‘Damages’ in European law and the traditional accounts of profit

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*The award of an account of profits has a long and distinguished pedigree in equity and law. However, the law governing enforcement and remedies is now subject to the Enforcement Directive (2004/48) with an account of profits falling under Article 13. The implications of the Directive and the changes it has brought still remain unclear and are yet to be fully appreciated as the Court of Appeal’s decision in *Hollister v Medik Ostomy* [2012] EWCA Civ 1419 made clear.*

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INTRODUCTION: BEFORE THE ENFORCEMENT DIRECTIVE

The right to have an account for the profits arising from a defendant’s wrongdoing is as ancient as the common law.¹ But the common law procedure for an account was complicated, particularly as each dispute had to be resolved by a jury² and so in time the common law account was superseded by an equitable account.³ In contrast to the right to common law damages, an account of profits is a remedy restricted⁴ to certain types of case or situations. Nevertheless, the old Courts of Chancery freely exercised their power to award an account where those profits arose from the infringement of an intellectual property right.⁵ An account of profits has never been to compensate the claimant or to punish the defendant, but to deprive the infringer of the profits he or she made by the infringement⁶ and so to prevent his unjust enrichment.⁷

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1. See CT Flower, *Introduction to the Curia Regis Rolls 1199–1230*, vol 62 (Seldon Society 1972), 292; SJ Stoljar ‘The Transformation of Account’ (1964) 80 LQR 203 identifies a case as early as 1200 (p. 203, fn 5) and a case in equity in 1385 (p. 220, fn 2).

2. See Patrick Devlin, ‘Jury Trial of Complex Cases: English Practice at the Time of the Seventh Amendment’ (1980) 80 Column L. Rev 43 65–72 and SJ Stoljar ‘The Transformation of Account’ (1964) 80 LQR 203, 222.

3. *Attorney-General v Mayor of Dublin* (1827) 1 Bli NS 312, 336 (4 ER 888, 898).

4. Albeit following *Attorney-General v Blake* [2001] 1 AC 268 those restrictions might be quite limited.

5. *Smith v The London and South-Western Railway Co* (1854) Kay 408 (69 ER 173) (at this time an account was linked to the injunction – absent an injunction there could be no account: see *Baily v Taylor* (1829) 1 Russ & My 73 (39 ER 28).

6. *Colburn v Simms* (1843) 2 Hare 543, 560 (67 ER 224, 231).

7. *Dart Industries v Décor Corp* [1994] FSR 567 (HC Australia), 572 fn 9, citing, in particular, *My Kinda Town v Soll* [1983] RPC 15, 55; *Potton v Yorkclose* [1990] FSR 11, 14.

It is usually said that the infringer is treated as if he or she conducted the infringing activity on behalf of the claimant.⁸ The equitable principles for the award of an account for such infringement developed in the old Chancery Courts but have evolved ever since, most recently with the decision of the Court of Appeal in *Hollister v Medik Ostomy*.⁹ It was in this case, however, that the English courts first had to consider the effect of European law, and the Enforcement Directive in particular, on the traditional equitable remedy.

ENFORCEMENT DIRECTIVE

The award of remedies for the infringement of intellectual property is now subject to the Enforcement Directive (2004/48/EC). The Directive was intended to ensure that the obligations under the TRIPS Agreement were given proper effect in EU law. This means that the equitable principles applying to an account of profits for the infringement of an intellectual property should be interpreted in accordance with that Directive (and therefore TRIPS). Initially, it is important to note that the Directive¹⁰ only applies to 'intellectual property',¹¹ which probably only includes patents, copyright and related rights, trade marks, designs and plant varieties but not breach of confidence¹² or passing off.¹³ Thus, what might be considered an intellectual property matter by an English lawyer is not the same as that which is an intellectual property matter under the Directive. The present discussion is concerned only with the latter and, in particular, the rules on damages. Article 13 of the Enforcement Directive, which gives effect to Article 45(1) of the TRIPS Agreement, sets this out:

Article 13

Damages

1. Member States shall ensure that the competent judicial authorities, on application of the injured party, order the infringer who knowingly, or with reasonable grounds to know,

8. *Attorney-General v Blake* [2001] 1 AC 268, 280 (Lord Nicholls); *Snell's Equity*, 32nd edn (Sweet and Maxwell 2010) (ed John McGhee QC), [20–24]; in relation to intellectual property see, for example, *Hollister v Medik Ostomy* [2012] EWCA Civ 1419, [55] ('Hollister'); *Celenese International v BP Chemical* [1999] RPC 203, [36] (Laddie J).

9. [2012] EWCA Civ 1419 ('Hollister').

10. Directive 2004/48/EC, art 1 and 2 (it is for Member States to elect whether it also applies to unfair competition see recital (13)).

11. See Commission Statement on Directive 2004/48/EC [2005] OJ 94/37 (which is expressed as an indicative non-binding list).

12. See Tanya Aplin, Lionel Bently, Phillip Johnson and Simon Malynicz, *Gurry on Breach of Confidence*, 2nd edn (Oxford University Press 2012) [17.05] (as it is, in EU terms, an act of unfair competition); it should be noted that in *Vetegaard v Bestnet* [2011] EWCA Civ 424 the Court of Appeal, based on an agreement of the parties, accepted the Directive did apply to confidence cases.

13. See, by analogy, Phillip Johnson, Johanna Gibson and Jonathan Freeman, *The Impact of Lookalikes: Similar Packaging for Fast Moving Consumer Goods* (Intellectual Property Office, 2013), Annex III, [III-6] (the suggestion that the term 'intellectual property' within the meaning of the Unfair Commercial Practices Directive (2005/29/EC) does not include passing off).

engaged in an infringing activity, to pay the rightholder damages appropriate to the actual prejudice suffered by him/her as a result of the infringement.

When the judicial authorities set the damages:

- (a) they shall take into account all appropriate aspects, such as the negative economic consequences, including lost profits, which the injured party has suffered, any unfair profits made by the infringer and, in appropriate cases, elements other than economic factors, such as the moral prejudice caused to the rightholder by the infringement; or
 - (b) as an alternative to (a), they may, in appropriate cases, set the damages as a lump sum on the basis of elements such as at least the amount of royalties or fees which would have been due if the infringer had requested authorisation to use the intellectual property right in question.
2. Where the infringer did not knowingly, or with reasonable grounds to know, engage in infringing activity, Member States may lay down that the judicial authorities may order the recovery of profits or the payment of damages, which may be pre-established.

Importantly, Article 2(1) states that these standards are without prejudice to national remedies which are more favourable to rightholders. In other words, the Directive sets minimum standards – Member States can grant more generous relief to rightholders if they so choose. The Directive further sets out the remedies which Member States provide; whether those set out in the Directive or otherwise, they must be fair and equitable¹⁴ as well as effective, proportionate and dissuasive (and they must not create a barrier to trade).¹⁵

The extent to which the Directive sets minimum rights in the traditional sense, rather than a fuller harmonization is less clear. The Advocate-General in C-175/06 *Alessandro Tedesco*¹⁶ suggests, in relation to evidence preservation, that the divergence between Member States is only going to exist to the extent that flexibility in the Directive's transposition is allowed.¹⁷ This statement appears to be referring to the usual flexibility Member States enjoy to choose the form and method of implementation of a Directive,¹⁸ rather than a more general flexibility. Indeed, in C-360/10 *SABAM*¹⁹ the Court of Justice described the Directive as actually *conferring* jurisdiction on the Member States' court.²⁰ This statement is, it appears, little more than an acknowledgment that remedies for intellectual property infringement now fall within the exclusive competence of the European Union on the basis of pre-emption.²¹

This intention to harmonize and so bring remedies within that competence was clear from the Commission proposal²² and is supported by the recitals to the Directive which state that its purpose was 'to ensure that intellectual property rights enjoy an

14. Article 3(1).

15. Article 3(2).

16. (18 July 2007). The case was subsequently withdrawn and so no judgment was ever given.

17. *Ibid.*, [AG59].

18. FEU Treaty, art 288.

19. [2012] 2 CMLR 18.

20. *Ibid.*, [29] (in relation to injunctions and intermediaries).

21. As does, for example, copyright term, see Proposal for a Directive Amending Directive 2006/116/EC on the Term of Protection of Copyright and Related Rights (2008) COM 464 final, p. 10.

22. Proposal for a Directive on Measures and Procedures to Ensure the Enforcement of Intellectual Property Rights (2003) COM 46, final, p. 6 ('Harmonisation of the national provisions governing the enforcement of intellectual property rights ...').

equivalent level of protection throughout the [Union]²³ and to point towards the fact that disparities in procedure and remedies 'lead to a weakening of the substantive law on intellectual property'²⁴ and 'a fragmentation of the internal market'²⁵ and so the '[e]ffective enforcement of the substantive law on intellectual property should be ensured by specific action at [Union] level'.²⁶ Indeed, despite references to 'approximation'²⁷ the objective of the Directive is said to be to 'ensure a high, equivalent and homogeneous level of protection'.²⁸

The effect of this is that Member States only have power to legislate (or otherwise create) remedies which *go beyond* those set out in the Directive because the Directive itself²⁹ allows it. The wording of Article 13 – and the minimum standard for damages – will at some point be given an autonomous European Union meaning. This is almost inevitable as the provision makes no reference to national law.³⁰ Indeed, it is clear from the Explanatory Memorandum for the United Kingdom implementing legislation³¹ that the Government believed that some of the terms in Article 13 were unclear in scope, which is why the copy-out approach was adopted,³² thus avoiding the need to make further modifications to domestic law should the European court give an unexpected meaning to a particular phrase. Yet to avoid over-implementation (so-called 'gold plating') the implementing regulation³³ makes it clear that a minimum implementation has been undertaken.³⁴ In any event, when the Directive's obligations are given effect in English law it is important to ensure that the interpretation adopted does not conflict with fundamental rights or with the other general principles of European Union law, such as the principle of proportionality.³⁵

Uncertain terms and the potential for subtle differences

If, and when, the Court of Justice comes to interpret Article 13 it is not clear upon which basis they will proceed. In relation to 'equitable remuneration' required under Article 8(2) of the Rental Rights Directive (2006/115/EC), the Court in C-245/00 *SENA*³⁶ held that the concept of 'equitable remuneration' should be given an

23. Recital (8).

24. Recital (9); reference was made to this in C-406/09 *Realchemie Nederland BV* [2012] ILPr 1, [49].

25. Recital (9).

26. Recital (9).

27. Recital (9) and (10).

28. Recital (10).

29. Article 2(1).

30. See C-245/00 *SENA v Nos* [2005] 3 CMLR 36, [22]; cf Stephen Vousden 'Infopaq and the Europeanisation of Copyright Law' (2010) 1 WIPO J 197, 199.

31. The Intellectual Property (Enforcement, etc.) Regulations 2006 (SI 2006/1028).

32. Explanatory Memorandum to the Intellectual Property (Enforcement, etc.) Regulations 2006, [3.1].

33. The Intellectual Property (Enforcement, etc.) Regulations 2006, reg 3.

34. Reg 3(3); also see the UK implementation of the Directive on the Enforcement of Intellectual Property Rights (2004/48/EC), (DTI 2005), Annex B.

35. C-461/10 *Bonnier Audio AB* [2012] 2 CMLR 42, [56]; C-275/06 *Promusicae* [2008] 2 CMLR 17, [68], C-557/07 *LSG-Gesellschaft zur Wahrnehmung von Leistungsschutzrechten* [2009] ECR I-1227, [28].

36. C-245/00 *SENA* [2003] ECR I-1251 ('*SENA*').

autonomous EU meaning.³⁷ But the Court went on to find that because the specific methods of determining that remuneration were not set out in the Directive, the relevant criteria were for Member States to determine for their territory.³⁸ The Court of Justice was merely there to ensure the ‘greatest possible adherence ... to the concept of equitable remuneration’ and to indicate that the terms had to be reasonable.³⁹ In *C-467/08 Padawan*⁴⁰ the Court once more held that ‘fair compensation’ within Article 5(2)(b) of the Information Society Directive (2001/29/EC) should be given an EU meaning,⁴¹ but it went on to conclude that the concept needed elaboration.⁴² This further clarification was quite limited in practice however.⁴³

The Court of Justice will almost inevitably search for autonomous meanings for each of the phrases set out in Article 13 of the Enforcement Directive; so what do the following mean: ‘damages appropriate to the actual prejudice suffered ... as a result of the infringement’; ‘negative economic consequences’; ‘lost profits’; ‘unfair profits’; ‘elements other than economic factors’; and ‘moral prejudice’? The Enforcement Directive is a harmonizing measure and so it is likely that the Court will follow the approach in *Padawan* and elaborate on the meaning of these words and phrases, rather than leave it to Member States to apply their own tests, as occurred in *SENA*. However, the European Courts have very limited experience in the assessment of damages in a private law matter and the best possible analogue⁴⁴ is damages awarded under Article 340(2) of the FEU Treaty:⁴⁵

Article 340

... In the case of non-contractual liability, the Union shall, in accordance with the general principles common to the laws of the Member States, make good any damage caused by its institutions or by its servants in the performance of their duties....

These damages are what, in English terms would be called common law damages, but the potential for EU concepts is such that they highlight issues that could arise in any aspect of interpreting Article 13. Article 340(2) requires the court to award damages based on the general principles common to the laws of the Member States.⁴⁶ In the

37. *SENA*, [24].

38. *SENA*, [34]. This was based on Case C-131/97 *Carbonari* [1999] ECR I-1103, [45]. However, the Court pointed to the Rome Convention and the factors in Article 8(2) (see [35]).

39. C-245/00 *SENA* [200 3] ECR I-1269, [36].

40. [2010] ECR I-10055.

41. C-467/08 *Padawan* [2010] ECR I-10055, [33] (*‘Padawan’*).

42. *Padawan*, [35]. An award of equitable remuneration also arises when farmers reuse their seeds under the Community plant variety regime (Commission Regulation (EC) No. 1768/95, art 5(2)), but there is a mechanism prescribed within that regime as to how it is calculated: see C-7/05 and C-9/05 *Saatgut-Treuhandverwaltungs* [2006] ECR I-5045).

43. *Padawan*, [42].

44. There is some jurisprudence in relation to competition law, which may be relevant, but as it is not really a private law matter distinctions are more likely to be drawn: for a discussion of damages in competition cases see *Staff Working Paper Accompanying the White Paper on Damages for Breach of EC Antitrust Rules* (2008) SEC 404, [180–200] and see C-295/04 *Manfredi* [2006] ECR I-6619 (particularly where it states that both compensation for actual loss (*damnum emergens*) and for loss of profit (*lucrum cessan*) are recoverable (at [95])).

45. It is actually the second (unnumbered paragraph), but the use here is that which is in accord with common practice.

46. In this regard see Andrea Biondi, *The Right to Damages in European Law* (Kluwer 2009), Ch 3.

context of remoteness, it is clear that the wrongful act needs to be the 'direct consequence' of the damage in question yet not too remote.⁴⁷ This standard of remoteness, however, is yet to be clearly defined.⁴⁸ The General Court has spoken of things needing to be 'objectively foreseeable' or the need for the defendants to be aware of the effect;⁴⁹ how different is this from the English test of something being 'reasonably foreseeable'? There also appears to be a requirement under Article 340(2) to show reasonable diligence⁵⁰ to mitigate loss,⁵¹ but is the standard the same as the English law requirement to take 'reasonable' steps to mitigate loss? Similarly, is 'moral prejudice' in the Directive likely to be seen as similar to damage to the reputation – a non-economic harm compensated in an action under Article 340(2)⁵² – or something where the judgment itself can often be sufficient vindication.⁵³ It is not suggested that in relation to Article 13 the Court of Justice would blindly follow its approach under Article 340(2). Yet it is clear that although similar basic concepts have been applied by the Court of Justice they appear to be subtly different to the traditional common law concepts. Therefore, the blind application of English law concepts to Article 13 of the Directive might be incompatible with European law.

BOEHRINGER II

In both the Patents County Court and the Court of Appeal in *Hollister*, significant reliance was placed on C-348/04 *Boehringer II*.⁵⁴ The case involved a claim by a trade mark owner against a parallel trader, who was importing certain pharmaceutical products into the United Kingdom in altered packaging. The parallel trader did not give the requisite notice required to avoid infringement.⁵⁵ The third series of questions referred by the Court of Appeal related to remedies. The questions asked were, in essence, whether it was permissible to have the same financial remedies applied in relation to infringement by a parallel trader who did not give notice as those applied to the seller of spurious goods. Additionally, the Court sought clarification over whether the granting of financial remedies in such a case is governed by the principle of proportionality.

The Court of Justice's judgment in *Boehringer II* included some important points of general application. It first reiterated the general rules on the implementation of Directives, namely that it is for Member States to choose the most appropriate form and methods to ensure the effectiveness of a Directive (it was referring to the Trade Marks Directive⁵⁶ in this instance).⁵⁷ It went on to suggest any measure adopted

47. C-331/ 05 *Internationaler Hilfsfonds* [2007] 3 CMLR 31, [23]; Case 64/76 *Dumortier* [1979] ECR 3091, [21]; C-364/88 *Finsider* [1992] ECR I-359, [25].

48. The Court of Justice has indicated that legal fees for advice other than that related to the actual proceedings are not normally foreseeable: see for example, C-331/ 05 *Internationaler Hilfsfonds* [2007] 3 CMLR 31.

49. T-383/00 *Beamglow Ltd* [2006] 2 CMLR 10, [202–203].

50. Case 46/93 *Factortame* [1996] 1 CMLR 889, [84–5].

51. Case 238/78 *Ireks-Arkady* [1979] ECR 2955, [14].

52. See Case 7/56 *Dineke Algera* [1957–8] ECR 39.

53. See, for example, Case 59/80 *Mariette Turner* [1981] ECR 1883, [73–4].

54. [2007] 2 CMLR 52 ('*Boehringer II*').

55. In accordance with C-427/93 *Bristol Myers Squibb* [1996] ECR I-3457.

56. Directive 89/104/EEC (now codified as Directive 2008/95/EC).

57. *Boehringer II*, [58], the Court of Justice referred to Case 48/75 *Royer* [1976] ECR 497; C-58/75 *Re Galloti* [1996] ECR I-4345 and C-212/04 *Adelener* [2006] ECR I-6057.

must not only be proportionate, but sufficiently effective and a sufficient deterrent to ensure the particular directive is fully effective.⁵⁸

In relation to the other part of the question, the Court answered that having the same remedy for the parallel trader who does not give notice and the seller of spurious goods is not contrary to the principle of proportionality,⁵⁹ and further, that it was for Member State courts to determine the financial compensation according to the circumstances of each case, in the light of, in particular, the extent of the damage caused to the trade mark proprietor.⁶⁰ As the Court of Appeal made clear in *Hollister* this was not the Court of Justice defining a particular remedy or setting out the mechanism by which damages should be calculated. It was leaving it to Member States to adopt appropriate measures.⁶¹

However, the grounds on which the Court of Justice made its findings are particularly important. It specifically stated that its findings applied 'where [EU] law does not lay down any specific sanction'.⁶² In March 2004, when the Court of Appeal made the *Boehringer II* reference, there was no specific sanction in place for trade mark infringement. The Enforcement Directive was only agreed in April 2004 and did not need to be implemented for another two years. However, since April 2006 when the UK implemented the Directive, there have been specific sanctions in EU law for intellectual property infringements: those set out in the Directive and, in particular, Article 13.

Thus, the basic duty of Member States to ensure there was an appropriate sanction under the Trade Marks Directive (and other intellectual property Directives) is, it is suggested, satisfied by the implementation of the Enforcement Directive. Furthermore, the principle of proportionality for 'damages' no longer comes from *Boehringer II*, but from Article 3 of the Enforcement Directive. Indeed, it must be the case that the scope of damages when properly awarded under Article 13 is sufficiently effective and a sufficient deterrent to ensure intellectual property rights are respected. Thus, the minimum standard required by the Directive already meets the *Boehringer II* criteria.

HOLLISTER V MEDIK

The facts of *Hollister* are very similar to *Boehringer II*. A parallel importer failed to give notice to the trade mark owner about the repackaging of certain medical products and so infringed the trade mark owner's rights. The Claimant sought an account of profits for the infringement. HHJ Birss in the Patents County Court,⁶³ after considering *Boehringer II* in particular,⁶⁴ concluded that the correct approach to awarding an account of profits was to: (i) assess the account on the normal basis under English law; (ii) consider the extent of damage caused to the proprietor by the infringement and the issue of proportionality, in all the circumstances of the case; and (iii) decide what final sum should be awarded having regard both to the sum assessed on the

58. *Boehringer II*, [59].

59. *Boehringer II*, [61].

60. *Boehringer II*, [63].

61. *Hollister*, [68].

62. *Boehringer II*, [59].

63. *Hollister v Medik* [2011] EWPCC 40, [2012] FSR 17.

64. He did not expressly refer to Directive 2004/48/EC or the Intellectual Property (Enforcement, etc.) Regulations 2006 and so it is not clear what weight he gave to them.

account step (i) and the factors considered at step (ii).⁶⁵ The correctness of this approach was reviewed by the Court of Appeal.

No reference this time

The Court of Appeal has discretion as to whether to refer questions on the meaning of EU legislation which are not *acte clair* to the Court of Justice.⁶⁶ The willingness of the English courts to try to get to the bottom of European intellectual property law has led to a large number of references being made. However, despite Lord Justice Kitchen expressly stating that the scope of Article 13 is 'not entirely clear'⁶⁷ the Court did not exercise its discretion to refer any questions to the Court of Justice. The Court of Appeal therefore proceeded to consider the matter for itself. As will become clear from the subsequent discussion, some clarification is needed in this area and a reference to the Court of Justice sooner – rather than later – is desirable towards that end. This might be seen as a missed opportunity.

Application of the Directive

The Court of Appeal first looked at Article 13 and Recital (26) and took the view that these provisions do not preclude the award of an account. Indeed, it is difficult to imagine what the recovery of 'unfair profits' could mean other than some form of account (not necessarily an *English* account however). The Court then went on to determine whether an account was a sanction permitted in accordance with *Boehringer II*.⁶⁸ This was, as already indicated, unnecessary as the Directive is now the relevant instrument for sanction and so it had already answered the necessary question with its earlier statement that an account of profits is not incompatible with the Enforcement Directive.⁶⁹ Nevertheless, the Court's discussion of proportionality under *Boehringer II* is a good analogue for determining proportionality, effectiveness and dissuasiveness under the Directive.

As the Court of Appeal indicates, an account ensures that an infringer does not benefit from his or her wrong.⁷⁰ There is no element of punishment and there is discretion to refuse an account where it would produce an unjust result. It is therefore proportionate. It is an effective deterrent⁷¹ the Court said because the infringer will know that he or she will not retain any profits from the infringement.⁷² The Court did not expressly consider the other requirement of the Directive, namely whether an account is 'fair and equitable'. However, it must be because it can be refused where it produces an unjust result. The Court of Appeal then went on to apply the English rules for making an account of profits. However, by doing this it left many questions unanswered.

65. *Hollister v Medik* [2011] EWPC 40, [2012] FSR 17, [68].

66. TFEU Art 267.

67. *Hollister*, [60].

68. *Hollister*, [66–72].

69. *Hollister*, [62].

70. *Hollister*, [69].

71. Essentially a combination of effective and dissuasive in Article 3(2).

72. *Hollister*, [69].

Election

It appears that neither before the Patents County Court nor the Court of Appeal did the Claimant submit that it was entitled to both damages and an account of profits. The Court of Appeal described the two as alternatives⁷³ and mentioned the need to elect.⁷⁴ The remedies are often described as inconsistent, as damages represent the rejection of the defendant's acts whereas an account represents the adoption of those acts. Nevertheless, whether the traditional election between damages and an account⁷⁵ remains compatible with Article 13 is an issue which has been raised in the literature.⁷⁶ The difficulty arises because of the ambiguous wording of Article 13 and the slightly contrary wording of a recital. The Article refers to 'all appropriate aspects ... such as the negative economic consequences' and then sets out a list including 'lost profits' and 'unfair profits'. The former is probably the closest to common law damages and the latter to an account of profits. One reading of this provision, therefore, suggests that the negative economic consequences of an infringement include both lost profits *and* the defendant's unfair profits. Confusingly Recital (26) uses slightly different wording, referring to 'all appropriate aspects, such as loss of earnings ... *or* unfair profits'. The Recital's use of the word 'or' would suggest the election is still permitted, but the Article (which of course takes precedence) is less than clear on the matter.

Knowledge

Another issue which was not considered in the context of the Directive is the knowledge of the defendant. In general, the knowledge of an infringer is not relevant to liability.⁷⁷ But it is relevant for the purposes of damages as Article 13(1) only applies in cases where the 'infringer who knowingly, or with reasonable grounds to know, engaged in an infringing activity'. Where there is an innocent infringement, Article 13(2) applies permits, but does not require, the courts of Member States to award damages and allows damages to be awarded on a predetermined scale. As a matter of English law, as the Court of Appeal stated, an account *might* be refused where the defendant is innocent.⁷⁸ To the extent that equity requires *innocent* defendants to pay damages or make an account this is not covered by Article 13(1) and so falls within Article 13(2) and the permission given by Article 3(1) to give more favourable treatment to rightholders. There is, however, a potential overlap. It is likely that 'knowingly' in Article 13 means actual knowledge, but what would 'reasonable grounds' be with its autonomous EU meaning? Would it cover an infringer who does not satisfy a strict legal test (such as a notice requirement) of which they were unaware or misunderstood? And what sort of steps are 'reasonable' for these purposes? The issue

73. *Hollister*, [54 and 55].

74. *Hollister*, [56].

75. *Neilson v Betts* (1871) LR 5 HL 1.

76. See Gwilym Harbottle 'The Implementation in England and Wales of the European Enforcement Directive' (2006) 1 JIPLP 719, 726; also see Ashley Roughton, Phillip Johnson and Trevor Cook, *The Modern Law of Patents*, 2nd edn (Lexisnexis 2010), [14.189].

77. See, for example, in relation to patents, *Proctor v Bennis* (1887) 4 RPC 333, 356.

78. *Hollister*, [55]; for some intellectual property rights (eg Patents Act 1977, s 62) an account must be refused where the defendant is innocent because he or she could not have known the patent existed (ie pre-publication).

is further confused by the fact that recital (17) does not refer to knowledge being a factor in the appropriateness of remedies, but that the intentional or unintentional nature of the infringement is relevant. It may be that innocent infringers under English law have reasonable grounds to know (or are intentional infringers) under the Directive or vice versa. The meaning of knowledge is an important point as the application of Article 13 will turn on it.

Unfair profits

If Article 13 applies to an infringement then the claimant is entitled to the recovery of *at least* 'unfair profits'. As with other terms in the Directive, it is likely that 'unfair profits' will have an autonomous meaning. It is possible that a traditional account might relate only to 'profits' and not 'unfair' profits. Thus, it might be that profits attributed to the infringement can be divided into 'fair profits', which are not recoverable, and 'unfair profits' which can be recovered. Alternatively, it may be that all profits attributable to the infringement are 'unfair' and profits attributed to other factors (such as marketing or distribution channels) are the 'fair' aspects of the profits. The first interpretation allows greater room for discretion (a recently rediscovered aspect of the English account)⁷⁹ as to what is fair and what is not. However, it is suggested that the second interpretation would be more in keeping with the wording of the provision as Article 13(1) is mandatory as to what must be awarded and does not seem to afford discretion (compare with Article 13(2) in this regard).

In any event, in *Hollister* the Court of Appeal undertook a detailed evaluation of whether or not the profits could include a discount of the general overheads. It stated that a defendant must show that the relevant overheads are properly attributed to the infringing activity.⁸⁰ Further, without expressing a final conclusion, it opined that where a defendant's business is not running at full capacity there has been no lost opportunity to sell non-infringing products; accordingly, the general overheads had not been increased by the infringing activity. So no deduction from the profits can be made to take account of those overheads.⁸¹

The reasoning of the Court of Appeal confined itself to the traditional principles of an account. However, it is far from clear that the Court of Justice would apply the traditional rules to determining what amounts to an 'unfair profit' (and that is *probably* what is important). It would be easy to overstate this point if the context is not fully understood.

Where the recoverable 'unfair profits' calculated under any (eventual) EU approach are more generous than those calculated under English law then the latter becomes irrelevant. This is because the *minimum standard* when granting 'damages' under the Article is the calculation of the EU 'unfair profits'. The English standard of accounting is only relevant where, following that procedure, the profits attributed to the defendant are greater than the 'unfair profits'. So where a traditional account provides 'additional' profits it would be more favourable to the rightholder and so can be awarded under Article 2(1) (provided they are 'fair and equitable').

79. The discretion was confirmed in *Vercor v Rutland Fund* [2010] EWHC (Ch), also see *Jones v Ricoh* [2010] EWHC 1743; older authorities suggesting an absolute right to select include *Peter Pan Manufacturing v Corsets Silhouette* [1964] 1 WLR 96, 106 (Pennycuik J) and *Siddel v Vickers* [1892] RPC 152, 162 (Lindley LJ).

80. *Hollister*, [85].

81. *Hollister*, [86].

However, on the particular point, because the Court of Appeal stated that general overheads could not be deducted, the profits under the English approach would, in relation to that point only, have to be the same or greater than the ‘unfair profits’ under the Directive (as the profits would be lower if a deduction were required under EU law). Nevertheless, on the general issue, the English rules for assessing the profits may not always lead to a result more favourable to the rightholder. Are the rules on apportioning the profit – that is, identifying the profit caused by the infringement⁸² – going to be the same in the European Union as in English law? It is unlikely that the Court of Justice would give the rightholder profits not earned by the use of the right,⁸³ but that does not mean the approach to apportionment would be the same. The English approach has largely seen apportionment as a simple question of fact, but it may be that the Court of Justice provides guidance which may turn it into a much more complicated question of fact and law. And with a different approach, the English law account might award lower profits than the EU ‘unfair profits’; in such a case awarding an English account would not comply with European law.

CONCLUSION

The minimum harmonization of the rules on damages set out in Article 13 of the Enforcement Directive has yet to lead to a reference to the Court of Justice. Even when it does it is unlikely that EU law will fundamentally change the nature of remedies in the United Kingdom or elsewhere in Europe. However, it is important for the Courts and others to apply the traditional laws of remedies in England (and elsewhere) so as to provide at least the minimum the Court of Justice would require under the Enforcement Directive. It cannot be assumed that a loose analogue between traditional remedies and the wording of the Enforcement Directive is all that is required. Harmonization (probably) requires much more than that.

82. *Celenese International v BP Chemical* [1999] RPC 203, [37] citing *Imperial Oil v Lubrizol* [1996] 71 CPR (3d) 26, 30.

83. As condemned in *United Horse and Shoe and Nail v Stewart* (1888) 5 RPC 260 by Lord Watson; indeed, the Court of Justice has apportioned profit in a different context in relation to a claim under FEU Treaty, art 340(2): see Case 5/66 *Kampffmeyer* [1967] ECR 317.