

Study Guidelines

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Reasonable awareness in compensation for infringement of IP rights

Questions

I. Current law and practice

Please answer the below questions with regard to your Group's current law and practice.

- 1) Do:
 - a. the objective or subjective knowledge of the infringer,
 - b. the beliefs/opinions of the infringer, and/or
 - c. the publication of the scope of the IP right in general or at a particular time (e.g. the publication of the claims of a patent amended in the course of litigation).

play a part in relation to the assessment of damages? If YES, please explain.

Ad a. the objective or subjective knowledge of the infringer

Yes.

An objective or subjective knowledge of the infringement is generally seen as minimum requirement in order to claim damages for IP infringement. The Dutch Group has not identified rules that are generally applied in practice wherein the type of knowledge or level of knowledge influence the assessment of damages (within the scope of this Study Question).

General

Under Dutch law, an IP infringement is a civil tort/unlawful act (*onrechtmatige daad*) governed by article 6:162 Dutch Civil Code (DCC). As such, the obligation to pay damages is subject to a tort/unlawful act being *attributed* to an infringer. That attribution may result from the tortfeasor's fault or from a cause for which he is accountable by virtue of law or generally accepted principles (according to article 6:162(3) DCC). It is generally accepted that an act by the infringer who knew or reasonably should have known that he was infringing is attributable due to that infringer's fault.

This criterion is taken from article 13(1) of Directive 2004/48/EC (IPR Enforcement Directive or IPRED) and article 45(1) TRIPs, which was already accepted as directly operating in Dutch law by the Dutch Supreme Court (DSC) in *Roche v Primus* (9 December 2003). Thus, the infringer who knowingly or with reasonable grounds to know engages in an infringing activity is liable for damages (see below).

It is established case law (Court of Appeal Amsterdam, 19 May 1994, *Swatch v Makro*) that - at least for professional parties - it is expected to perform to verify the freedom to operate with due diligence prior to entering the market place. Failure to (timely) adhere to this duty to verify (*vergewissingsplicht*) is usually sufficient to assume that the infringement is attributable based on fault, and the threshold for awarding damages is reached.

The role of knowledge and compensation calculated by reference to the unlawful profits of the infringer is not addressed in this Study Question. Therefore, the following will not discuss the general possibility to calculate damages in reference to profit in Dutch civil law (article 6:104 DCC) or the various sui generis provisions for the recovery of profit in specific IP laws (e.g. art. 2.21 (4) BCIP, art. 3.17 (4) BCIP, art. 27a DCA and art. 70 (5) DPA).

Specific IP laws

Patents - art. 70 Dutch Patent Act (DPA)

Art. 70(4) DPA states that "damages may be claimed only from a party who performs acts that he knows or reasonably should know constitute an infringement."

The provision was amended to implement art. 13 (1) IPRED and has replaced a statutory requirement to give formal notice of infringement in order to claim damages. Where article 13 (1) IPRED does not preclude compensation if knowledge is absent, under article 70 (4), as in Dutch law generally, such knowledge (objective or subjective) is required ("may only be claimed"). Knowledge (subjective: "the infringer knows"; objective: "the infringer reasonably should know") will often be established by sending a warning letter to the infringer. However, any act that shows "knowledge" by the infringer may be used to establish liability for damages.

Copyrights - art. 27 Dutch Copyright Act (DCA)

The DCA does not contain a particular threshold for the right to claim damages. Hence, the general rules apply.

As copyrights are not registered, the copyright owner will need to address the availability to the public of the copyrighted work on the basis of which any duty to verify (*vergewissingsplicht*) can be construed.

Neighbouring rights - art. 16 Dutch Neighbouring Rights Act (DNRA)

The DNRA does not contain a particular threshold for the right to claim damages. Hence, the general rules apply.

As neighbouring rights (as a derivative of copyrights) are not registered, the above-described copyright regime applies.

Trade mark rights - art. 2.21 Benelux Convention on Intellectual Property (BCIP) - art. 17 European Union Trade Mark Regulation (EUTMR)

The BCIP does not contain a particular threshold for the right to claim damages. Hence, the general rules apply.

The EUTMR does not contain a particular threshold for the right to claim damages. It follows from art. 17 in conjunction with art. 129 (2) that an EU Trade Mark court is to apply national law on aspects not addressed in the EUTMR. Hence, the general rules apply.

Design rights - art. 3.17 Benelux Convention on Intellectual Property (BCIP) - art. 88 Community Design Regulation (CDR)

The BCIP does not contain a particular threshold for the right to claim damages. Hence, the general rules apply.

The CDR does not contain a particular threshold for the right to claim damages. It follows from art. 88(2) CDR that the Community Design court is to apply national law on aspects not addressed in the CDR. Hence, the general rules apply.

Registered designs are "registered rights", so the start-off date for the duty to verify is the date of grant of the registered design. No such start-off date applies to the "unregistered design" under the CDR, for which registration of a design is not necessary to enforce it (i.e. copyrights regime applies)

Trade name rights - art. 6 Dutch Trade Name Act (DTNA)

The DTNA does not contain a particular threshold for the right to claim damages. Instead, art. 6(1) makes clear reference to the general rule (under art. 6:162 DCC). The DTNA does not contain any provisions regarding surrender of profit. It is therefore within the scope of damages under the general rule (art. 6:104 DCC).

Plant variety rights – art. 70 lid 4 Seeds and Planting Materials Act (SPMA) and 94(2) Regulation Community Plant Variety Rights (CPR)

Art. 70(4) SPMA states that "Compensation can only be claimed from the person who knowingly performs the acts". The article still mentions that: "There is intentional action in any case, if the infringement was committed after the person concerned was informed of the conflict between the actions and the Plant Breeders' Rights by a bailiff's writ."

The formal requirement of a bailiff serving a warning letter (in the form of a writ notification) is generally seen as at odds with the standard set by article 13 (1) IPRED and art. 45 (1) TRIPs.

According to 94(2) CPR, whosoever acts intentionally or negligently shall moreover be liable to compensate the holder for any further damage resulting from the act in question. In cases of 'slight' negligence, such claims may be reduced according to the degree of such slight negligence, but not however to the extent that they are less than the advantage derived therefrom by the person who committed the infringement.

The The Hague Court of Appeal ("Miss Lucy", 19 April 2011) has ruled that when a person has knowledge of another person's cultivation rights, he has knowledge and is fully liable for damages under the aforementioned article.

Ad b: the infringer's beliefs and opinions

In general, subjective beliefs or opinions of the infringer are rarely of importance when assessing culpability. A statement in terms of "I didn't believe my product to be infringing" is to be considered irrelevant for the assessment of damages if the court finds the product to be indeed infringing. The same applies to reliance on a third party statement/assurance on the non-infringing nature of activities. However, we believe that if a "Freedom to operate-search" (FTO-search) has been performed (particularly if this has been done by a specialised and reputable firm), and the "original" could not reasonably have been identified in that FTO-search, this should be a mitigating factor for attribution of the infringement, as it can be argued that the party commissioning the FTO-search has exercised due care to avoid infringement. A court may then rule absence of reasonable awareness. However, we are not aware of any case law supporting this.

For those IP rights, for which a particular regime applies (warning letter or writ) beliefs/opinions by the infringer appear to be per se irrelevant.

Ad c. Publication of the scope of the IP right

For registerable IP rights (like trademarks, designs and patents) a published registration is prerequisite for enforcement and hence for the right to claim damages. This is not the case for non-registrable IP rights, in particular, copyright and neighbouring rights. These can be enforced without publication. Regardless of whether a registerable IP right or non-registrable IP right is infringed, there is the possibility of the IP right holder to claim damages after a warning letter has been delivered, which is therefore considered to be an advisable approach to establish culpability as to the infringement regardless of publication of the IP right and the scope thereof.

2) Are punitive damages awarded and if YES, in what circumstances?

No.

- 3) Are damages reduced below the level required to compensate the loss suffered by the right holder, and if YES, in what circumstances?

The DCC provides for possibilities to reduce damages below the level required to compensate for the loss suffered:

- a. if a civil tort besides damages also provides for certain advantages for the injured party (art. 6:100 DCC);
- b. if the damages are partly due to a cause that should be accounted to the injured party (art. 6:101 DCC);
- c. If an obligation to compensate for all damages would lead to a highly unreasonable result, e.g. given the low financial standing of the infringer (art. 6:109 DCC).

These possibilities are exceptional rule. E.g. the DSC's position on the application of article 6:109 DCC is that reduction is only possible where it would be unacceptable according to standards of reasonableness and fairness to decide otherwise. As such the possibilities are not reflected in IP case law in a meaningful or systematic manner.

II. **Policy considerations and proposals for improvements of your Group's current law**

- 4) Could your Group's current law or practice relating to the role of knowledge in relation to damages be improved? If YES, please explain.

No.

In general, the way knowledge is considered by the Dutch courts when assessing liability, is perceived as generally satisfactory. Dutch law has an open and hence flexible system to take into account all specific merits of a case, including the type of IP right – copyright, trademark, design or patent right – knowledge of the IP right by the (alleged) infringer, efforts of the IP right holder and the infringer to raise and collect knowledge, subjective as well as objective, and the infringement.

Patents

Article 70(4) DPA specifies that damages can only be claimed from a party who knew or reasonably should have known that his acts constitute infringement. This Article implies some challenges.

The large variety in patent policies and nuances in what is reasonable for a company to know or not and in what responsibilities of patent holders are to contribute to

creating objective and subjective knowledge among the public in general, and alleged infringers in particular, means that there is no one-size-fits-all implementation of this article in the Dutch patent law in further regulation. Requirements of objective knowledge and subjective knowledge can be developed further by courts, as in the current practice. The Dutch group considers that further codification of requirements for awareness is likely to result in either very complex legislation or legislation that may require patent holder to thoroughly revise patent policies. Furthermore, such further codification may leave insufficient room to judge individual cases on their specific merits.

One option for further codification may be that consistent marking of products with numbers of applicable patents - either directly or indirectly by means of a link to an online source of data - may result in considering that there is an objective knowledge of patent infringement for identical or similar products.

Trade marks

Article 2.21 BCIP, forming the basis for the recovery of damages, does not explicitly state the requirement for knowledge on the part of the infringer. However, as mentioned under 1) above, attribution of the infringement, and therefore culpability on part of the infringer (i.e. duty to verify/awareness) is required for the recovery of damages.

In particular as to trade mark infringement, the question arises what would be reasonable as to the required duty to verify/awareness. On the one hand, as trade marks are registered rights, one could argue that that the infringer should perform a trade mark register check, should perform clearance searches and/or should seek legal advice prior to entering the market. Where diligent performance would have resulted in finding a prior right, objective knowledge would automatically be established.

Case law in which damages are calculated in trade mark infringement proceedings or subsequent follow-on damages proceedings are relatively rare as cases are often settled before those. The Dutch group considers that the knowledge requirement in trade mark infringement cases does lead to any problems in practice. In particular, once the infringement has been established, Dutch courts seem to easily accept that damages can be recovered from the infringer without explicitly considering the knowledge on part of the infringer.¹ However, with the attribution, and culpability, requirement in place for the recovery of damages, there is still room for cases in which the recovery of damages does not seem attributable. This results in a fair balance between the interests of both the trade mark holder and infringer.

¹ See e.g. District Court The Hague 19 December 2018, ECLI:NL:RBDHA:2018:15133 (*Philip Plein/RSR*), par. 4.19; District Court The Hague 24 July 2013, ECLI:NL:RBDHA:2013:19716 (*Topro/X*), par. 4.21.

- 5) Should the recovery of damages depend, or not depend, on the knowledge (subjective or objective) of the infringer? Please explain.

Yes.

In general, the Dutch group considers it reasonable and fair that the recovery of damages depends on the (subjective or objective) knowledge of the infringer. This is in line with TRIPs, IPRED, and its implementation throughout the respective national IP laws, as well the Dutch system on tort law. In addition, in particular in relation to patents and trade marks, the following is noted.

Patents

If an infringer knowingly commits acts that infringe a patent - or are likely to infringe a patent -, the infringer is aware that he commits an act over which patentee may claim exclusivity and a claim to pay damages is justified. On the other hand, if a party has independently developed technology and has built a bona fide business around that technology, we would consider it unfair if a patentee can claim damages over such commercial exploitation of the patented technology without notifying the alleged infringer of the patent.

Trade marks

As mentioned under 4) above, the Dutch groups considers that the requirement of (subjective or objective) knowledge results in a fair balance between the right holder's trade marks rights on the one hand and infringer on the other hand.

In addition to that, a more risk-based liability instead of the required (subjective or objective) knowledge does not seem appropriate in trade mark infringement cases.

- 6) Should damages be elevated so as to discourage future infringement by:
- a) an infringer, when a court has established infringement and awarded an injunction against that infringer,

No.
 - b) an infringer, when a court has established infringement but not awarded an injunction against that infringer,

No.
 - c) third parties, when a court has not yet established infringement by such third parties or the existence of any potentially relevant third parties.

No.

The Dutch group considers that damages should not be elevated in order to discourage future infringement.

In general, the Dutch group considers it undesirable if the recovery of damages is to be used as a tool to discourage future infringements. Both Dutch civil law and the IPR Enforcement Directive (see Art. 13 (1) and Recital 26), as implemented in the respective IP laws, do not provide basis for damages other than compensatory damages. Elevating damages so as to discourage future infringements would imbalance the basic principle that damages are compensatory in nature (i.e. that the intellectual property holder must be placed in the same situation as the one in which it would have been if the infringement had not taken place).

Secondly, where there is a punitive element, criminal law is the preferable instrument of deterrence.

Thirdly, rules for compensatory damages allow for remedies that have a sufficiently deterrent effect in practice (although there are not meant to be so). For example, this concerns the surrender of profits as ancillary claim.

- 7) Are there any other policy considerations and/or proposals for improvement to your Group's current law falling within the scope of this Study Question?

No.

III. Proposals for harmonisation

Please consult with relevant in-house / industry members of your Group in responding to Part III.

- 8) Do you believe that there should be harmonisation in relation to the role of knowledge in relation to damages? Please answer YES or NO.

Yes.

Even if NO, please address the following questions to the extent your Group considers your Group's current law or practice could be improved.

- 9) a) Should the knowledge (subjective or objective) of the infringer affect the recovery of damages? Please answer YES or NO.

Yes/No.

The NL group is divided on this:

- around 50% believes that knowledge should not affect recovery of damages. Their key argument is that this serves legal certainty. This view is taken by representatives of the large industry and several SME's
- the other about 50% takes the view that knowledge of the infringement is relevant for recovery of damages. This 50% refers to art. 45 (1) TRIPs, embodying this principle. This view is mainly taken by representatives of SME companies.

b) If the answer to 9)a) is YES, should the knowledge be (you may tick one or, if you think either suffices, both boxes):

subjective

objective

The Dutch Group notes that the answer depends on whether it is viewed from the perspective of large market participants (often IP holders) or SME's (often followers). In particular, with respect to patent rights, ONL has indicated that subjective knowledge, i.e. a notification of the patent proprietor that the patent will be enforced, may be relevant for recovery of damages. As said, part of the Dutch Group takes the view that knowledge does not play a role in relation to damages. Most consider it desirable to prevent any discussion about whether or not the infringer had knowledge, and whether or not the information the infringer relied upon could indeed be validly relied upon or not. Any risks and consequences should be borne by the infringer.

c) How should such knowledge (for example) be established? Please tick all that apply:

by the right holder?

by the infringer?

by evidence of the circumstances of the infringement?

~~by evidence of the state of mind of the infringer?~~

referring only to facts available to any person?

~~referring to information available only to the infringer?~~

Notwithstanding the foregoing, some members of the Dutch Group suggest that

arguments regarding knowledge may form a mitigating circumstance if invoked by the infringer. In that case, the (absence of) knowledge should be established by the party invoking it, i.e. the infringing party.

Other members of the Dutch Group consider that, depending on the circumstances, right holders may be obliged to be more transparent about their IP portfolio and, as a result, be more pro-active in warning other market participants.

c) How should such knowledge affect the recovery of damages?

The Dutch Group considers it incompatible with Dutch and EU legislation to increase damages in case of intentional or willful infringement as compared with cases where the infringer should have known he was infringing. In any case, the Dutch Group considers that damages should never be higher than the actual damage incurred. Criminal law can provide a solution in case of severe and repetitive infringers. In addition, personal liability may be incurred by the directing officers of companies that infringe IPR's. Views differ whether damages prior to a friendly warning letter should be recoverable as well.

10) Can or should damages to compensate the right holder:

- a. only be awarded where the infringer has the level of knowledge specified in Article 45(1) TRIPs
- b. nevertheless be awarded if the infringer did not have the level of knowledge specified in Article 45(1) TRIPs.

(option a). The Dutch Group is of the opinion that damages can only be awarded if there is subjective or objective knowledge as specified in art. 45 (1) TRIP's. Also, about 50% of the Dutch group considers that an infringer that has omitted to perform a market study will be deemed to have the required level of knowledge; the other 50% (mainly SME) does not support this.

11) What, if any, change in the level of damages or the assessment of damages is appropriate, if the infringer:

- a. had no subjective knowledge, prior to the litigation, of the existence of the IP rights that were found infringed,

No change in the level of damages.

- b. had no subjective knowledge, prior to the litigation, of the scope of the IP rights that were found infringed because the IP right was not published in a language which is (or should be) understood by the infringer,

No change in the level of damages.

Notwithstanding the foregoing, the Dutch Group considers that, arguably, a reasonable but incorrect interpretation or translation may be taken into account in the assessment of damages.

- c. had no subjective knowledge, prior to the litigation, of the scope of the IP rights that were found infringed because the IP right was amended in the course of litigation resulting in its scope changing,

No change in the level of damages. During litigation, an IP right may only be amended to limit the scope of protection. Therefore, if infringement is found, it was already the case before amendment of the scope of protection.

- d. had a subjective belief prior to the litigation (whether gained through legal advice or otherwise) that the IP rights in question would or would not be infringed,

No change in the level of damages. The content of a prior search is at the expense and risk of the infringer. If the validity of the invoked right is not at stake, the outcome of a prior search should in any case not affect the level of damages.

- e. had not undertaken searches prior to launching a new product, to determine if the new product would or might infringe,

No change in the level of damages.

- f. had undertaken searches prior to launching a new product, to determine if the new product would or might infringe, and those searches erroneously indicated no infringement.

No change in the level of damages. The Dutch Group considers that searches provide a basis for internal decision making. The consequences of reliance on searches should be borne by the infringer.

The Dutch Group considers it appropriate, on the one hand, that there is some obligation to investigate whether the desired products or process are protected by any IP right. However, on the other hand such obligation should not be too burdensome on business, SME's in particular, in particular with

respect to time and cost.

- 12) If the grant of punitive or exemplary damages (being damages greater than those required to compensate the right holder) is permitted, please indicate whether such damages should depend on the knowledge of the infringer, and if so, what objective or subjective knowledge should be required?

Punitive damages are incompatible with the Dutch legal system. The Dutch Group also does not consider it desirable to implement punitive damages.

- 13) Should the conduct of the infringer, e.g. setting out to make profit from infringement which exceeds the compensatory damages payable to the right holder, justify punitive/exemplary damages greater than those required to compensate the right holder:

- a. when the infringer had some intention/knowledge of the objective of making the profit?

No.

The aim to maximize profit is part of acceptable business activity.

- b. when the infringer had no intention/knowledge of making the profit, and the profit was made “accidentally”?

No.

- c. regardless of the knowledge of the infringer?

Whilst the Dutch Group considers punitive damages not desirable, some industry participants have indicated that punitive damages may be appropriate in case of grave and willful infringement (not necessarily focused on making a profit).

(This question does not concern compensation based on the unlawful profits of the infringer)

- 14) Please comment on any additional issues concerning any aspect of the role of knowledge in relation to damages you consider relevant to this Study Question.

Answer:

1. In Dutch case law in IP infringement cases the subject of this questionnaire – does knowledge of infringement affect liability for damages? - is not much crystalized out. In particular we consider it desirable that the following topics are further crystalized out:
 - a. Whether there should be an obligation to conduct a freedom to operate (FTO) or similar analysis and, if so, what the consequences should be for liability for IP infringement? For example, if one can prove that one has undertaken reasonable efforts to avoid infringement, should that have consequences for liability? In general, the Dutch group concludes that there should not be an FTO-like obligation, that having conducted an FTO-like analysis should not mitigate liability towards IP rights holders and that conducting an FTO should mainly serve to mitigate the risk that one launches an infringing product.
 - b. Another question is whether a different awareness standard should be applied for registered IPRs (trademarks, designs, patents) than for unregistered IPR (mainly copyrights, neighbouring rights and database rights). It seems reasonable to us that, in case of registered IPR, the defense cannot be put forward that one did not know of the existence of the IPR (register good faith similar to that of Section 3:23 Dutch Civil Code), unless one proves that one could not have known of the IPR in spite of that, or that one had good reason to assume the invalidity of the registered IPR.
 - c. To what extent having reasonable non-infringement arguments (including arguments as to validity) should affect liability? In principle the Dutch group finds that the risk that a court eventually finds infringement should be upon the infringing party.
 - d. Whether, or to what extent, knowledge of infringement within a certain legal entity can also be attributed to other legal entities that are part of the same group of entities. For example, if a German subsidiary of a US parent company is (made) aware of a certain infringement on the German part of an European patent, can knowledge of that infringement then be assumed on the part of the Dutch subsidiary of that same US parent company of a corresponding infringement on the Dutch part of that European patent? In principle the Dutch group finds that knowledge within a group of companies can be attributed to all companies being part of that group.
 - e. Whether the accessibility of the IP rights is relevant; this is in particular relevant in case of so called 'patent thickets' or applying industry standards embodying numerous SEP's.
 - f. Does the IP right holder have an obligation to caution against alleged infringement once the IP right holder is aware of it? For example, if a patentee has been aware of infringing products being sold for a couple of years whilst the infringing party was not, should the fact that the patentee did not act earlier on affect the liability for damages?

g. The Dutch group finds it desirable if the same criteria for liability for damages and for the recovery of profits are applied to all IP rights. At present, those criteria vary. Article 13(2) IPRED allows Member States to provide that the courts may order the recovery of profits or the payment of damages fixed in advance, even if the infringer did not know or should not reasonably have known that he was infringing. However, in Dutch case-law (see, inter alia, District Court The Hague 22 July 2020, Hikvision v LITB), the requirement of bad faith for the recovery of profits applies in the event of Benelux-trademark infringement.

15) Please indicate which industry sector views provided by in-house counsel are included in your Group's answer to Part III.

For the purpose of answering Part III, the Dutch Group organized several one-to-one and group sessions. Responses were provided by in-house professional representatives working for internationally operating companies and SME's, with patents in the field of electronics, automotive, petrochemical and food industries, or working at a university. The number of responses is low (12 companies) and views varied. Furthermore, as indicated above, one of the largest interest groups of SMEs in the Netherlands - representing about 100.000 SME companies - submitted their view. The present answers aim to reflect the -sometimes opposing- views.