



## **WORKING GUIDELINES**

by Jochen E. BÜHLING, Reporter General  
Dariusz SZLEPER and Thierry CALAME, Deputy Reporters General  
Nicolai LINDGREEN, Nicola DAGG and Shoichi OKUYAMA  
Assistants to the Reporter General

### **Question 203**

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

##### **Introduction:**

The question of the appropriate compensation for acts of infringement of intellectual property rights has always been highly interesting both for IP right owners and their competitors as well as for the legal community, specifically lawyers and academics.

Due to the increased recognition of the marketing value of trademarks, resulting at least partially from the effects of the globalisation of the economy which gives the trademark owners, as well as their sometimes illicit competitors, new opportunities to exercise their activities, and from the fact that the legal doctrines analyse in a more precise way the different forms of prejudice suffered from trademark infringement, counterfeiting or piracy, the question of the trademark infringement in its different forms, and compensation for it, has become of high economic importance.

The legal and accounting approach to the evaluation of monetary compensation for trademark infringement must also be examined from the perspective of massive counterfeiting on a global scale popularly referred to as “piracy” which has appeared as a side effect of the liberalisation of trade and the removal of a number of customs barriers in the modern economy.

The issue therefore deserves serious study by AIPPI whose ambition as always is to work on topical and relevant questions for the IP community.

##### **Previous work of AIPPI:**

In its previous work, AIPPI has not specifically studied the question of monetary compensation for trademark infringement.

Some resolutions, like Q 134, successively adopted at Vienna EXCO in 1997 and the Rio Congress in 1998, which were devoted to the enforcement of the IP rights-TRIPS, examined the question of damages without, however, examining in detail the special problems raised by trademark infringement.

The resolution on question Q 186 discussed during the Berlin EXCO in 2005 dealt with the principle of punitive damages, it did not however analyse the question of the evaluation of the monetary compensation for trademark infringement.

Therefore, with these two studies of AIPPI as useful background (particularly the work accomplished by Q 134), a study of the evaluation of the damages for trademark infringement is particularly topical and timely.

### **Discussion:**

- Several theories can be invoked as part of the legal background to the evaluation of the damages (in the sense of all forms of monetary compensation) for IP right infringement:

- First of all, it is generally acknowledged that the infringement of IP rights should involve the liability of the infringer, at least on the same basis as provided for in civil liability for torts.

This involves, in general, an assessment of the amount of prejudice suffered by the victim of the infringement. The guiding principle is that the award of damages is compensatory. However, in some countries, it is acknowledged that the wilful character of the infringement may have an impact on the evaluation of the damages since some countries permit punitive damages.

- It is also argued that intellectual property rights are essentially property rights and therefore any attempt to infringe those rights justifies an allocation of damages even if there is no direct damage suffered by the IP right owners.

On this basis, it is possible, in some countries, to claim that the profit or a share of the profits made by the infringement as well as to take into account the impact of the commercial activities of the infringer on the infringed IP right.

These theories have been applied to different IP rights and it is recognised that, in the case of the infringement of an IP right protecting an intellectual creation like an invention, a design or an artistic or musical creation, the theories could be practically and efficiently applied in the assessment of the damages, albeit that it has also to be recognized that no universal system is currently used across the world.

- The evaluation of the damages for infringement is however more complex in case of trademarks and other distinctive signs.

Unlike patents, copyrights or designs, whose object is to protect in general a product (or process), its technical or aesthetic features, the legal protection of a trademark which may have multiple functions ( i.e. to allow a consumer to distinguish between goods or services, to indicate the origin of goods or service etc), is limited to an exclusive right in the sign, and does not provide a monopoly for the goods or services which are specified in the trademark application.

In essence, a trademark conveys information to a customer or consumer.

The value of the trademark is fundamentally the one acquired through its use and the investment necessary to popularise it with the public in order to exercise this informational function.

It may be argued that, in evaluating compensation for the trademark owner, the informational function which is taken into account in assessing the value of the trademark and the profitability of the proprietor should be considered and as a consequence the effect that the infringing activity has had on that profitability of the trademark owner should be examined.

In principle, in case of the trademark infringement, a trade mark proprietor has at least three things to be concerned about, being: (a) lost sales, (b) dilution of the trademark and (c) price erosion.

This leads, however, to ongoing practical questions which are not easy to resolve despite the means of disclosure offered by certain contemporary legal systems.

Many different factors may contribute to the choice of the consumer buying a product or a service presented by reference to the infringing sign.

Only in the case of famous trademarks (which are the ones particularly impacted by piracy), does it seem that there is a very clear link between the product/service and the trademark used to designate it, which may then allow the application of the same theories of evaluation of damages as those used in patents, designs or copyrights.

But for other trademark infringement situations, the evaluation of damages appears to be more complex.

The parallel import of goods which were put on the market in another country with the consent of the trademark owner and then transferred without its authorisation to other countries may also constitute an act of infringement.

The question is therefore whether those different forms of infringement have an impact on the evaluation of damages.

It is therefore particularly important for AIPPI, both because of the complexity of the question and its economic importance, to study the issue of damages for trademark infringement for the Boston congress which will take place in September 2008.

- For the needs of the present study it is proposed to use the following definitions:

-“*Infringement*” is a violation of the trademark right specifically by the way of imitation or non authorised parallel import of goods,

“*Counterfeiting*” is copying with intent to deceive; “counterfeit” in relation to goods means not genuine or authentic,

“*Piracy*” traditionally referred to acts of robbery and violence on the high seas, this term is also used in relation to acts which resemble this traditional meaning of piracy, especially an unauthorized appropriation, and reproduction on a massive scale of another’s goods or services.

The present working guidelines are divided in two parts: the first part is devoted to the analysis of the current situation in the AIPPI countries and the second part consists of research into solutions for future harmonisation.

It is also noted that issues of criminal provisions and sanctions relating to trademark infringement which were treated on the occasion of the 2002 EXCO in Lisbon as well as the question of the punitive damages treated by AIPPI in Berlin at the 2005 EXCO, are outside the scope of this Question.

Compensation for acts of unfair competition or passing off is also excluded.

## **I - The state of the substantive law in the countries**

**1)** The Groups are invited to indicate, in summary form, if their national law distinguishes between different kinds of infringement, counterfeiting and piracy of trademarks and what the conditions are for liability for those different kinds of infringement, counterfeiting and piracy.

The Groups are also invited to indicate if these various forms of the violation of trademark rights have an impact on the monetary compensation to be provided to the trademark owner.

**2)** The Groups are asked to present in a summarised form the legal theories in their respective jurisdictions for the assessment of damages for the violation of trademark rights.

Is this assessment based on the ground of civil liability or on the ground of violation of property ownership or some other ground(s)?

**3)** The Groups are asked to indicate what factors are taken into account in the assessment of damages and how the value of the trademark is used in this assessment.

- a) Do the Courts take into consideration how strong the trademark is, both in terms of its inherent distinctiveness and popularity acquired through use and publicity?
- b) Do the Courts take into consideration the investment made by the trademark owner in order to make the trade mark known?
- c) Do the Courts consider what direct effect the infringing activity has had on the trademark proprietors profitability? If so, how?
- d) Do the Courts take into account price erosion? If so, how?
- e) Do the Courts distinguish between actual lost sales ( i.e; the sales which would otherwise have been made by the trademark owner) and all sales made by the infringer? If so, which sales matter?
- f) Do the Courts treat parallel imports differently ? If so, what is the legal basis for this differentiation ?

**4)** In case the compensation is evaluated on the basis of lost profits of the trademark owner or an account of the profits arising from infringement:

- (a) What are the key principles?
- (b) How are the profits defined and how are they calculated?

- (c) What shares of the profits are attributed to the trademark owner and any licensees?
- (d) Does the strength of the trademark come into play in apportioning the profits?

**5)** In case the monetary compensation is assessed on basis of a royalty,

- (a) How is the royalty rate fixed?
- (b) Do the Courts consider whether the mark in question is one which is or was available for licence? If so, how does this affect their analysis?

**6)** The Groups are asked to summarise what information in relation to the unlawful activities causing the violation of the trademark can be obtained by the trademark owner in administrative or judicial proceedings in order to assess the level of monetary compensation.

**7)** One of the forms of the prejudice suffered by the trademark owner through the infringement is the damage to the trademark in a reputational sense (diluting exclusivity). The Groups are invited to report if this form of prejudice is considered by the Courts and what are the factors that are used in their evaluation?

**8)** The groups are also asked to indicate if the moral/wilful element of the violation of a trademark right, and particularly the will to profit or gain from counterfeit activities (where the goods do not originate from the trademark proprietor or are not marked with his consent) is taken into consideration in the evaluation of the damages and/or the account of profits. If so, what are the consequences?

The groups are also asked to indicate if ignorance of the trademark and/or ignorance of the infringement is taken into consideration in the evaluation of damages or the account of the profits.

Finally, is the scale of the counterfeiting or piracy an additional element which influences the assessment of damages and/or account of the profits? If so, what are the consequences?

**9)** Is the evaluation of damages based on the same principles in cases where the infringement also constitutes a violation of a contractual obligation, for example, a violation of a licence?

**10)** The Groups are also invited to explain the problems and practical difficulties that the trademark owners face in the assessment of the damages and/or account of the profits for the violation of trademark rights?

**11)** In some cases the national law may provide, as a remedy for the violation of the trademark right, for the confiscation of the products bearing the illicit sign.

If this applies in their national law, the Groups are asked to indicate, if this confiscation influences the evaluation of the damages.

**12)** The Groups are asked to indicate if the jurisprudence in their countries is a useful source of information and comparison on the assessment of monetary compensation for the violation of the trademark rights.

In this context, the Groups are invited to indicate if they are satisfied with the degree of certainty in their laws on evaluation of the compensation.

**13)** The Groups are finally asked to explain any other issues related to the topic which would appear useful in the examination of the question.

**II - Proposals for the future harmonization:**

**1)** The Groups are requested to indicate if the evaluation of damages for violation of the trademark rights should be the subject of the international harmonisation and if this harmonisation should be undertaken through an international treaty.

**2)** The Groups are requested to indicate what should be, based on their national experience, the harmonised system for the evaluation of damages for violation of the trademark rights.

**3)** The Groups are invited to make any other suggestions about possible future developments of the present question.