

## **Summary Report**

### **Question Q203**

#### **Damages for infringement, counterfeiting and piracy of Trademarks**

##### **BACKGROUND**

The Executive Committee of the AIPPI has included on the agenda of the 2008 AIPPI Congress the issue of damages for infringement, counterfeiting and piracy of trade marks. As highlighted by the working guidelines, damages caused by trade mark infringement are often difficult to assess and frequently present more difficulties in cases of counterfeiting or piracy. This summary report looks at a number of areas where there are significant discrepancies between countries as to the assessment of damages and whether there is a need for greater harmonisation, including proposals as to which areas should be harmonised.

The questions posed to the AIPPI National Groups have been met with a high level of interest. In total, the General Reporter received 38 reports from the following countries: Argentina, Australia, Belgium, Brazil, Bulgaria, Chile, China, Czech Republic, Denmark, Egypt, Ecuador, Estonia, Finland, France, Germany, Hungary, Italy, Japan, Korea, Luxemburg, Mexico, Netherlands, Norway, Paraguay, Peru, Philippines, Poland, Portugal, Singapore, South Africa, Spain, Sweden, Switzerland, Thailand, Turkey, United Kingdom, United States and Venezuela.

The individual Group reports largely provided clear answers to the working guideline questions and a majority of them also gave comprehensive and detailed information about specific rules and case law as to the evaluation of damages for counterfeiting, piracy and trade mark infringement. In this respect, the reports from Australia, Belgium, Brazil, Denmark, Egypt, Finland, France, Germany, Italy, Japan, Netherlands, Spain, Sweden, Turkey, United Kingdom and the United States were particularly helpful.

On a very general level, the solutions adopted in the various Groups as to the assessment of damages are not significantly inconsistent from country to country. However, on a more sophisticated analysis, it is possible to identify a number of discrepancies between the Groups as to how the assessment of damages are actually applied in practice. Further, the Groups expressed a very clear wish to achieve some form of harmonisation on the principles of the assessment of damages, albeit that the Groups differed in their views as to the appropriate degree of such harmonisation.

Due to the high number of Group reports, and the differences in the presentation of the national legal solutions, this summary report cannot be considered as a replacement to the detailed rules explained by each individual Group or the case law and examples used by the Groups to illustrate them in practice.

The report treats almost all the questions which were raised in the working guidelines with the exception of few of them, for which, like the assessment of damages in case of a breach of the license or of the parallel imports, the Groups reports showed that there was little interest to treat them in the harmonised way.

Therefore, if particular information is required or specific legal issues arise, it is advisable to refer to individual Group reports.

Finally, this summary report does not deal with the issue of criminal proceedings and sanctions in relation to trade mark infringement, which was raised at the 2002 EXCO in Lisbon (Q169). Additionally, the question of punitive damages was dealt with at the 2005 EXCO in Berlin (Q186). This report will not discuss these topics in relation to the assessment of damages, even if they have been incidentally included in the Group reports.

## **SUMMARY OF THE CURRENT LEGAL APPROACHES**

### **1) Substantive Law and Liability**

The working guidelines asked the Groups to present the state of the substantive law in their countries, including whether there was a distinction between different kinds of infringement, counterfeiting and piracy of trade marks, and also to specify the conditions of liability for those different kinds of infringement, counterfeiting and piracy.

The initial view was that where national laws establish distinctions between different kinds of infringement, this may have a wider impact (and therefore create less harmonisation) on the evaluation of the damages for those different acts of infringement. It appears, however, that only Chile, Czech Republic, Egypt and Italy distinguish between different kinds of infringement. The majority of countries (including Australia, Brazil, Bulgaria, China, Denmark, Finland, France, Germany, Hungary, Japan, Luxembourg, Poland, Portugal, Spain, United Kingdom and the United States) do not legally distinguish between different kinds of infringement, and in general, infringement in those countries is defined as the exploitation of the same or similar sign without authorisation of the trade mark owner.

On the issue of good faith, it appears that in Norway, where the infringement has been committed in good faith, the assessment of damages is made on a purely discretionary basis as determined by the Judge. A similar approach seems to exist under the Danish law.

Contrary to these approaches, the majority of Groups reported that “moral” elements are not usually taken into consideration in the assessment of damages and therefore damages are due even if an infringer acts in good faith. This position is clearly expressed by the Finnish, German, French and United Kingdom, who also highlight that the assessment of damages is based on the principles of civil liability.

The Group reports highlight the issue as to whether the regime of assessment of damages should be the same for all kinds of infringement, counterfeiting and piracy of trade marks. It seems that the ideal approach should be that the assessment of damages should not take into consideration any “good faith” moral element, but instead should be based on objective criteria and fulfilment of the relevant legal tests for liability.

Notwithstanding this concept, there is also the issue of whether the assessment of damages should be affected by any “bad faith” moral element, i.e. for infringement committed wilfully or intentionally. Although it seems that most Groups (but not all) do not take any “bad faith” element into account, this may a favourable approach to adopt for the future. This may particularly be so for cases where there has been a prolific and flagrant breach of a trade mark owner’s right by an infringer who acts in order to simply maximise its profits over a relatively short period (and such profits may not necessarily be recoverable by the trade mark owner).

#### **Legal Theories**

Each Group was asked to present the legal theories in their respective jurisdictions for the assessment of damages for the violation of trade mark rights.

The majority of Groups (including the Netherlands, Peru, United Kingdom, South Africa, Switzerland, Thailand, France and Denmark) indicated that the assessment of damages is based on the principle of the civil liability. A few other Groups indicated that the assessment of damages is based on the violation of the property ownership (for example, in Korea). Interestingly, the Swedish Group reported that the assessment of damages is based on a combination of the violation of property and civil liability.

However, despite an apparently harmonised civil liability approach for various national systems, a number of discrepancies persist in the actual practical approach to the assessment of damages in those countries. For example, some countries (including the Netherlands and

Poland) consider that, even where the applicable regime is civil liability, the assessment of damages may also be based on the actual prejudice suffered by the trade mark owner, as well as the profits achieved by the infringer.

Somewhat surprisingly, Mexico reported that once infringement is proved, damages automatically amount to forty per cent (40%) of the retail price of the infringed product or service, although the trade mark holder may claim a higher percentage if it proves a greater level of damage. It seems that this approach may be not sufficiently sophisticated enough to adequately address the numerous issues which arise for a trade mark holder on infringement of its good or service. Therefore, this sort of approach is not recommended, particularly as there are a number of key considerations which should be, and for a number of Groups, are already being, taken into account in the assessment of damages (discussed later in this report).

It seems the ideal approach should be that, as underlined in the US report, the assessment of damages should take into consideration all economic aspects of trade mark rights, and should remedy the prejudice suffered by the trade mark holder, regardless of the theoretical legal background of any particular country. Further, as suggested in the Argentinean Group report, the prejudice suffered by a trade mark holder should be presumed once infringement of the trade mark right has been established.

## **2) Methods of Assessment**

On the method of assessment, it seems that a theme emerged from the various Group reports, and in particular, a number of Groups outlined that the assessment of damages should take into consideration:

- a) loss of profits (in respect of the trade mark owner) caused by the infringement;
- b) an account of profits (in respect of the infringer) arising as a result of the infringement; and/or
- c) the licence fee or royalty the infringer would have been liable to pay had the infringer been authorised by the trade mark owner to use the trade mark.

However, despite the fact that a number of Groups (including for example Italy, Germany, France, the US, Netherlands and Philippines) reported that such factors should be taken into consideration, it seems a number of serious differences exist between the Groups in the actual practical application of these principles.

The most significant discrepancy is which of the above points apply in the assessment of damages. In some countries, two or three of the above considerations are taken into account (i.e. the approach is cumulative), whereas other countries will only take into account one or two of the points in the assessment of damages (i.e. the points are treated as alternative options). In some countries, there is no option, as the law will specify which of the points will apply.

Looking at individual countries, the Spanish Group indicated that its case law (in the application of the European Directive 2004/108/EC) allows accumulating both the damages assessed on the loss of profits of the trade mark owner and the profits obtained by the infringer. Similar solutions seem to exist in the US and in Poland.

In contrast, the large majority of Groups reported that their national law prohibits such accumulation. This position was particularly expressed by the German and the British Groups, which emphasised that there is no opportunity for "double recovery" in respect of the same act of infringement. This issue will certainly need to be addressed by the Working Committee since the question as to whether a cumulative or alternative approach should be adopted in the assessment of damages is of high practical importance.

Additionally, in some countries, and under specific conditions, the amount of damages payable by the infringer may be enhanced depending on the specific intention of the infringer, for example, in the Philippines. Other countries, such as Singapore, apply a system of statutory damages which seem to cumulate with damages assessed on grounds of civil liability. This point should also be examined by the Working Committee, taking into account that the vast majority of countries oppose the idea of punitive damages (with the exception of the US).

### **3) Loss of Profits, Account of Profits and Reasonable Royalties**

Besides the main issue of the method of assessment, the working guidelines also addressed how the loss of profits, account of profits and reasonable royalties are applied in practice.

#### **Loss of profits and account of profits**

It appears that, if the assessment of the damages is based on the evaluation of the loss suffered by the trade mark owner, the national Groups take into consideration a broad range of factors, and those various factors (which may differ from country to country) are listed in the working guidelines.

Several Groups (for example, Egypt, Bulgaria, Denmark, France and the UK) outlined that the investment made by the trade mark owner to popularize the trade mark should be taken in consideration, even if it is difficult to assess. However, these Group reports also recognise that if this factor is taken into consideration in the evaluation of the damages, it is essentially done in an indirect way.

It also appears that price erosion of the trade mark owner's goods or services, and the effect that the infringement has on the profitability of the trade mark owner, is taken into consideration (as reported by the Belgium, Italian, Australian and Danish Groups in particular). However, the Group reports of Mexico, Czech Republic and Luxemburg, stated that these factors will not always be taken into consideration due to practical difficulties. In this context, it should be noted that some reports stressed that difficulties may arise in the definition of a "profit" or a "loss" from an accounting perspective. For example, the UK report explained that the profits taken into consideration are net profits. Conversely, the Norwegian report stated that gross margin averages are used for the basis of profits. The Japanese report also highlights this issue and expressed some doubts in its case law in the determination of "profit". Similar problems were expressed in the Bulgarian and Luxemburg reports.

Such differences in the determination of what is essentially a purely factual matter should be avoided. It would be desirable to have an opinion of the Working Committee on this precise point, since harmonisation is easily achievable here. Further, the Working Committee should also attempt to list the relevant economic factors which should be taken into consideration when making an assessment of damages.

Another aspect of loss of profits is the causal relationship between the loss sales of the trade mark owner or its licensee and the infringer's act. The Australian Group stated that the reduction in profitability of the trade mark holder must be the natural and direct result of the defendant's act of infringement, and that the matter of establishing causation and quantifying loss is done through producing evidence. Additionally, the Japanese Group stated that if the holder of an infringed trade mark proves the causal relationship between its lost sales and the infringer's act, and can prove the validity of its calculation of lost sales, the amount of damages may be calculated based on the lost sales. However, both reports (as well as the Mexican and Hungarian Group reports) noted that in practice, it is often difficult to prove such a causal relationship.

#### **Reasonable Royalties**

Similar problems also subsist in the evaluation of the royalties. Whilst some Groups (for example, the Korean, Japanese, Belgian and German Groups) observe that the royalties taken into consideration by the Courts are the royalties which are normally obtained during

the license negotiation, other Groups (e.g. France and the US) state that the infringer should not be put in the same position as a licensee who accepted the risk of a long and possibly unfruitful negotiation.

If reasonable royalties are deemed to serve as a useful basis in the assessment of the damages, the AIPPI should address if the royalty rate should correspond to what would normally be obtained through negotiations, or if the royalty rate should take into consideration the fact that the infringer did not attempt or successfully conclude negotiations.

#### **4) Obtaining Information for Assessments**

The Groups were also asked to give some information about the opportunities the trade mark owners have to obtain relevant information in the assessment of damages.

Some reports pointed out that trade mark owners have difficulties in obtaining adequate proof of the infringement act, which consequently creates difficulties for the trade mark owner in enforcing its rights. This difficulty was stressed specifically by the Japanese, South African and Turkish reports, which stated that one of the most serious problems is the improper or incomplete records kept by the infringer of its commercial and accounting activities.

Other reports, such as the Norwegian and UK Group reports, also highlighted the issue of confidentiality, particularly in the context of determining what the “loss” is to the trade mark owner. Some trade mark owners may be particularly sensitive about disclosing financial information which is essentially confidential in nature, and accordingly, this may have an impact on the assessment of damages.

It therefore seems that, once more, the situation varies from country to country. Despite this, it is generally agreed (for example by the Australian, Spanish and Swedish reports) that the trade mark owner should have an opportunity to obtain adequate and precise information about the scope of the infringement prior to, or at least during, the infringement proceedings.

In some countries, such as Germany and Norway, there seem to be limitations on the type of documents which may be obtained as evidence. In other countries, such as in the US, there is a procedure of discovery, which allows the trade mark holder to obtain all communication and documents linked to the alleged infringement. It should also be noted that the Chinese Group indicated that trade mark owners in China are not authorised to have access to operational information of the infringer. This type of evidence is retained by the Chinese Court, and the Court will then appoint an expert to assess the infringer’s profits.

The timing and need for this sort of information also varies in different jurisdictions. For example, in Denmark and in the UK, the assessment of damages is heard in separate proceedings to the liability proceedings, which only takes place once a judgment confirming liability of the infringer has been delivered.

Although the exact scope of the type of documents which ought to be disclosed by an infringer may not be consistent between the various Groups, it does seem possible to create a clear and uniform approach on the general issue of disclosing and obtaining information. In this context, the Working Committee should express its opinion on the timing of the disclosure of such documents. Further, the Committee should also address whether the assessment of damages should take place in separate proceedings, i.e. after the liability proceedings, as is the case in Denmark, Singapore and the UK, or alternatively, whether the assessment of damages should be heard jointly with the assessment of liability, as is the case for the majority of hearings in France.

#### **5) Judicial or Administrative Proceedings**

The Groups were also asked to summarise what information, in relation to the unlawful activities causing the violation of the trade mark, can be obtained by the trade mark owner in

administrative or judicial proceedings in order to assess the level of monetary compensation payable.

It seems that the majority of Groups feel that the evaluation of the damages is an inherently complicated process for a variety of reasons. One of the reported problems is that there is, in some cases, very little case law related to the evaluation of damages (for example, in Singapore, UK, Thailand, etc.).

Other Groups such as Brazil, Portugal and South Africa also reported that their trade mark law is silent on whether certain relevant factors can be taken into consideration in the assessment of damages. In some jurisdictions, the Courts appear to take a conservative approach and do not take into consideration specific economic aspects of the infringement which could otherwise be usefully considered in order to evaluate the prejudice suffered by the act of infringement.

As a result, it is difficult at this stage to present a full analysis of the practical remedies in terms of obtaining information in judicial or administrative proceedings. However, it appears that at the very least, there is some degree of motivation by the Courts and the judiciary which may help trade mark owners going forward, i.e. the willingness of the Courts to allow trade mark owners to obtain greater information should aid the assessment of damages in the future.

## **6) Additional Sanctions**

Another aspect of this study was to understand whether some additional sanctions, for example the confiscation of goods and other remedies, have an influence on the evaluation of the damages.

It appears that the majority of Groups (for example in Australia and South Africa) consider that the evaluation of the damages is considered independently from any supplementary sanctions.

However, the French Group reported that, if the goods presented under an infringing trade mark are confiscated, it may, in practice, have an impact on the evaluation of damages. It seems that whether or not confiscation in fact has an impact on damages depends on the aim of confiscation. If the confiscation is ordered to obtain the destruction of goods presented under the infringing trade mark, then there is no justification for this to have an impact on the evaluation of the damages. If, on the contrary, the confiscation is ordered to allow the trade mark owner to take economic advantage of the confiscated goods, it may have an impact on the evaluation of the damages.

On a superficial level, it appears that France has adopted a commonsense approach. However, the fact that damages may be affected by a confiscation order may create further difficulties which could otherwise be avoided. For example, the resale/disposal of the confiscated goods may, at some later stage, be difficult or impossible for the trade mark holder, causing the trade mark owner to not fully realise the profits it had hoped for during the infringement proceedings.

## **7) Harmonisation**

The majority of the Groups clearly reported a desire, at least on some level, for a harmonised approach to the assessment of the damages.

The Swiss Group highlighted that there is currently a lack of certainty, both for practitioners and trade mark owners, and that a number of practical difficulties exist in the assessment of the damages. This opinion appears to be shared by the large majority of the Groups, as evidenced by their reports. The Groups are, however, sceptical about the level of harmonisation which could be realistically achieved and some Groups like Portugal want to preserve some flexibility in this respect.

A useful illustration of the difficulty of harmonising the approach between countries is demonstrated by the reports of the Groups of the European Union, where there is a Directive on the enforcement of the IP rights, and which contains some provisions as to the assessment of damages. This Directive, which is fairly broad in its wording, appears to be interpreted slightly differently from country to country throughout the European Union.

However, the Groups encourage the research and progression of international harmonisation and hope that it will achieve, at the very least, some guidance on the assessment of damages for the violation of trade mark rights.

## **CONCLUSION**

Based on the Group reports, it seems that the Working Committee will have a significant task in examining a number of issues in which the majority of the Groups expressed some concerns. Such issues include:

- Various elements which should be taken into consideration in the assessment of damages for the violation of trade mark rights and specific examples, or a comprehensive list, could be provided by the Working Committee;
- As part of this list, or examples provided, there should be some assessment of whether the evaluation of damages should be affected by the intention of the infringer in cases of “bad faith” infringement (i.e. wilful or intentional infringement);
- Additionally, as part of this list or examples provided, there should be some consideration of which economic factors should be taken into account in the assessment of damages for the violation of trade mark rights;
- Consideration as to whether or not it is possible to cumulate the damages based on the loss of the trade mark owner or its licensee (loss of profits), the profit of the infringer (account of profits) and/or the reasonable royalty which should have been payable to the trade mark owner;
- Providing definitions or substantive guidance on the “loss” of the trade mark owner or its licensee, of the “profit” of the infringer and of the “reasonable royalty”;
- Consideration as to whether or not it is possible to cumulate the damages with other sanctions (for example, statutory damages and/or confiscation) and, more specifically, whether confiscation orders should affect the assessment of damages;
- Consideration as to whether or not it is possible to assess damages in the same hearing as the decision on the merits of the case (i.e. whether in fact there has been an infringement), or whether the hearing of the merits of the case and the hearing of the assessment of damages should be separate; and
- Additionally, in relation to infringement proceedings, the timing of the disclosure by the infringer of relevant information needed for the assessment of damages, and some consideration as to what the scope of the disclosure should be.