AIPPI – Report on Q 296 – Preliminary injunctions: Requirements for compensating damage suffered by Defendant

Tovholder: Anders Valentin

Bidragsydere: Klaus Ewald Madsen, Jakob Dolmer, Thomas Rosleff Bækmark, Edward J. Farrington, Patris Hajrizaj og Mikkel Vittrup

Questions

I) Current law and practice

a. Existence of Liability

1. Does your law or case law establish that the applicant of a PI will be held liable for the defendant's damages in case the PI is lifted or reversed? Please comment.

Answer: Yes. Denmark is part of the EU, and the rules on compensating the defendant, when an applicant's PI is lifted or reversed in the Danish Administration of Justice Act, align with the Directive on the Enforcement of Intellectual Property Rights (2004/48/EC) (the "Enforcement Directive").

The Enforcement Directive states in Article 9 (7) that Danish courts must have the authority to order *appropriate compensation* for the defendant when a PI is lifted or revoked.

The CJEU has construed Article 9 (7) on different occasions. For instance, in case C-688/17 (Bayer Pharma v Gedeon Richter), where the CJEU found that national courts are allowed to take due account of objective circumstances, including the conduct of the defendant, when deciding the appropriate compensation. National courts are thus not obliged to automatically order the applicant to provide compensation.

Furthermore, the compensation of the defendant is governed by the TRIPS Agreement, Article 50 (7). The Article states – similar to Article 9 (7) in the Enforcement Directive – that Danish courts shall have the authority to provide the defendant with *appropriate compensation* for injury caused by revoked or lapsed PIs – upon request of the defendant.

Accordingly, the applicant for a preliminary injunction (PI) may be held liable if the PI is lifted or reversed under Danish law, pursuant to Section 428 of the Danish Administration of Justice Act. The basis of liability is

i) strict when the claimed intellectual property right is invalid or exists in a smaller scope than claimed by the applicant, cf. section 428 (1) and (2), or

ii) negligence-based if the PI is unlawful for other reasons, meaning the applicant should not have applied for the PI, cf. section 428 (3)

2. If YES, does your law or case law provide that the defendant needs to request the court or relevant authority to decide on the liability of the applicant (that is, a court will not automatically issue such a finding upon revocation of the PI)?

> **Answer**: Yes. According to section 428 (4), the defendant must seek compensation either as a counterclaim during an ongoing case or through an independent main action.

3. Does your law provide for any particular time or moment as to when the defendant is allowed to request compensation?

> **Answer**: Yes. If the defendant seeks compensation through an independent main action, the defendant must initiate legal proceedings within three months after the PI is lifted or revoked, cf. section 428 (4).

4. Does your law or case law provide applicants with an exemption or safe harbour from any liability based on the fact that it holds a valid IP right and is reasonably exercising such lawful right?

> **Answer**: To some extent, however. There is no explicit exemption (or safe harbor) solely based on whether the applicant holds a valid IP right that is reasonably exercised.
>
> However, liability is negligence-based when the right to the injunction exists, meaning that the applicant is only liable if the defendant can prove that the applicant should not have claimed the PI, cf. section 428 (3).
>
> In such cases, where the applicant lawfully exercises its right, but the PI is lifted due to other circumstances, the court must assess whether the applicant acted negligently when the PI was applied for.

5. Are there any differences in assessing the applicant's liability if the dismissal is based on a finding of invalidity or of non-infringement? Please comment.

> **Answer:** No. The basis for liability is strict in both cases. The strict liability is due to the fact that PIs are often far-reaching measures of vital importance to the defendant.

b. Nature of Liability and limits thereof:

6. According to your law or case law, what is the nature of the applicant's liability if the PI is lifted, and the applicant's claims are ultimately dismissed?

> **Answer**: See answer to question 1. The nature of liability is either strict or negligence-based, depending on why the PI was lifted.

7. Does your law or case law provide that a court or relevant authority should also take into account the conduct of the defendant (e.g. if the defendant enabled the injury to occur or failed to take reasonable measures to avoid or mitigate the injury and thereby contributed to its occurrence)? Please comment.

Answer: Yes. While it is not explicitly stated in the section regarding compensation for PIs, general principles of Danish tort law provide that the court should consider whether the defendant has fulfilled its obligation to mitigate its loss. This means that if the defendant could have reasonably avoided the loss, such loss should not be compensated. Additionally, the courts may take into account the defendant's contributory negligence, meaning that if the defendant has acted negligently, this may influence the level of compensation.

8. Does your law or case law stipulate that the causal link between the damages being claimed, and the issuance of the PI should be assessed?

Answer: Yes. According to Danish tort law, the claimed compensation must have a causal link to the PI, meaning that the economic loss must result from the PI. Therefore, the defendant must prove that the loss is a causal result of the PI.

9. Does your law or case law establish any limits to the damages to be compensated?

Answer: Yes. In principle, the defendant is entitled to full recovery of any economic loss and compensation for injury to reputation. Pursuant to Danish law, punitive damages, however, are not awarded. Also, compensation is often limited for various other reasons.

Firstly, the defendant must prove that the compensation is reasonably foreseeable and has a causal link to the PI.

Secondly, compensation may be limited based on the defendant's conduct, see answer to question 7.

Thirdly, to prevent unjust enrichment of the defendant, the defendant is required to provide documentation for its loss. This is often challenging as the loss is calculated on the basis of a hypothetical scenario in which the PI was not granted. Additionally, the uncertainty in estimating such "hypothetical" compensation must be borne by the party seeking compensation.

10. Are there any other factors, circumstances or defences the court or relevant authority will take into account when establishing liability and the amount of damages?

Answer: Yes. Any gross negligence (or intention) on part of the tortfeasor, i.e. in this case the applicant, may result in a shifting of the burden of proof, so the applicant has to show that the relevant contrafactual "but for" scenario is not the scenario claimed by the defendant or at least a lowering of the defendant's burden of proof in terms of establishing the necessary causality between the tortious act and the defendant's loss.

11. Are there any special circumstances in particular cases, such as SEP/FRAND litigation or pharma/biotech disputes? Please comment.

Answer: No. No such circumstances are mentioned in Danish case law.

C. Possible Bonds and Guarantees for securing a PI:

12. Does your law or case law establish any specific standards or requirements for a court or relevant authority to request a bond, a security or undertaking to compensate a defendant? Please comment

> **Answer**: Yes. According to section 415 (1) of the Danish Administration of Justice Act, the court may require the applicant to provide security. The court will usually do so unless the applicant proves the existence of the exercised right to the injunction.

13. According to your law or case law, is the setting of a bond mandatory or discretionary? Please comment.

> **Answer**: Discretionary. It is up to the court to decide the nature and the amount of the security, cf. section 415 (2).

14. Does it matter whether a PI is granted in an *ex parte* or an *inter partes* proceeding? Please comment.

> **Answer**: No. The law does not distinguish between a requirement of security when the PI is granted in *ex parte* and *inter partes* proceedings.

15. Does your law or case law provide for any specific standards for the amount of the bond to be determined, or otherwise establish a pre-set amount? Please comment.

> **Answer**: No. The court determines the amount of security on a discretionary basis, cf. section 415 (2). However, the court must assess the security based on the potential damage the PI may cause to the defendant. Furthermore, the court must ensure that the security does not work as a *de facto* obstruction to a possible PI.

16. Does your law or case law also assess and balance the degree of harm to a defendant in case a PI is granted?

> **Answer**: Yes. See answer to question 15. Security should be determined based on the possible damage and disadvantage a PI may cause the defendant, cf. section 415 (1). Accordingly, the court must balance the potential harm to the defendant.

17. Does your law or case law allow courts to accept a "counter-guarantee" from the defendant to suspend a PI? If so, in which circumstances? Does it depend on the consent of the applicant? Are there any differences in special cases, such as in SEP/FRAND litigation or pharma/biotech disputes

> **Answer**: Yes. According to section 414 (1) of the Danish Administration of Justice Act, the court may decide not to grant a PI if security provided by the defendant constitutes sufficient protection against the alleged infringement. It is a condition that the security effectively safeguards the plaintiff's interests. However, the scope of application for "counter-guarantees" is very limited.

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

18. Could your Group's current law or practice relating to the requirements for compensating damage suffered by the defendant and related topics be improved? If yes, please explain.

Answer: No. The current law is in accordance with the basic principles of Danish tort law. The fundamental principles of restitution in Danish tort law should also apply in these cases.

19. Could any of the following aspects of your Group's current law relating to the requirements for compensating damage suffered by the defendant be improved? Please explain:

(a) The existence or not of liability;

Answer: No. The existing liability rules are sufficient.

(b) The nature of such liability and limits thereof;

Answer: No. Given the drastic consequences of PIs, it seems to balance the interests well that the liability is primarily strict in Danish law.

(c) The possibility of determining bonds and guarantees for securing a PI, and/or counter-bonds

Answer: No. The current state of law seems well-balanced.

20. According to the opinion of your Group, what is the policy rationale for compensating damages suffered by the defendant in case of a PI?

Answer: The rationale for compensating damages is that the risk should be borne by the applicant who requested the PI. Consequently, Danish law imposes strict liability in such cases.

This rationale aligns with fundamental principles of Danish tort law, where compensation must, on the one hand, aim at the restitution of the defendant's loss and, on the other hand, seek to prevent unlawful PIs. Punitive considerations do not affect this assessment.

21. 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?

Answer: It could be considered whether the Danish courts should provide clearer guidelines for their calculation and assessment of loss and compensation. This would ensure greater predictability for the defendant.

III) Proposals for harmonization

22. Do you believe that there should be harmonisation in relation to the requirements for compensating damage suffered by Defendant and related issues, as well as in connection with the setting of bonds or guarantees?

Answer: No.

If YES, please respond to the following questions without regard to your Group's current law or practice.
Even if NO, please address the following questions to the extent your Group considers your Group's current law or practice could be improved.

23. Should the applicant of a PI be held liable for defendant's damages in case a PI is lifted or reversed? Please comment

Answer: Yes. If a PI is granted, the defendant may suffer economic loss, while the applicant could benefit from the reduced competition in the market. Liability for unlawful PIs balances the protection of IP-rights with the societal interest in a competitive market and ensures the restitution of the defendant's loss.

24. Should a defendant need to request the court or relevant authority to decide on the liability of the applicant (that is, a court will not automatically issue such a finding upon revocation of the PI)? Please comment.

Answer: Yes. To secure procedural fairness, the defendant should be required to request the court to assess the question of liability. This is also in accordance with fundamental principles in Danish procedural law.

25. Should there be any particular time or moment for the defendant to request compensation?

(e) YES, as soon as the PI is lifted or revoked;
(f) YES, only after a final judgment is delivered;
(g) NO, at any time.
(h) Other. Please comment

Answer: (e) YES, as soon as the PI is lifted or revoked and (h) other. To avoid unnecessary delays and to ensure that both parties know their future legal position, the defendant should request compensation after the PI has been lifted or revoked. However, there should be a designated period during which the party can claim compensation (if the claim is not submitted during an ongoing case). Thus, the three-month period provided by Danish law seems to strike a fair balance between these interests.

26. Should an applicant benefit from an exemption or safe harbour from any liability based on the fact that it holds a valid IP right and is reasonably exercising such lawful right? Please comment.

Answer: No. The applicant should not benefit from either an exemption or safe harbour.

27. Should there be any differences in assessing the applicant's liability if the dismissal of the PI is based on a finding of invalidity or of non-infringement? Please comment.

Answer: No. Given the significant consequences a PI may have for the defendant, it seems fair that exercising a right to an injunction that does not exist should be treated the same way, regardless of whether the PI is dismissed due to invalidity or non-infringement.

a. Nature of Liability and limits thereof:

28. Which should be the nature of the applicant's liability if the PI is lifted, and/or the applicant's claims are ultimately dismissed?

(a) Strict liability (that is, the applicant is liable for damages irrespective of proof of negligence, recklessness or intent to harm).
(b) Liability will depend on proof of negligence, recklessness or intent to harm.
(c) Liability will depend on proof of intent to harm or recklessness only.
(d) Liability will depend on proof of intent to harm only.
(e) Other (Please comment).

> **Answer**: (e) Other.
> It depends on the reasoning. If the applicant's rights did not exist or were not infringed (or existed/was infringed only partly), the liability should be strict.
>
> However, if the PI is lifted or ultimately dismissed due to other reasons, liability should depend on negligence.

29. Should a court or relevant authority take into account the conducts of the defendant (e.g. if the defendant enabled the injury to occur or failed to take reasonable measures to avoid or mitigate the injury and thereby contributed to its occurrence) or any other particular factors? Please comment.

> **Answer**: Yes. However, this assessment should be based on general principles of tort law pursuant to national law. In a country, where the defendant must take reasonable steps to mitigate losses, the lack hereof should be taken into account.

30. Should the causal link between the damages being claimed, and the issuance of the PI be assessed? Please comment.

> **Answer**: Yes. Causality should be assessed based on general principles of tort law pursuant to national law.

31. Should there be any limits to the damages to be compensated?

> **Answer**: Yes.

32. If YES, please indicate the ones that apply:
(a) Damages should be limited to the actual losses of the defendant or lost profit;
(b) Damages should be limited to by the amount of guarantee or security provided by the applicant;
(c) Damages should also include legal costs incurred during litigation.
(d) Other. Please Comment

> **Answer**: A+C. Damages should be limited to the actual losses of the defendant or lost profit, which we understand to include lost profit due to disruption of the market. Damages should also include legal costs incurred during previous litigation, e.g. during the preliminary injunction proceedings, however, such legal costs should only be recoverable based on the principles for awarding legal costs.

33. Should there be any other factors, circumstances or defences the court or relevant authority should take into account when establishing liability and the amount of damages? Please comment.

Answer: No.

34. Should there be any special circumstances in particular cases, such as SEP/FRAND litigation or pharmaceutical/biotech disputes? Please comment.

Answer: No.

b. Possible Bonds and Guarantees for securing a PI:

35. Should there be any specific standards or requirements for a court or relevant authority to request a bond, a security or undertaking to compensate a defendant? Please comment.

Answer: No. Whether to set a bond and the size hereof should be decided discretionarily by the court, upon request of the defendant. Further, see answer to question 36.

36. In your group's opinion, the setting of a bond should be:

(a) Mandatory;
(b) Discretionary;
(c) Other. Please comment

Answer: The Danish group is of the opinion that in *inter partes* proceedings the setting of a bond should be discretionary by the court upon the request of the defendant. In *ex parte* proceedings, where interim measures are ordered without the defendant having been heard, the Court shall require a bond unless there are special circumstances not to do so.

37. Should it matter whether a PI is granted in an *ex parte* or an *inter partes* proceeding? Please comment.

Answer: Yes, see answer to question 36.

38. Should there be any specific standards for the amount of the bond to be determined, or otherwise should a pre-set amount be established? Please comment.

Answer: No. The Danish group is of the opinion that the bond should be set discretionarily by the court taking all aspects of the specific case into consideration. The overall objective should be to set the security at an amount that would reasonably compensate the defendant for any losses suffered as a result of the PI, if it turns out that the PI was unjustified.

39. Should courts be allowed to accept a "counter-guarantee" from the defendant to suspend a PI? In which circumstances? Please comment.

Answer: Yes, but only in the rare circumstances where an assessment of all of the facts and legal aspects of the case, including in particular a balancing of the interest of the parties, reasonably justifies suspension of a PI against a counter guarantee (e.g. public interest, no originator product on the market, short lifetime of the patent).

40. Should it depend on the consent of the applicant? Please comment.

    Answer: No. If the applicant agrees, the court should be less restrictive in accepting a counter guarantee.

41. Please comment on any additional issues concerning any aspect that you consider relevant to this Study Question.

    Answer: None – many of the questions relate to general tort law principles developed over many decades in each country and will therefore be very difficult to change and harmonize.

42. Please indicate which industry sector views provided by in-house counsels are included in your Group's answers to Part III.

    Answer: No specific industry sector.