

## **Report Q203**

in the name of the Australian Group  
by Grant FISHER, Duncan LONGSTAFF and Mary PADBURY

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

#### **Questions**

##### **1) 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.*

While the *Trade Marks Act 1995* (Cth) (**Act**) provides significant detail regarding when certain conduct does or does not constitute infringement, in essence all infringements fall within the scope of s 120.<sup>1</sup>

Consequently, all acts of trade mark infringement are subject to the same conditions of liability, i.e. those of s 120, which are:

- i) the alleged infringer must use the mark or sign as a trade mark;
- ii) the mark or sign so used must be substantially identical with, or deceptively similar to, the registered trade mark; and
- iii) the use is likely to deceive or cause confusion, taking account of any evidence produced by the defendant to counter this assumption.

Acts of counterfeiting and piracy will therefore be regulated by the Act to the extent that they contravene s 120, noting that such acts may also give rise to concurrent liabilities in relation to passing off, breach of trade practices laws, and the infringement of copyright, design and/or patent rights.

By their nature, counterfeit marks will typically meet the 'substantially identical' threshold, or will most likely otherwise be 'deceptively similar'. It is also likely that counterfeit goods will infringe copyright (where it subsists in relation to those goods) or, if registered, the rights in a design or patent.

Similarly, piracy is likely to infringe rights under trade mark, copyright and (if registered) design and patent law. However, difficulties often arise in establishing that piracy of a mark appropriated from overseas and registered in Australia by a third party amounts to trade mark infringement, due to lack of prior use in Australia. This is partially addressed by s 60 of

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<sup>1</sup> A possible exception is the regime regulating false trade descriptions provided by the Commerce (Trade Descriptions) Act 1905 (Cth) under which an importer will be liable for prosecution if found to have imported goods bearing a falsely applied trade mark. However, these provisions overlap significantly (if not entirely) with Parts 13 and 14 of the Trade Marks Act 1995 (Cth), and also the Trade Practices Act 1974 (Cth), causing debate as to whether they are in fact necessary at all: The Allen Consulting Group, *The Commerce (Trade Descriptions) Act: A Supporting Analysis for the National Competition Principles Review*, p16.

the Act, which provides some protection for the owners of marks which have not been used in Australia but which have acquired a reputation in Australia, but this will still be an evidentiary burden for the trade mark owner to discharge.

*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.*

As above – this will depend on the concurrent liabilities arising from the infringing act (e.g. trade practices, passing off, copyright, design, patent etc). Those which are designed to compensate the trade mark owner for loss will inevitably cancel one another out, whereas some bases of relief may operate independently of any other compensation the trade mark owner is likely to receive from other causes of action.

- 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.*

Damages for trade mark infringement in Australia are compensatory,<sup>2</sup> rather than punitive. Remedial damages are directed towards putting a trade mark owner back in the position he or she would have been but for the infringing act(s).

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

It appears that the theory underlying the assessment of damages for trade mark infringement in Australia is based primarily on principles of civil liability, in particular torts at common law, but also borrows some aspects of relief for incursions on property ownership.

The predominance of civil liability theory in assessing damages is evident from the focus on prejudices to the trade mark owner arising from infringing activities, in that demonstrating loss or damage is a requisite element in bringing a case for trade mark infringement. This is underlined by the fact that a court will only award nominal damages unless evidence of actual loss can be produced by a trade mark owner as a basis for general damages.

By contrast, the unavailability of additional damages, whether punitive or exemplary, tends to suggest that in Australia, violation of property ownership is not a ground of assessment of damages for trade mark infringement. This general position is qualified by the availability of an account of profits for trade mark infringement, which is an equitable remedy which seeks to give the trade mark owner so much of any profit made by an infringing party, which is attributable to the wrongful use of the mark.

- 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.*

The fundamental objective underlying the assessment of damages for trade mark infringement is to compensate the trade mark owner for all damage which, in the circumstances, has been suffered by reason of the infringing act.<sup>3</sup> Determining the basis upon which loss should be measured is predominantly a question of fact and causation to be resolved by reference to evidence, rather than presumptions or prima facie assumptions.<sup>4</sup>

The plaintiff trade mark owner is entitled to damages from the defendant equal to the loss which is actually suffered by the plaintiff trade mark owner which is the natural and direct consequence of the defendant placing its infringing product on the market in competition with the plaintiff trade mark owner.<sup>5</sup> The onus of proving such a loss rests with the plaintiff trade

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<sup>2</sup> Paramount Pictures Corporations v Hasluck (2007) AIPC 92.235, [2006] FCA 1431.

<sup>3</sup> Draper v Trist & Trisbestos Brake Linings Ltd (1939) 56 RPC 429.

<sup>4</sup> C Products Ltd v Dalton [1957] RPC 199 at 202.

<sup>5</sup> A G Spalding & Bros v A W Gammage Ltd (No 2) (1918) 35 RPC 101; Alexander & Co v Henry & Co (1895) 12 RPC 360 (Ch), Kekewich J at 367.

mark owner. In practice, the loss suffered by the plaintiff trade mark owner may equal the value of all of the sales made by the defendant, although this would be rare as the court is not entitled to assume that every one of those sales would have been obtained by the plaintiff trade mark owner.<sup>6</sup>

Determining the extent of the plaintiff trade mark owner's loss may be difficult, but is not of itself a reason for refusing damages.<sup>7</sup> Where the plaintiff trade mark owner has suffered no actual loss, he or she is entitled to at least nominal damages in recognition of the infringement to the plaintiff trade mark owner's rights.<sup>8</sup> An additional remedy to damages, which is particularly important where damage is difficult to quantify, is for the court to order a permanent injunction prohibiting the infringer from engaging in the infringing conduct.

- 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?*

If infringement of a trade mark is established, the Courts must then assess the owner's entitlement to remedies according to the usual principles. The distinctiveness or popularity of a mark does not have a special role in the assessment of damages or the tracing of an account of profits. Similarly, there is no specific compensation available under Australian law for damage caused to a trade mark owner's reputation, or for dilution or tarnishment of a trade mark.

- b) *Do the Courts take into consideration the investment made by the trademark owner in order to make the trade mark known?*

No.

- c) *Do the Courts consider what direct effect the infringing activity has had on the trademark proprietors profitability? If so, how?*

A defendant will not be liable for damages if it is shown that a reduction of the price of the plaintiff trade mark owner's goods is not the natural and direct result of the defendant's act of infringement.<sup>9</sup> This is a matter of establishing causation and also quantifying the loss, which will likely require a significant amount of evidence.

- d) *Do the Courts take into account price erosion? If so, how?*

A defendant will not be liable for damages if it is shown that a reduction of the price of the plaintiff trade mark owner's goods is not the natural and direct result of the defendant's act of infringement.<sup>10</sup> This is a matter of establishing causation and also quantifying the loss, which will likely require a significant amount of evidence.

- 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?*

The basis for awarding damages is to compensate the trade mark owner for all losses fairly attributable to the infringement. What is 'fair' compensation in a given case will depend on the nature and scale of the infringing act(s), and will inevitably be influenced by the context and outcome of the proceedings – e.g. whether the court has also imposed a permanent injunction, criminal sanctions or some other penalty on the defendant which might in some way offset damages (which could be difficult to quantify).

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<sup>6</sup> Draper v Trist and Tristbestos Brake Linings, Ld [1939] 56 RPC 429.

<sup>7</sup> Enzed Holdings Ltd v Wynthea Pty Ltd (1984) 57 ALR 167.

<sup>8</sup> The Sanitas Co Ltd v Condy (1887) 4 RPC 530 at 533 ; Munday v Carey (1905) 22 RPC 273 at 276.

<sup>9</sup> United Horse-Show & Nail Co Ltd v Stewart & Co (1888) 13 AC 401.

<sup>10</sup> United Horse-Show & Nail Co Ltd v Stewart & Co (1888) 13 AC 401.

Evidence of actual lost sales, in terms of those which would otherwise have been made by the trade mark owner, will be relevant where the trade mark owner elects relief by way of compensatory damages. However, there are significant evidentiary difficulties in demonstrating that a sale would have been made by the trade mark owner *but for* the infringing conduct (as discussed above in the preceding parts of this question). Where the trade mark owner has suffered no actual loss, or the loss cannot be quantified based on the evidence available, he or she is entitled to at least nominal damages in recognition of the infringed rights.<sup>11</sup>

Evidence of sales made by the infringer will be particularly important where the trade mark owner elects relief by way of an account of profits. The profits for which the defendant must account will relate to actual lost sales wherever possible. However, this approach requires evidence capable of distinguishing infringing goods amidst all goods sold by the defendant, together with sufficient details of the landed cost, sale price, number of items sold and any other information relevant to calculating the profits realised from infringing goods.<sup>12</sup>

- f) *Do the Courts treat parallel imports differently? If so, what is the legal basis for this differentiation?*

In Australia, courts (and the government) have generally rejected the use of trade mark law as a vehicle for preventing parallel imports of genuine goods. This position is based upon a rejection of the “territorial approach” to parallel imports, which recognises a separate legal existence of a trade mark in each jurisdiction where it is registered or otherwise recognised. Instead, Australian courts have favoured the “principle of universality”,<sup>13</sup> which prescribes that parallel importing does not constitute trade mark infringement because:

- i) the trade mark originally applied by the trade mark owner correctly identifies the trade origin or source of goods, wherever they are sold throughout the world; and
- ii) a trade mark owner’s rights are exhausted after the first legitimate sale of the product anywhere in the world.<sup>14</sup>

Parallel importing may, however, amount to trade mark infringement where the trade mark has not been applied by the trade mark owner, particularly where the trade mark owner has taken steps to dissociate itself from a product it has manufactured.<sup>15</sup> In such instances, the identities of, and the relationship between, the overseas and Australian registered owners may be important in determining whether a registered owner has consented to the application of the trade mark to particular goods.

- 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?*

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<sup>11</sup> The Sanitas Co Ltd v Condy (1887) 4 RPC 530 at 533 ; Munday v Carey (1905) 22 RPC 273 at 276.

<sup>12</sup> Colbeam Palmer Ltd v Stock Affiliates Pty Ltd (1968) 122 CLR 25.

<sup>13</sup> Transport Tyre Sales Pty Ltd v Montana Tyres Rims and Tubes Pty Ltd (1999) 43 IPR 481.

<sup>14</sup> One practical exception to this “doctrine of exhaustion” is cases where the imported product, as manufactured by the foreign trade mark owner, is of such inferior quality that its sale in Australia is likely to harm the goodwill of the Australian trade mark owner. However, such actions are brought under the guise of common law passing off or misleading and deceptive under the Trade Practices Act 1974 (Cth), rather than under trade mark law: Colgate-Palmolive Ltd v Markwell Finance Ltd [1988] RPC 283; Fender Australia Pty Ltd v Bev (t/as Guitar Crazy) (1989) 25 FCR 161.

<sup>15</sup> Brother Industries Ltd and Another v Dymanic Supplies Pty Ltd [2007] FCA 1490.

An account of profits is an *alternative* remedy to damages. The plaintiff trade mark owner will typically elect its preferred remedy once liability of the infringer is established and discovery as to sales and other financial information of the infringer has been given.

The trade mark owner can claim:

- i) lost profit on sales by the defendant he or she would have otherwise made;
- ii) lost profit on his own sales to the extent that he or she was forced, by his infringement, to reduce his own price; and
- iii) a reasonable royalty on sales by the defendant which he or she would not have made.

Another important principle is that those remedies are alternative and not cumulative.<sup>16</sup>

b) *How are the profits defined and how are they calculated?*

The basic framework a court uses to calculate profits the infringer has made through infringement of a trade mark is to ascertain the difference between the sums received by the defendant which are referable to infringing goods or services and the landed cost of such goods to the defendant.<sup>17</sup> These landed costs have been held to include fixed overhead costs which are attributable to the manufacture and sale of the infringing product, taking into consideration the effect of the infringing activity in increasing or reducing overhead costs and whether such costs would have been incurred in any event.<sup>18</sup>

The approach taken to calculating profits will depend largely upon the available evidence. A court will often calculate the profits a defendant has made from their infringing activity by determining the proportion and value of sales attributable to infringing sales and the relevant period of time throughout which infringement occurred.<sup>19</sup> An alternative approach sometimes taken is to refer to the proportion of defendant's customers that have been confused.<sup>20</sup> Calculation of profits also includes various adjustments, for example, adjustments will be made for the contribution to the goods or services which are attributable to the skills or the expertise of the defendant rather than the infringing use of the trade mark. The court will also take into account the devaluation of the product by the behaviour of the offender.<sup>21</sup>

In practice, all of the above mean that the court will not always be entitled to conclude that every sale would have been obtained by the plaintiff trade mark owner.<sup>22</sup> As such, courts sometimes opt for a rough estimation of the infringer's profits and in doing so make references to the notion of "liberal approach", which is readily accepted as the suitable approach of assessment of profits in trade mark cases.<sup>23</sup>

c) *What shares of the profits are attributed to the trademark owner and any licensees?*

Australian trade mark law does not provide for the apportionment of the profits made by the defendant as between a trade mark owner and a licensee, notwithstanding that each may suffer loss as a result of infringing activity.

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<sup>16</sup> Colbeam Palmer Ltd v Stock Affiliates Pty Ltd (1968) 122 CLR 25 at 32.

<sup>17</sup> Colbeam Palmer Ltd v Stock Affiliates Pty Ltd (1968) 122 CLR 25.

<sup>18</sup> Dart Industries Inc v Decor Corporation Pty Ltd (1993) 26 IPR 193 at 200.

<sup>19</sup> My Kinda Town Ltd v Soll [1982] FSR 147 at 157.

<sup>20</sup> Kitchin D, Llewelyn D, Mellor J, Meade R, Moody-Stuart T, Keeling D, Jacob R. Kerly's Law of Trade Marks and Trade Names (London, Sweet & Maxwell, 2001) pp 18-46.

<sup>21</sup> Adidas Salomon-AG v Turner [2003] 58 IPR 68.

<sup>22</sup> AG Spalding & Bros v AW Gamage Ltd [1915] 32 RPC 273.

<sup>23</sup> General Tire & Rubber Co v Firestone Tyre and Rubber Co Ltd [1976] RPC 197 at 212 (per Lord Wilberforce) – quoted by French J in Paramount Pictures Corporations v Hasluck (2007) AIPC 92.235 at 42.

Each party will need to pursue its own cause of action, which for a trade mark owner will mean simply taking action directly against the infringer. The existence of a licensee may complicate the issue of proving a trade mark owner's loss. On one hand, it may reduce the damages available to a trade mark owner because it is not the sole exploiter of the mark, particularly where the licensee pays an up-front licence fee. On the other hand, it may bolster an award of damages on the basis that infringement also impacts upon the sales of the licensee, with the result that the trade mark owner receives reduced royalties (where such arrangements are in place).

In the case of a licensee, obtaining relief could also involve suing the infringer directly, however a licensee may encounter added difficulties in establishing loss in situations where it is not the exclusive licensee of the trade mark. An alternative approach may be for a licensee to seek contribution from the trade mark owner under the licence agreement, however this will require the agreement to have made provision for such circumstances. Another difficulty of this latter approach is that the losses of licensees may not have been factored into the quantum awarded to the trade mark owner in the principal infringement proceedings, in which case any apportionment will result in the trade mark owner being left with less than adequate compensation.

d) *Does the strength of the trademark come into play in apportioning the profits?*

The strength of an infringed trade mark may come into play in assessing the profits which are attributable to the infringing activity as opposed to the skill and expertise of the infringer. The stronger the reputation of the trade mark, the greater the apportionment of profit to the plaintiff trade mark owner. In some cases there will be no apportionment to the defendant infringer because the court determines that all sales are attributable to the use of the infringing use of the trade mark.<sup>24</sup>

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

a) *How is the royalty rate fixed?*

A notional royalty award is, in theory at least, a restitutionary remedy. The objective underlying the granting of that remedy is to reverse a benefit or gain unjustly obtained from a plaintiff trade mark owner.<sup>25</sup>

In order to fix the rate of a notional royalty to compensate a trade mark owner for infringing use, the court requires evidence of the licence fees or royalties the trade mark owner charged in relation to the relevant goods and or services at the time of infringement.<sup>26</sup> A court must be satisfied that any royalty it fixes represents a 'true bargain', being that sum which would be agreed between a willing licensor and a willing licensee in a hypothetical arms length negotiation.<sup>27</sup>

Importantly, the plaintiff trade mark owner bears the onus of adducing sufficient evidence to inform the court in fixing a notional royalty. The court will be reluctant to speculate upon, or guess at, the royalty or licence fees the defendant infringer would have been charged, and will award only nominal damages if insufficient evidence is adduced by the plaintiff trade mark owner.<sup>28</sup>

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<sup>24</sup> Lever v Goodwin (1887) 4 RPC 492.

<sup>25</sup> Miller D. "Restitutionary and Exemplary Damages for Copyright Infringement." (1996) 14 Australian Bar Review 143.

<sup>26</sup> Nominet UK v Diverse Internet Pty Ltd (No 2) (2005) 68 IPR 131; LED Builders Pty Ltd v Eagle Homes Pty Ltd (1999) 44 IPR 24.

<sup>27</sup> Paramount Pictures Corporations v Hasluck (2007) AIPC 92.235, [2006] FCA 1431.

<sup>28</sup> Paramount Pictures Corporations v Hasluck (2007) AIPC 92.235, [2006] FCA 1431.

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?*

A notional royalty or license fee may be an appropriate measure of loss if there is sufficient evidence on which to base a calculation, but not where there is evidence or a plain inference that the trade mark owner would not have granted a licence. In these situations, courts will consider it inappropriate to speculate on what royalty might have been forgone,<sup>29</sup> as this would be "...very like Lord Bowen's illustration of a blind man looking for a black hat in a dark room".<sup>30</sup>

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.*

- **Discovery**

As part of judicial proceedings for trade mark infringement, a plaintiff trade mark owner can obtain an order that the alleged infringer discover to the court all documents relevant to the alleged infringing activity. The governing principles are the same as for discovery in any other judicial proceedings in the relevant court,<sup>31</sup> encompassing processes by which parties disclose relevant documents to their opponents and, subject to privilege, make those documents available for inspection.<sup>32</sup> These processes are variously regulated by provisions of the *Evidence Act 1958* (Cth) (and its State equivalents), the rules of the relevant court and principles of common law.

- **Anton Piller Orders**

An 'Anton Piller' order permits a plaintiff trade mark owner's legal advisers to enter the defendant's premises in order to search for and remove infringing goods and documents evidencing infringement.<sup>33</sup> An Anton Piller order has the advantages of giving the plaintiff trade mark owner a means to effect both an injunction restraining the defendant from destroying or removing the infringing goods and documentation until the trial and also to compel the defendant to discover the sources and customers of the goods.

- **Seizure of goods by the Customs CEO**

A trade mark owner can benefit from the seizure powers of the Customs CEO under s 133 of the Act (discussed below at question 11) by obtaining information regarding the identity and location of the importer or consignor of the goods. Section 143 of the Act gives the Customs CEO sufficient power to require information from an importer regarding the consignor and consignee of the infringing goods (whereas, under the *Customs Act 1901* (Cth), the only information which can be released to the trade mark owner is the name and address of the owner of the seized goods, and the quantity and description of the seized goods). In this way, the seizure provisions of the Act enable a trade mark owner to access a more effective remedy through proceedings against a consignor and/or consignee of infringing goods. This only applies to goods imported into Australia, and so does not provide any advantages in relation to infringing goods manufactured within Australia.

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<sup>29</sup> *Paramount Pictures Corporation v Hasluck* (2006) 70 IPR 293; cf *Microsoft Corporation v Ezy Loans Pty Limited* (2005) 63 IPR 54 at [88].

<sup>30</sup> *Mills v Stanway Coaches Ltd* [1940] 2 KB 334 at 349 (Goddard J) [cited by Windeyer J in *Australian Iron and Steel Ltd v Greenwood* (1962) 107 CLR 308 at 326].

<sup>31</sup> Usually the Federal Court of Australia for intellectual property matters, but courts in other jurisdictions (such as the State Supreme Courts) may also have jurisdiction in matters where common law passing off, statutory misleading and deceptive conduct or some other cause of action is pleaded in addition or instead of trade mark infringement.

<sup>32</sup> Colbran S, Reinhardt G, Spender P, Jackson S, Douglas R. *Civil Procedure: Commentary and Materials* (2<sup>nd</sup> Ed.), (Butterworths Australia, 2002), p 531.

<sup>33</sup> *Anton Piller KG v Manufacturing Processes Ltd* [1976] Ch 55; RPC 719.

- 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?*

Where plaintiff trade mark owner claims damage to his or her reputation and goodwill, the defendants will not be liable for general damages for loss unless the plaintiff trade mark owner can provide direct evidence going to that loss.<sup>34</sup> In some cases, a plaintiff trade mark owner might claim damages as a result of being forced to reduce the price of their goods in order to compete with the defendant's goods. In such instances, the plaintiff trade mark owner will be unable to claim damages unless he or she can show that the reduction of the price of the plaintiff trade mark owner's goods is a direct result of the defendants' act of infringement.<sup>35</sup> Generally, however, Australian law does not provide for compensation to specifically redress damage to a trade mark owner's reputation or by way of dilution or tarnishment of a trade mark.

- 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?*

In Australia, the award of damages for trade mark infringement is purely compensatory. Punitive damages are not usually awarded.<sup>36</sup> Exemplary damages are unusual,<sup>37</sup> and therefore such damages are typically only available when a statute specifically provides for them, as in, for example, the *Copyright Act 1968* (Cth) section 115,<sup>38</sup> which accommodates an award of "additional damages" by the court.<sup>39</sup> Section 126 of the *Trade Marks Act 1995* (Cth) does not provide for such "additional damages" among the remedies available for trade mark infringement, and so the only damages a trade mark owner may receive to punish an infringer's moral/wilful wrong are punitive/exemplary damages in related actions for passing-off. This strict statutory interpretation explains the current proposition that a wrongdoing in itself is not enough to attract damages: "It is not enough for a plaintiff [trade mark owner] merely to show wrongful conduct by the defendant [it must also show loss]".<sup>40</sup>

If the wilful element of the violation of the trade mark is theoretically irrelevant in evaluating damages to be awarded, in practice the court has a wide discretion in the framing of orders such as delivery up, orders for costs, injunctions and account of profits. The accumulation of the four possible orders are strong evidence that the proceedings are serving a purpose beyond recovery of damages from the individual counterfeiter, although the law nevertheless prohibits penalising immoral conduct or "flagrant" infringement (as it is described in the copyright context) as a basis for trade mark damages.<sup>41</sup>

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<sup>34</sup> *Winning Appliances Pty Ltd v Dean Appliances Pty Ltd* (1995) 32 IPR 65.

<sup>35</sup> *United Horse-Shoe & Nail Co Ltd v Stewart & Co* (1888) 13 AC 401.

<sup>36</sup> *Paramount Pictures Corporations v Hasluck* (2007) AIPC 92.235, [2006] FCA 1431.

<sup>37</sup> *Paramount Pictures Corporations v Hasluck* (2007) AIPC 92.235, [2006] FCA 1431.

<sup>38</sup> Section 115, *Copyright Act 1968* (Cth).

<sup>39</sup> However, we note that the *Patents Act 1990* (Cth) has recently been amended to include s 122(1A), which mirrors the *Copyright Act 1968* (Cth) s 115 by providing for additional damages to be awarded for flagrant infringements. This may signal a general legislative trend towards punishing flagrant infringements of intellectual property rights, in which case provision may also be made for the award of additional damages for flagrant infringements of trade marks registered in Australia.

<sup>40</sup> *Enzed Holdings Ltd v Wynthea Pty Ltd* (1984) 57 ALR 167.

<sup>41</sup> *Trade Mark and Counterfeit Litigation in Australia*; Jason Bosland, Kimberlee Weatherall and Paul Jensen, IPRIA.



*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.*

This area of the law is unsettled in Australia,<sup>42</sup> as some cases seem to indicate that infringement without knowledge gives no right to compensatory damages and that only nominal damages and orders for costs can be awarded.<sup>43</sup> This view is supported by leading commentators.<sup>44</sup> However, others hold the view that damages may be awarded even where a defendant has acted innocently,<sup>45</sup> and courts have acknowledged the unsettled nature of the law in this field.<sup>46 47</sup>

*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?*

The scale of the counterfeiting, piracy or any act amounting to trade mark infringement will come into play in any assessment of damages, as it will support the trade mark owner's contentions regarding the number/proportion of customers who have been confused,<sup>48</sup> the magnitude of profits made by the infringer and the extent of opportunities lost to the trade mark owner.

- 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?*

As discussed above, the fundamental objective underlying assessment of damages for trade mark infringement is to compensate the trade mark owner for all damage which, in the circumstances, can be attributed to the infringing act. In light of this, where a plaintiff trade mark owner is adequately compensated through a contractual remedy (eg violation of license), it is unlikely that a Court will see the need to further compensate that plaintiff trade mark owner through an award of general damages for trade mark infringement. Trade mark infringement and breach of contract are separate causes of action. As a practical matter, the one affording the best remedy to the trade mark owner would be pursued, although they are likely to be pleaded in the alternative. Nonetheless, the Court won't allow double recovery for the same wrong.

- 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?*

The plaintiff trade mark owner carries the onus of proving that he or she has suffered loss by reason of the defendant's infringing acts. There must be evidence of both the fact of damage and the amount of damage.<sup>49</sup> That can be a difficulty in itself, because relevant evidence of the infringer's profit might be inaccessible to the plaintiff trade mark owner: the infringer might be recalcitrant or the records of the allegedly infringing dealings inadequate. Orders for discovery in trade mark infringement proceedings provide a court-enforceable mechanism for obtaining an infringer's documentary records, but even these carry the risk that not all information will be adduced, or that it will be hidden amongst a frustrating volume of discovered material.

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<sup>42</sup> Kelbrick R. Damages against the Innocent Infinger [1996] 4 EIPR 211.

<sup>43</sup> Slazenger v AG Spalding Bros (1910) 27 RPC 20.

<sup>44</sup> Ricketson S. The Law of Intellectual Property, 1984, at 721.

<sup>45</sup> Shanahan D R. Australian Law of Trade Marks and Passing Off, 1990 (2nd Ed.), p 359.

<sup>46</sup> Colbeam Palmer Ltd v Stock Affiliates Pty Ltd (1968) 122 CLR 25.

<sup>47</sup> Again, as a comparative example, the Patents Act 1990 (Cth) and Designs Act 2003 (Cth) contain provisions for innocent infringement: ss 123 and 75(2)(a)(i), respectively.

<sup>48</sup> Paramount Pictures Corporations v Hasluck (2007) AIPC 92-235, 46.

<sup>49</sup> JLW (Vic) Pty Ltd v Tsiloglou [1994] 1 VR 237.

Proving the amount of damage sustained may be difficult for the plaintiff trade mark owner to prove as the court will not infer that every infringing sale of the defendant's goods would have gone to the plaintiff trade mark owner. In this regard, the court will not assume that a consumer of the defendant's infringing goods would have purchased the plaintiff trade mark owner's legitimate, but possibly more expensive, goods.<sup>50</sup> It is also not valid to assess the extent of the plaintiff trade mark owner's loss by evidence of a reduction in the plaintiff trade mark owner's sales and a corresponding rise in sales of the defendant's goods. A drop in sales may merely be indicative, although not decisive, of the plaintiff trade mark owner's loss.

Another difficulty is in the possibility of forecasting consumer behaviour. The obtention of a sale by the infringer does not necessarily mean that the sale would have been obtained by the trade mark owner, the price difference, along with other market variables, might indeed account for the sale.<sup>51</sup>

The notion of dilution or tarnishment of the trade mark, or devaluation of the goods to which it is applied, is also an issue for trade mark owners. As discussed above, Australian law does not take into account any dilution, tarnishment, price erosion or similar reputational impacts of trade mark infringement in the assessment of damages, and this may owe something to the difficulty of correlating infringing activities with any effects on a trade mark owner's profits.<sup>52</sup>

The court's delineation of customers of the defendant's infringing goods who were misled, from those who were not, has added complexity to proving the plaintiff trade mark owner's cases, as compensation is available for the latter but not the former.<sup>53</sup>

In light of such difficulty, it is widely recognised by Australian courts that "guesswork" and "speculation" will be used in the course of damages assessment. This of course leads to a high level of uncertainty for the trade mark owner. It has, however, been accepted that where precise evidence is not available the court must do the best it can.<sup>54</sup>

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.*

Trade mark rights only confer ownership of the mark and its use as a trade mark, and not the underlying goods or services. Therefore, while goods may be seized or confiscated in order to facilitate or rectify (in a practical sense) an action for trade mark infringement – for example, to rectify an infringement, prevent further infringement or to provide evidence – the trade mark owner does not have any proprietary right to them and cannot deal in those goods otherwise than as ordered by the Court.

While not strictly "remedies", there are some situations where products improperly bearing a trade mark can be removed from the custody of the infringer:

- Delivery up of infringing goods  
A court can require an infringer of a trade mark may to deliver up the infringing goods to the trade mark owner for either the obliteration of the trade mark or for destruction.<sup>55</sup>

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<sup>50</sup> Draper v Trist and Others [1939] 3 All ER 513 at 520.

<sup>51</sup> Draper v Trist and Tribestos Brake Linings, Ld [1939] 56 RPC 429, 4237.

<sup>52</sup> Sony Computer Entertainment Australia Pty Ltd v Stirling [2001] FCA 1852.

<sup>53</sup> Kitchin D, Llewelyn D, Mellor J, Meade R, Moody-Stuart T, Keeling D, Jacob R. Kerly's Law of Trade Marks and Trade Names (London, Sweet & Maxwell, 2001).

<sup>54</sup> Commonwealth v Amann Aviation Pty Ltd (1991) 174 CLR 64 at 83.

<sup>55</sup> Auguste Marechal & Ferdinand Ruchon v Neil M'Colgan (1909) 18 RPC 262.

Obliteration of the mark is preferred to destruction of the goods, which is only ordered where obliteration is impractical. This is in recognition of the fact that infringement is constituted by use of the trade mark in relation to the goods, as opposed to the sale or provision of the goods themselves. Delivery up only occurs where the court considers it necessary on the basis that the defendant, who would ordinarily be given the choice between obliteration and destruction, cannot be trusted. Courts have a wide discretion in framing orders for delivery up, etc.

- **Seizure of imported goods by Customs**  
An infringer may however have goods seized by Customs if they are manufactured outside of Australia and the Customs CEO believes a sign applied to, or applied in relation to, the goods is substantially identical with, or deceptively similar to, a notified trade mark and the goods are goods in respect of which the trade mark is registered (s 133). As discussed above (at question 6), this may have practical benefits to a trade mark owner in obtaining information regarding the identity and location of the importer or consignor of the goods. In this way, the seizure provisions of the Act enable a trade mark owner to access a more effective remedy through proceedings against a consignor and/or consignee of infringing goods. This only applies to goods imported into Australia, and so does not provide any advantages in relation to infringing goods manufactured within Australia.
- **Anton Piller Orders**  
As discussed above (at question 6), a trade mark owner may benefit from the seizure of infringing goods pursuant to an "Anton Piller" order, which permits a plaintiff trade mark owner's legal advisers to enter the defendant's premises in order to search for and remove infringing goods and documents evidencing infringement.<sup>56</sup> An Anton Piller order has the advantages of giving the plaintiff trade mark owner a means to effect both an injunction restraining the defendant from destroying or removing the infringing goods and documentation until the trial and also to compel the defendant to discover the sources and customers of the goods. However, Anton Piller orders are interlocutory and so do not in of themselves provide any permanent remedy or resolution of a trade mark infringement dispute.

- 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.*

Taking into account the discussion and answers above, we consider that Australian law is not a particularly useful comparative source because it fails to adequately address some fundamental aspects of trade mark protection, such as redress for dilution or tarnishment and damages to reputation. Similarly, insofar as tariffs are concerned, Australian law is not a useful comparator.

*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.*

No.

- 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.*

Interaction and overlap between trade mark law and other areas of law such common law passing off, statutory misleading and deceptive conduct and their equivalents. In particular, whether it is appropriate for trade mark law to intentionally not address issues such as dilution/tarnishment and reputational damage on the basis that these are accounted for in

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<sup>56</sup> Anton Piller KG v Manufacturing Processes Ltd [1976] Ch 55; RPC 719.

the consideration of other causes of action. Such causes of action frequently arise from the same facts and so are pleaded in the alternative, but the different elements and burdens of proof, together with the different outcomes and remedies available to trade mark owners, surely dictate that trade mark law should not assume its deficiencies will be corrected by other areas of law.

## **II) Proposals for the future harmonisation**

- 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.*

Yes, international harmonisation would be useful in both creating uniformity and, in particular, in providing the impetus for a discourse on how infringement of trade mark rights can be most appropriately remedied.

- 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.*

In addition to losses caused by infringing activity, there should be mechanisms for compensating a trade mark ownership for dilution and tarnishment of the trade mark and reputational damage – akin to the principles as they operate in the UK and the US.

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

Perhaps posit a model for a harmonised set of international principles for compensating losses arising from trade mark infringement, and invite contributors to comment specifically on how such principles might operate (or not operate) in their jurisdiction.

## **Summary**

Australian trade mark law does not differentiate types of infringement. The owner of an infringed trade mark may benefit from a permanent injunction in addition to electing compensatory damages or a restitutionary account of profits, but not both. The assessment of damages rests upon questions of fact and causation, meaning loss is never presumed and must be proved and quantified. The strength, distinctiveness or popularity of a trade mark are not specifically considered in assessing damages, nor are any reputational damage, dilution or tarnishment. There is currently no scope for awarding punitive or additional damages to penalise moral, wilful or flagrant infringements. Overall, the difficulties of proving and quantifying loss, coupled with the lack of redress for reputational damage to both a trade mark and its owner, mean Australian law is not a particularly useful international comparator for the assessment of relief for trade mark infringement.

## **Résumé**

Les lois australiennes sur les marques commerciales ne différencient pas les types de contrefaçon. Le propriétaire d'une marque commerciale contrefaite peut bénéficier d'une injonction permanente en plus d'avoir le choix entre des dommages-intérêts ou une restitution des profits (mais pas les deux). L'évaluation du préjudice repose sur des questions de faits et causalités, c'est-à-dire qu'une perte n'est jamais présumée et doit être prouvée et quantifiée. La force, le caractère spécifique ou la renommée d'une marque commerciale ne sont pas spécifiquement pris en considération lors de l'évaluation du préjudice, et il en est de même pour le préjudice envers la réputation et pour la dilution ou la ternissure. Il n'existe actuellement aucune limite pour l'attribution de dommages-

intérêts punitifs ou additionnels visant à pénaliser les violations morales, de plein gré ou flagrantes. Dans l'ensemble, étant données les difficultés à prouver et à quantifier la perte, auxquelles s'ajoute le manque de réparation pour le préjudice apporté à la réputation de la marque et à son propriétaire, la loi australienne n'est donc pas particulièrement un outil de comparaison utile sur le plan international pour l'évaluation de la réparation en matière de contrefaçon de marque commerciale.

### **Zusammenfassung**

Das australische Markenrecht unterscheidet nicht zwischen verschiedenen Arten der Verletzung des Markenrechts. Der Eigentümer einer verletzten Marke kann eine Anordnung des Gerichts auf ständige Unterlassung der Verletzung erwirken und zusätzlich entweder Schadensersatz oder die Herausgabe des Gewinns verlangen, aber nicht beides. Die Bemessung des Schadensersatzes hängt von Fragen des Sachverhalts und des Kausalzusammenhangs ab, d. h., dass ein Verlust nie vermutet wird, sondern zu beweisen und zu quantifizieren ist. Die Stärke, Unterscheidungsfähigkeit oder Popularität einer Marke werden bei der Bemessung des Schadensersatzes nicht besonders berücksichtigt, ebensowenig eine Rufschädigung, Verwässerung der Unterscheidungskraft oder Tarnishment (Verwendung eines Markennamens in einem für die Marke fremden Kontext, die unerwünschte Assoziationen hervorrufen und dem Ruf der Marke schaden könnte). Es gibt zurzeit keine Möglichkeit, Strafschadensersatz oder zusätzlichen Schadenersatz zuzusprechen, um Verletzungen des Markenrechts zu bestrafen, die gegen die guten Sitten verstossen, willentlich oder in eklatanter Weise erfolgen. Insgesamt bedeuten die Schwierigkeiten, den Verlust zu beweisen und zu quantifizieren, kombiniert mit dem Fehlen einer Entschädigung für die von der Marke und ihrem Eigentümer erlittene Rufschädigung, dass das australische Recht im internationalen Vergleich nicht besonders nützlich ist für die Bemessung von Schadensersatz bei Verletzung des Markenrechts.