Punitive damages as a contentious issue of Intellectual Property Rights

Questions

1) a) Does your country have a concept of punitive damages?
   Yes.

   b) If so, does it apply to patents, trade marks and other IPR?
   Yes, in appropriate cases.

   c) Would the possibility of an award of punitive damages be of benefit in infringement cases?
   Yes, in appropriate cases.

   d) Is your Group in favour of courts having power to award such damages in IP cases?
   Yes, in appropriate cases.

2) If punitive damages are available:
   a) In what types of situations can punitive damages be awarded?

      Punitive damages are an exception to the general rule that damages serve a compensatory purpose.

      The decision to award punitive damages is a discretionary one. Generally, punitive damages are awarded to
      punish a person’s misconduct or to deter a person from further such misconduct. As stated by the Supreme

      “Punitive damages may be awarded in situations where the defendant’s misconduct is so malicious, oppressive
      and high-handed that it offends the court’s sense of decency. They should be awarded only in those circumstances
      where the combined award of general and aggravated damages would be insufficient to achieve the goal of punishment
      and deterrence.”

      Punitive damages are available in intellectual property (IP) cases, whether they relate to copyright, trade-mark,
      industrial design or patent infringement, all of which are governed by federal statutes. Only section 53.2 of the
      Trade-Marks Act, R.S.C. 1985, c. T-13, specifically mentions punitive damages as an available remedy; however,
      it is well established that punitive damages are available in IP cases even if they are not provided for in the relevant
      act.
The principle that punitive damages are exceptional also applies to IP cases, and as such, there are very few instances where they have been awarded. For example, they have been awarded in patent cases, such as Apotex Inc. v. Merck & Co., (2002) 19 C.P.R. (4th) 460 (F.C.T.D.), where the defendant “deliberately, flagrantly and callously” disregarded an interlocutory injunction. Another case which justified the granting of punitive damages was a copyright infringement matter, Pro Arts Inc. v. Campus Crafts Holdings Ltd., (1980) 50 C.P.R. (2d) 230 (Ont. S.C.), where the Court concluded, in light of the evidence, that “the defendant demonstrated an exceptional degree of arrogance” and that “his actions constituted a callous disregard of the rights of the plaintiff and showed little more respect for the injunction granted by the Court.” In Prism Hospital Software Inc. v. Hospital Medical Records Institute, (1994) 57 C.P.R. (3d) 129 (B.C.S.C.), a copyright infringement case where the Defendant had proceeded to rewrite the Plaintiff’s software under licence to it, the Court found that punitive damages were warranted for the Defendant’s “cynical disregard” of the Plaintiff’s rights.

Issues of passing off and misuse of confidential information are governed by provincial law. For all provinces but Quebec, the above principles are applicable.

The provincial law of Quebec is civil law. The principles underlying the award of punitive damages under the Quebec civil law are generally similar to those applied in the common law provinces. Section 1621 of the Civil Code of Quebec, L.Q. 1991, c. 64, states that where the awarding of punitive damages is provided for by law, the amount of such damages may not exceed what is sufficient to fulfil their preventive purpose. It also provides that punitive damages are assessed in the light of all the appropriate circumstances, in particular the gravity of the debtor’s fault, his patrimonial situation, the extent of the reparation for which he is already liable to the creditor and, where such is the case, the fact that the payment of the damages is wholly or partly assumed by a third person.

Therefore, in Quebec, a claim for punitive damages must devolve from the wording of a statute that allows for the specific award of such damages. Most cases where such damages are awarded are based on section 49 Charter of Human Rights and Freedoms R.S.Q., c. C-12, that reads as follows: “Any unlawful interference with any right or freedom recognized by this Charter entitles the victim to obtain the cessation of such interference and compensation for the moral or material prejudice resulting therefrom. In case of unlawful and intentional interference, the tribunal may, in addition, condemn the person guilty of it to punitive damages.”

b) How is the amount (quantum) of damages assessed?

The Supreme Court of Canada in Whiten v. Pilot Insurance Co., 2002 SCC 18, the leading decision on this issue, stated that the general objectives of punitive damages are punishment (in the sense of retribution), deterrence of the wrongdoer and others, and denunciation (the means by which the court expresses its outrage at the egregious conduct).

In Whiten, the Supreme Court also set out the following general principles which are applicable to the determination of the award of punitive damages and the quantum of punitive damages:

1) The primary vehicle of punishment is the criminal law (and regulatory offences).
2) Punitive damages should be resorted to only in exceptional cases and with restraint.
3) Where punishment has actually been imposed by a criminal court for an offence arising out of substantially the same facts, it as an important factor to consider in deciding whether to award punitive damages.
4) Punitive damages should promote rationality. The court should relate the facts of the particular case to the underlying purposes of punitive damages and ask itself how, in particular, an award would further one or other of the objectives of the law and what is the lowest award that would serve the purpose..

5) It is rational to use punitive damages to relieve a wrongdoer of its profit where compensatory damages would amount to nothing more than a licence fee to earn greater profits through outrageous disregard of the legal or equitable rights of others.

6) It is not appropriate to adopt a formulaic approach, such as a fixed cap or fixed ratio between compensatory and punitive damages. A mechanical or formulaic approach does not allow sufficiently for the many variables that ought to be taken into account in arriving at a just award.

7) The proper focus is not on the plaintiff's loss but on the defendant's misconduct. A mechanical or formulaic approach does not allow sufficiently for the many variables that ought to be taken into account in arriving at a just award.

8) The governing rule for quantum is proportionality. The overall award, that is to say compensatory damages plus punitive damages plus any other punishment related to the same misconduct, should be rationally related to the objectives for which the punitive damages are awarded (retribution, deterrence and denunciation).

With respect to proportionality, the supreme court in Whiten stated that an award of punitive damages must be:

1) Proportionate to the blameworthiness of the defendant's conduct. This factor in turn would include consideration of the following:
   a) whether the misconduct was planned and deliberate;
   b) the intent and motive of the defendant;
   c) whether the defendant persisted in the outrageous conduct over a lengthy period of time;
   d) whether the defendant concealed or attempted to cover up its misconduct;
   e) the defendant's awareness that what he or she was doing was wrong;
   f) whether the defendant profited from its misconduct;
   g) whether the interest violated by the misconduct was known to be deeply personal to the plaintiff or a thing that was irreplaceable.

Thus, courts have awarded punitive damages for flagrant disregard of an injunction. See, for example, Pro-Arts, Inc. v. Campus Crafts Holdings Ltd. (1980), 50 C.P.R. (2d) 230 [$35,000 awarded for copyright infringement where the defendant had "demonstrated an exceptional degree of arrogance"]; Profekta International Inc. v. Lee (1997), 75 C.P.R. (3d) 369 (F.C.A.) [$10,000 for copyright infringement in view of amounts awarded in similar cases].

2) Proportionate to the degree of vulnerability of the plaintiff.

3) Proportionate to the harm or potential harm directed specifically at the plaintiff.

4) Proportionate to the need for deterrence (e.g. given the comparative financial resources of the parties).

5) Proportionate, even after taking into account the other penalties, both civil and criminal, which have been or are likely to be inflicted on the defendant for the same misconduct. A court must examine the combined amount of punitive damages together with compensatory or other damages. Thus, punitive damages cannot be awarded
before compensatory damages have been assessed, since punitive damages are given only where compensatory damages are insufficient to achieve the goals of punishment and deterrence; Lubrizol v. Imperial Oil (1996), 71 C.P.R. (3d) 26 (F.C.A.); Hill v. Church of Scientology of Toronto, [1995] 2 S.C.R. 1130.

6) Proportionate to the advantage wrongfully gained by a defendant from the misconduct.

Awards of punitive damages in IP cases (and in other cases) generally have been relatively modest. The largest award in Canada was $15 million in Lubrizol v. Imperial Oil (1994), 58 C.P.R. (3d) 167 (F.C.T.D.), in which sales of the infringing motor oil were very large, but this award was set aside on appeal to await assessment of the compensatory award: Lubrizol v. Imperial Oil (1996), 71 C.P.R. (3d) 26 (F.C.A.).

3) Is there an obligation on a party to take legal advice to ensure there is no infringement? If so
   a) what is the obligation and when does it arise and
   b) how is that advice assessed in subsequent infringement proceedings?

   There is no specific obligation for a party to take legal advice before embarking on activity which is alleged to infringe and IP right.

   However, if an opinion was obtained that the activity did not infringe any valid claim, whether before embarking on the activity or subsequently, evidence of that opinion would be relevant to show that the activity was not outrageous.

4) a) Is there a pre-trial discovery system which allows an IP owner to review the defendant’s behaviour?

   Yes. Since punitive damages are part of a larger claim, for either damages or profits, the defendant’s liability for such damages can be explored at the discovery stage. In the Federal Court there is documentary discovery and oral examination of a representative of each party.

   b) If so, are the parties required to give discovery of documents held abroad?

   Yes.

5) What is the impact in court proceedings in your country of the ability of courts in other countries to award punitive damages?

   In most cases there would be no impact, but if a foreign court had awarded punitive damages for the same activities, that might be a factor considered by the court to prevent double recovery.

6) Proposals for harmonising the treatment of punitive damages and the processes concerning them in court proceedings?

   The Canadian Group supports the award of punitive damages in IP cases in appropriate cases. However it is our view that:

   – The award of punitive damages should be reserved for exceptional cases where the conduct is outrageous.

   – Mere failure to investigate whether there might be infringement should not give rise to punitive damages.

   – Nor should infringement with knowledge of the IP right give rise to punitive damages where there is an arguable issue as to the validity or infringement of the IP right.

   – Any award of punitive damages should be relatively modest.
Summary

Generally speaking, under Canadian law, punitive damages are available in intellectual property (IP) cases. Punitive damages are awarded to punish malicious, oppressive or high-handed misconduct. They are awarded only where the combined award of general and aggravated damages would be insufficient to achieve the goal of punishment and deterrence. Punitive damages should be resorted to only in exceptional cases and with restraint.

Résumé

De façon générale, en vertu du droit canadien, les dommages punitifs sont disponibles en matière de propriété intellectuelle (P.I.). Les dommages punitifs visent à punir une conduite ou attitude malicieuse, oppressive ou désinvolte à l’égard des droits d’un tiers. Ils ne sont accordés que si les dommages compensatoires généraux sont insuffisants pour remplir les buts d’exemplarité et de dissuasion. Les dommages punitifs ne sont octroyés que dans des circonstances exceptionnelles.

Zusammenfassung