]–[26], Mance LJ (as he then was) observed of the dissenting judgment of Lord Hobhouse in the House of Lords decision in *Attorney-General v Blake* [2001] 1 AC 268:

As to his analysis of the damages awarded in *Wrotham Park* as compensatory, that designation does not avoid the fact that the damages awarded there (and in other cases, such as Lord Shaw’s horse that is the better for being ridden) cannot be related or limited to any actual financial loss caused by the breach. In *Wrotham Park* the estate owners would never have agreed to any relaxation on any terms of the restrictive covenant.

Whether the adoption of a standard measure of damages represents a departure from a compensatory approach depends upon what one understands by compensation and whether the term is only apt in circumstances where an injured party’s financial position, viewed subjectively, is being precisely restored. The law frequently introduces objective measures (*eg* the available market rules in sale of goods) or limitations (*eg* remoteness). The former may increase or limit a claimant’s ability to recover loss actually suffered. Another situation where damages do not necessarily depend upon precisely what would have occurred but for the wrong is where there has been a conversion: *cf Kuwait Airways Corp v Iraqi Airways Co* [2002] UKHL 19; 2 AC 883, especially at paras 82–83. In a case such as *Wrotham Park* the law gives effect to the instinctive reaction that, whether or not the appellant would have been better off if the wrong had not been committed, the wrongdoer ought not to gain an advantage for free, and should make some reasonable recompense. In such a context it is natural to pay regard to any profit made by the wrongdoer (although a wrongdoer surely cannot always rely on avoiding having to make reasonable recompense by showing that despite his wrong he failed, perhaps simply due to his own incompetence, to make any profit). The law can in such cases act either by ordering payment over of a percentage of any profit or, in some cases, by taking the cost which the wrongdoer would have had to incur to obtain (if feasible) equivalent benefit from another source.

ie a sum based on an account, that is, on the profit the defendant has made, is making and will make as a result of the breach.

Thus, both what Neuberger LJ characterised as “traditional compensatory” and “negotiating” damages are to be viewed as “compensatory” within the overriding principle identified by Arnold J.⁶²

36 To illustrate the continuing refusal of judgments in this field in England to acknowledge the ways in which damages assessment has developed since the 19th century and to accept upfront the restitutionary nature of important elements of many such assessments, one need look no further than a recent English case involving the assessment of damages in a trade mark infringement case, *SDL Ltd v Next Row Ltd*.⁶³ HHJ Hacon in the Intellectual Property Enterprise Court set out the first principle he derived from the authorities as that:⁶⁴

A successful claimant is entitled, by way of compensation, to that sum of money which will put him in the same position he would have been in if he had not sustained the wrong, see *Livingstone v Rawyards Coal Co* (1880) 5 App Cas, 25 *per* Lord Blackburn at 39.

Despite this reference to a hallowed 19th century authority, he proceeded to award “negotiating damages” which, in any meaningful sense, neither put the successful plaintiff in the position he would have been in in the absence of the tort having been committed nor are compensatory.⁶⁵

62 In *Attorney-General v Blake* [2001] 1 AC 268, when referring to the seminal judgment of the Court of Appeal in *Strand Electric and Engineering Co Ltd v Brisford Entertainments Ltd* [1952] 2 QB 246 at 279, Lord Nicholls observed:

[The user] principle is established and not controversial. More difficult is the alignment of this measure of damages within the basic compensatory measure. Recently there has been a move towards applying the label of restitution to awards of this character: see, for instance, *Ministry of Defence v Ashman* [1993] 2 EGLR 102, 105 and *Ministry of Defence v Thompson* [1993] 2 EGLR 107. However that may be, these awards cannot be regarded as conforming to the strictly compensatory measure of damage for the injured person’s loss unless loss is given a strained and artificial meaning. The reality is that the injured person’s rights were invaded but, in financial terms, he suffered no loss. Nevertheless the common law has found a means to award him a sensibly calculated amount of money. Such awards are probably best regarded as an exception to the general rule.

63 [2014] EWHC 2084 (IPEC).

64 *SDL Ltd v Next Row Ltd* [2014] EWHC 2084 (IPEC) at [31].

65 In Singapore, see the detailed analysis of the nature of the damages awarded under what is now known as the “user principle” by Andrew Phang JA in *ACES System Development Pte Ltd v Yenty Lily* [2013] 4 SLR 1317 at [20]–[55]. In this article it is not proposed to enter the general debate about the issues identified and discussed by the learned judge in that case but rather to comment only on the appropriateness of the “user principle” when applied in intellectual property cases.

37 *Force India* was a decision concerning alleged breaches of confidence where, as Arnold J noted, “very unusually”⁶⁶ the issues of liability and of quantum were considered together at trial. On the question of the appropriate way of assessing damages for breach of confidence (a cause of action that is sometimes described as a tort but which is characterised more properly as a remedy in equity), Arnold J held, after considering the “user principle” and its development as a remedy for the wrongful use of another’s property:⁶⁷

Confidential information is not property, however, even though businessmen often deal with confidential information as if it were property and judges often use the language of property when discussing breach of confidence ... [therefore] the user principle is not directly applicable to claims for breach of confidence. Although proprietary remedies have sometimes been granted in breach of confidence cases, these have been based not purely upon breach of confidence, but upon breach of a fiduciary duty, as for example in *Boardman v Phipps*.

38 Nevertheless, the judge acknowledged that “the close analogy between the two suggests that principles developed in the context of intellectual property law may have application in the field of breach of confidence”.⁶⁸ Thus, he summarised as set out above and applied the principles in assessing what he described as “negotiating damages”⁶⁹ under the user principle.

66 *Force India Formula One Team Ltd v 1 Malaysia Racing Team Sdn Bhd* [2012] EWHC 616 (Ch) at [1].

67 *Force India Formula One Team Ltd v 1 Malaysia Racing Team Sdn Bhd* [2012] EWHC 616 (Ch) at [376].

68 *Force India Formula One Team Ltd v 1 Malaysia Racing Team Sdn Bhd* [2012] EWHC 616 (Ch) at [378]. In the appeal, *Force India Formula One Team Ltd v Aerolab SRL* [2013] EWCA Civ 780 at [97], Lewison LJ noted somewhat scathingly that “between [374] and [423] the judge embarked on a lengthy discussion of a plethora of cases, most of which had not been cited to him. Again, this was unnecessary, and I have not considered whether his analysis of the cases is correct or not”.

69 *Force India Formula One Team Ltd v 1 Malaysia Racing Team Sdn Bhd* [2012] EWHC 616 (Ch) at [383]. Neuberger LJ had earlier used the term “negotiating damages” in *Lunn Poly Ltd v Liverpool & Lancashire Properties Ltd* [2006] EWCA Civ 430, a case involving a breach of the covenant of quiet enjoyment in a lease.

39 By the time of the trial the plaintiff was seeking approximately £13.77m by way of damages for breach of confidence;⁷⁰ the award by Arnold J⁷¹ was €25,000. It is fair to say that such a huge difference would be unlikely to occur in cases where the liability hearing and the inquiry are heard separately, as in those circumstances the claimant would be aware by the time of drafting the pleadings for the inquiry of the extent to which the trial judge considered there had been a breach of confidence and how serious he considered it to be.⁷² In dismissing the appeal on both liability and assessment,⁷³ Lewison LJ (with whom Briggs LJ and Sir Stanley Burnton agreed) concluded:⁷⁴

[I]t is simply not possible for this court, on the basis of a highly selective exposure to only some of the materials that were before the judge, and without having his advantage in seeing the witnesses, to interfere with his primary findings of facts or his evaluation of the primary facts that he found.

40 At first instance, Arnold J had considered what the subject matter of the hypothetical licence should be:⁷⁵

The Defendants contend that the subject matter of the negotiation would be the actual confidential information found to have been misused by Aerolab/FondTech. Force India contends that the subject matter would be the entire aerodynamic design of the Force India car. The basis for the latter contention is that Aerolab and FondTech had (almost) all of the aerodynamic design of the Force India car available to them to use as a reference, even if they only used a small proportion. I reject that contention, since it would mean that Aerolab/FondTech would pay the same licence fee regardless of the extent of the misuse. This is contrary to principle, authority and basic fairness.

41 Unfortunately, a consequence of finding (as the judge did) that the hypothetical licence covers only the “actual confidential information found to have been misused by the defendant” is to introduce into this field of law a “compulsory licence” in favour of unauthorised users. With all due respect to the judge, who accepted as a fact that the defendants had “(almost) all of the aerodynamic design of the Force India car

70 *Force India Formula One Team Ltd v 1 Malaysia Racing Team Sdn Bhd* [2012] EWHC 616 (Ch) at [428].

71 *Force India Formula One Team Ltd v 1 Malaysia Racing Team Sdn Bhd* [2012] EWHC 616 (Ch) at [462].

72 At the 2015 Singapore Academy of Law/Chancery Bar Association conference on equitable remedies, Michael Silverleaf QC commented in his presentation during the session on “Breach of Confidence” that plaintiffs should not be “too greedy” and “always have a Plan B” when it becomes clear that the court is unimpressed by their very high opening gambit.

73 *Force India Formula One Team Ltd v Aerolab SRL* [2013] EWCA Civ 780.

74 *Force India Formula One Team Ltd v Aerolab SRL* [2013] EWCA Civ 780 at [94].

75 *Force India Formula One Team Ltd v 1 Malaysia Racing Team Sdn Bhd* [2012] EWHC 616 (Ch) at [436].

available to them to use as a reference”, it is contrary to commercial common sense to imagine that the owner of an undeniably valuable database of information, some of which is confidential and which he has no intention of licensing (especially not to a competitor), would ever license only that (very small) part of the database that a user decides it wishes to use. It is respectfully submitted that it is highly unrealistic, and (to reverse the judge’s conclusion) basically unfair, to do so hypothetically and then to decide that the value of the small part of the whole database available to it that was chosen to be used by the unauthorised user should be assessed in monetary terms as if that was all that was licensed.

42 Indeed, the judge’s reason for rejecting the plaintiff’s contention, that “it would mean that [the corporate defendants] would pay the same licence fee regardless of the extent of the misuse”,⁷⁶ suggests that the only choice was a binary one, either £13.77m or €25,000, rather than one resulting from the wheeling and dealing that is surely a part of any licence negotiation, whether hypothetical or not. It is respectfully submitted that both are unrealistic “anchoring” figures that would result in the real world in a significantly higher figure than that awarded.

43 Again, commercial common sense would surely suggest that no reasonable plaintiff would be prepared to spend very significant legal fees on a complicated trial⁷⁷ and the resulting appeal in respect of unauthorised use of confidential information if it considered it feasible that that information was of commercially insignificant value, *ie*, €25,000. Of course, it cannot be ruled out that a particular plaintiff may wish to bring legal proceedings against an unauthorised user as a matter of principle but again common sense would suggest that such proceedings are rarely as expensive as the *Force India* case must have been.

44 In the *32Red/WHG* inquiry as to damages (following an earlier court’s finding of infringement of the claimant’s registered mark “32Red” by the defendant’s sign “32Vegas” which was appealed unsuccessfully),⁷⁸ Newey J cited Arnold J’s summary of the principles and applied it in relation to the trade mark infringement before him without any consideration of the nature of that property right and, given that the parties were agreed it was the correct basis of assessment, whether it was appropriate to do so.

76 *Force India Formula One Team Ltd v 1 Malaysia Racing Team Sdn Bhd* [2012] EWHC 616 (Ch) at [436].

77 The trial lasted 13 days and there were further written submissions after the trial ended.

78 *WHG (International) Ltd v 32Red plc* [2012] EWCA Civ 19.

45 Along with the general principles identified by Arnold J, the judge in *32Red* also applied the principles he considered applicable where “negotiating damages” were being assessed. In *Henderson v All Around the World Recordings Ltd*,⁷⁹ an inquiry as to the damages for infringement of performance rights, HHJ Hacon referred to the judgment in *32Red* and numbered the additional principles identified there sequentially to the six extracted from the authorities by Arnold J in *Force India*:⁸⁰

(vii) There are limits to the extent to which the court will have regard to the parties’ actual attributes when assessing user principle damages. In particular

- (a) the parties’ financial circumstances are not material;
- (b) character traits, such as whether one or other party is easygoing or aggressive, are to be disregarded [29]–[31].

(viii) In contrast, the court must have regard to the circumstances in which the parties were placed at the time of the hypothetical negotiation. The task of the court is to establish the value of the wrongful use to the defendant, not a hypothetical person. The hypothetical negotiation is between the actual parties, assumed to bargain with their respective strengths and weaknesses [32]–[33].

(ix) If the defendant, at the time of the hypothetical negotiation, would have had available a non-infringing course of action, this is a matter which the parties can be expected to have taken into account [34]–[42].

(x) Such an alternative need not have had all the advantages or other attributes of the infringing course of action for it to be relevant to the hypothetical negotiation [42].

(xi) The hypothetical licence relates solely to the right infringed [47]–[50].

(xii) The hypothetical licence is for the period of the defendant’s infringement [51]–[52].

(xiii) Matters such as whether the hypothetical licence is exclusive or whether it would contain quality control provisions will depend on the facts and must accord with the realities of the circumstances under which the parties were hypothetically negotiating [56]–[58].

79 [2014] EWHC 3087 (IPEC).

80 *Henderson v All Around the World Recordings Ltd* [2014] EWHC 3087 (IPEC) at [19], referring to paragraphs in the judgment of Newey J in *32Red plc v WHG (International) Ltd* [2013] EWHC 815 (Ch).

46 Thus, Newey J applied the “user principle” notions applied in trespass and property law cases⁸¹ to a trade mark infringement case where the defendant had used the “32Vegas” sign and, therefore, it was found, had infringed the plaintiff’s registered trade mark “32Red”. In doing so, he held that the hypothetical licensee must be taken to have been aware of the fact that he could have used any other, non-infringing sign like “21Nova”, “at relatively little expense”,⁸² and that the hypothetical licensor would have licensed not the mark as registered, *ie*, “32Red”, but instead the defendant’s infringing sign “32Vegas”.⁸³

47 Although this logic may be impeccable in relation to trespass, it is difficult to understand in the real world of trade mark licence negotiations: the unavoidable fact was that the defendant had chosen, quite deliberately, to use the sign “32Vegas” in its services because it felt it was in its commercial interests to do so. It had not chosen to use along with the word “Vegas” any of the other 37 numbers (including “0” and “00”) on a roulette wheel presumably for good commercial reasons. It is

81 For example, *Enfield LBC v Outdoor Plus Ltd* [2012] EWCA Civ 608, where an advertising hoarding was mistakenly erected partly on land owned by the plaintiff. The defendant in fact had intended to erect it wholly on adjoining land (No 67). The hoarding could without difficulty have been erected in such a way as to avoid any trespass, and this led the trial judge to award nominal damages of £2. The Court of Appeal reversed and awarded substantial damages. In doing so, Henderson J, giving the only reasoned judgment, said at [51]:

I fully accept that any ability on the part of a trespasser to achieve the object of the trespass by alternative means is a factor which must be taken into account in the hypothetical negotiation. The alternative must, however, be one which is consistent with the trespass and which can co-exist with it. An alternative cannot be taken into account if it would eliminate the trespass itself, because that would again negate the very basis of the exercise. In *Sinclair v Gavaghan* there was no conceptual difficulty about taking into account the alternative means of access to the Yellow Land which were available to the defendants, because they were true alternatives to the more convenient route through the Red Triangle, and the defendants could therefore pray them in aid when notionally negotiating a fee for use of the Red Triangle access. By contrast, what the defendants wish to do in the present case is to rely on the possibility of placing the hoarding entirely within No 67, not as an alternative to the admitted trespass, but as a means of eliminating it. Such a procedure cannot be legitimate, because it would subvert the basis of the negotiation.

Although Newey J in *32Red plc v WHG (International) Ltd* [2013] EWHC 815 (Ch) at [37]–[38] relied on this passage when concluding that non-infringing alternatives should be taken into account, it is by no means clear how the statement by Henderson J that “[a]n alternative cannot be taken into account if it would eliminate the trespass itself, because that would again negate the very basis of the exercise” can be applied sensibly in a trade mark infringement context.

82 *32Red plc v WHG (International) Ltd* [2013] EWHC 815 (Ch) at [34]. This can be compared with the assessment hearing in *Irvine v Talksport Ltd* [2003] EWCA Civ 423, a passing off case, see below at para 48. Also, the very different nature of a breach of confidence and an infringement of a registered “property” right needs to be borne in mind.

83 *32Red plc v WHG (International) Ltd* [2013] EWHC 815 (Ch) at [50].

surely unrealistic to suggest that it would have had in mind, as an alternative to be contemplated seriously, the use of any other number when negotiating to use the plaintiff's mark "32Red" or the component of it that was common in the registered mark and the defendant's sign, the number "32".

48 As for the hypothetical licence negotiations being for the use of "32Vegas", as the judge found,⁸⁴ this is even more fanciful as the plaintiff had no rights at all in the word "Vegas" on which it could base any licence negotiation. Indeed, Newey J's approach can be contrasted with the damages assessment judgment in *Irvine v Talksport Ltd*⁸⁵ ("Irvine"), an inquiry in relation to passing off that fell within Lord Wilberforce's second category in *General Tire* (as the plaintiff was in the business of licensing the use of his image for endorsement purposes when the defendant used it without obtaining his permission in circumstances that resulted in passing off). At first instance in *Irvine*,⁸⁶ Laddie J held:⁸⁷

In [assessing the reasonable fee], it seems to me that the Court has got to assume that each side would have had regard to the legitimate interest of the other side; that is to say the Defendant would have had regard to the Claimants' legitimate commercial interests and the Claimants would have regard to the Defendant's legitimate interests. The purpose is to arrive at a figure which, so far as possible, met both of their requirements. That is important in this case because it is quite apparent that there is more or less no fee which Mr Irvine would have charged which the Defendants would have agreed to pay because they take the not unreasonable stance that anything of any significance could have been avoided by them using a different photograph on the front of their brochure. This, however, is not a factor which can be taken into account in trying to work out what a reasonable fee would have been.

49 Also, when increasing damages to £25,000 from the £2,000 awarded by Laddie J, although agreeing with him that what the defendant could afford to pay was irrelevant,⁸⁸ Jonathan Parker LJ noted in the Court of Appeal:⁸⁹

The fact that at the material time Mr Irvine only entered into large endorsement deals for large fees is, in my judgment, plainly relevant for present purposes, not only because it is consistent with Mr Irvine's evidence as to the minimum fee he would have charged, but also

84 *32Red plc v WHG (International) Ltd* [2013] EWHC 815 (Ch) at [50].

85 [2003] EWCA Civ 423.

86 *Irvine v Talksport Ltd* [2002] EWHC 367 (Ch).

87 At [10] of the assessment judgment of Laddie J in *Irvine v Talksport Ltd* [2002] EWHC 367 (Ch) referred to in the Court of Appeal judgment: [2003] EWCA Civ 423 at [70].

88 *Irvine v Talksport Ltd* [2003] EWCA Civ 423 at [106].

89 *Irvine v Talksport Ltd* [2003] EWCA Civ 423 at [111].

because it supports Mr Irvine's evidence that he would not have been interested in the type of deal which [the defendant] TSL had to offer.

50 On the same lines, in *32 Red/WHG* it is surely stretching the hypothetical negotiations beyond breaking point for the judge to find that any hypothetical licensee would negotiate the use of part only of the hypothetical licensor's registered mark ("32" as opposed to "32Red"): surely, any licence would be for the mark as registered and any use that is confusing (as the court found was "32Vegas") would be restricted contractually. On the other hand, the consequence of Newey J's view of the limits to be imposed upon the hypothetical licence negotiations, *ie*, that the hypothetical licence was of the sign "32Vegas" (which, somewhat remarkably, he found in his assessment analysis could result in confusion in the plaintiff's favour as well as to its detriment),⁹⁰ was that the plaintiff was awarded an amount surely on the low side of what the reasonable commercial observer used to negotiating such agreements may have expected the hypothetical licensor to charge for the use of a confusingly similar mark in connection with the defendant's services that competed directly with those offered by the plaintiff.

51 Newey J also found that, again on the basis of what he considered to be analogous cases outside the intellectual property field, the relevant date for the hypothetical negotiation was just before the first act of infringement occurred.⁹¹ Again, it is surely the case that any licensee negotiating at a time when the alternative is for the prospective licensor to obtain an injunction stopping immediately the use he is about to embark upon and has prepared for would be prepared to pay more⁹² than a "normal licensee" negotiating a deal before the die has been cast?⁹³ After all, as Lord Wilberforce said in *General Tire*:⁹⁴

90 *32Red plc v WHG (International) Ltd* [2013] EWHC 815 (Ch) at [92].

91 *32Red plc v WHG (International) Ltd* [2013] EWHC 815 (Ch) at [52].

92 There appears to be no persuasive policy reason to ignore the realities of intellectual property infringement to this extent and it is worthwhile bearing in mind the flexibility of "negotiating damages" as a remedy, at least to the extent to which *Neuberger LJ* referred in *Lunn Poly Ltd v Liverpool & Lancashire Properties Ltd* [2006] EWCA Civ 430 at [29]:

Given that negotiating damages under [Lord Cairns'] Act are meant to be compensatory, and are normally to be assessed or valued at the date of breach, principle and consistency indicate that post-valuation events are normally irrelevant; but, given the quasi-equitable nature of such damages, the judge may, where there are good reasons, direct a departure from the norm either by selecting a different valuation date or by directing that a specific post-valuation date event be taken into account.

93 Newey J did acknowledge, without it seeming to play any role in his subsequent analysis which seemed to emphasise the ease with which the defendant could have decided to use a sign other than "32Vegas", that the parties are presumed to have done a deal: *32Red plc v WHG (International) Ltd* [2013] EWHC 815 (Ch) at [38].

94 *General Tire & Rubber Co v Firestone Tyre & Rubber Co Ltd* [1975] 1 WLR 819 at 833.

The ‘willing licensor’ and ‘willing licensee’ to which reference is often made (and I do not object to it so long as we do not import analogies from other fields) is always the actual licensor and the actual licensee who, one assumes, are each willing to negotiate with the other – they bargain as they are, with their strengths and weaknesses, in the market as it exists.

VII. Conclusion

52 When assessing damages for infringement of any intellectual property right, a court is almost inevitably forced to engage in speculation about what might have been: rarely is it merely a matter of looking at how much profit did the plaintiff lose as a result of the defendant’s infringing activity and awarding such a sum as damages. Sometimes contracts are lost or opportunities missed for reasons other than the infringing activity, other times the rights infringed have never been exploited by the plaintiff itself, and the courts are ever mindful of the need to avoid “punishing” the infringer, for that is not what the law of tort says is the aim of the damages remedy.

53 Whilst recognising the deep historical roots and rationale for this attitude, it is submitted that the recent English decisions discussed above do raise a legitimate concern that the process of assessing damages for infringement of an intellectual property right can result in an award that in practical terms is equivalent to the sum payable under a compulsory licence, so that the infringer ends up paying for its infringements at the low end of what it would have paid as a legitimate user. Given that one of the fundamental rights accorded to the owner of a patent, a copyright and a trade mark is the freedom to decide whether to use it or allow others to do so, there is a risk that concern to avoid high or punitive awards means that damages rarely reflect the value that both intellectual property owners and society place on innovation and creativity.

54 In Singapore this risk has been mitigated to some extent already, although only in relation to copyright infringements and trade mark infringements using “counterfeit” trade marks, by the introduction of statutory damages, where the court is expressly permitted to take into account the need to deter similar instances of infringement. In view of the recent UK decisions discussed above, it may be appropriate to consider extending this innovation into other areas of statutory intellectual property law. To do so would help in sending a strong message that IP infringement will neither be tolerated nor condoned.