

Report Q203

in the name of the Brazilian Group
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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.*

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.

Neither the Brazilian Industrial Property Law (Law n. 9,279/96, hereinafter BIPL) nor any other law or regulation distinguish between the terms *infringement*, *counterfeiting* and *piracy*, as they are used indistinctly to refer to all violations of trademark rights.

BIPL defines as crime against trademarks the following acts: *reproduction* (full or partial copy of a trademark); *imitation* (counterfeit copy of a trademark, maintaining the main characteristics, but introducing different ones, in order to cause confusion among consumers); *misappropriation* (offering a product of one's industry or commerce, in a vessel, container or package, carrying a legitimate mark of a third party); and modification (change of a third-party registered trademark already affixed in a product introduced on the market).

Likewise, Brazilian Courts do not consider a distinction among *infringement*, *counterfeiting* and *piracy* when determining the civil liability to be imposed on the infringer or 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)?

In Brazil, both the classic theory of civil liability and the theory of presumption of damage are applicable.

The theory of civil liability established in the Brazilian Civil Code states that whoever violates a right and causes damage to another shall be deemed to have committed an illicit act and shall pay an indemnity to the aggrieved party. In this event, to be indemnified the aggrieved party must prove the following: (i) wilful misconduct or fault; (ii) illicit act; (iii) damage; and (iv) causal relation between the illicit act and the damage.

The BIPL states that the aggrieved party is entitled to compensation for the losses and damages resulting from violation of industrial property rights. In addition, the BIPL establishes that loss of profits will be determined according to the most favourable criteria for the aggrieved party, as follows: (i) the benefits that would have been obtained by the aggrieved party if the violation had not occurred; (ii) the benefits obtained by the infringer of a right; or (iii) the royalty otherwise payable by the infringer to the owner of the violated rights under a license that would have legally permitted use of the underlying asset.

Considering that it is very difficult to prove the damage actually resulting from *infringement*, *counterfeiting* and *piracy*, the BIPL has been interpreted according to the theory of presumption of damage, which establishes that whoever infringes an intellectual property right shall pay an indemnity to the respective owner, without the need to evidence the damage actually caused.

This theory is based on the assumption that whoever makes unauthorized use or copy of a third-party registered trademark certainly does so to obtain benefits. On the other hand, the respective owner suffers damages that do not need to be evidenced as they are presumed, such as confusion among consumers with respect to the original products and the counterfeit products; debasement of the registered trademark; risk of having the trademark associated with products and services of lower quality; disparagement of the reputation or business of the respective owner; and non-payment of a license fee.

In Brazil, legal writings and case law have adopted for years the theory of civil liability as established in the Brazilian Civil Code for the assessment of damages for violation of trademark rights.

After enactment of the current BIPL in 1996, this matter has become extremely controversial, as some legal writings and past court decisions hold that the general rule prescribed by the Civil Code should apply, whereas others defend the application of the theory of presumption of damage.

In 2003, the Brazilian Higher Court of Appeals adopted the theory of presumption of damage when judging infringements of the "Louis Vuitton" trademark, stating that the property damages resulted from the counterfeiting practices and that it was not necessary to evidence the damages actually suffered (Special Appeal n. 466761). Moreover, the Brazilian Higher Court of Appeals stated that the counterfeiting practices caused moral damage to the respective owner.

In view of this leading case, there is a general understanding that there is a trend toward adoption of the theory of presumption of damage, although many decisions have relied on the theory of civil liability established in the Brazilian Civil Code.

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?*

Brazilian Courts take into consideration how strong the trademark is when judging the claim for cessation of unauthorized use of the trademark and/or the claim for damages.

The strength of a trademark is not directly considered by the Courts in the assessment of damages. However, it is considered indirectly in the indemnity criteria established by the BIPL, i.e. the stronger the trademark, the higher the indemnity, the losses of the respective owner, the benefits of the infringer, as well as the licensing fee otherwise payable to the owner of the violated rights.

On the other hand, the strength of a trademark is directly considered in the assessment of moral damages.

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

Brazilian Courts take into consideration the investment made by the trademark owner when judging the claim for cessation of unauthorized use of trademark and/or the claim for damages. For determination of an indemnity, the investment value is usually not considered.

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

Please see below.

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

With reference to items (c) and (d), when presented to the Courts, the effects on the proprietor's profitability, price erosion and other consequences caused by infringement are usually considered for granting the claim of cessation of undue use of trademark and/or the claim for damages. The time during which the illegal act continued to be exercised will certainly affect the assessment base of the indemnity rendered.

However, when establishing an indemnity, Courts do not usually specify the facts, which were taken into account to achieve the amount due. Exception can be made in cases of moral damages involving cases of trademark dilution, as clarified in question 07 below.

- 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?*

According to BIPL, lost sales and sales made by the infringer will be taken into consideration by the Court in order to assess an indemnity. This Law establishes that the loss of profits shall be determined by the most favourable of the following criteria, vis-à-vis the injured party: (i) the benefits that would have been gained by the injured party if the violation had not occurred (i.e., lost sales); or (ii) the benefits gained by the violator of a right (i.e. sales made by the infringer). As mentioned in the reply to question 2(a), a third criteria is also used, i.e. the royalty otherwise payable by the infringer to the owner of the violated rights under a license that would have legally permitted use of the infringed trademark.

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

The concept of parallel imports with regard to trademarks was first introduced in Brazil by the BIPL. Art 132, item III of the BIPL provides, in summary, that a trademark owner cannot prohibit the free circulation of a product sold in the domestic market by the owner itself or by an authorized third party. With this provision, Brazil has adopted the concept of national exhaustion of trademark rights (except when the owner of a patent chooses to import the patented product instead of manufacturing it in Brazil, in which case the concept adopted is the international exhaustion of rights, including in connection with trademarks).

Since the insertion of the mentioned in the Brazilian Law, most Court decisions have applied national exhaustion concept for trademarks (e.g. Brother International Corporation do Brasil Ltda. v. Surlorran Indústria Têxtil e Comércio de Máquinas Ltda., São Paulo's Court of Appeal, AC n. 94.733-4/2-00 and Makita do Brasil Ferramentas Elétricas Ltda. v. Lim Máquinas Indústrias Ltda, São Paulo's Court of Appeal AI n.80.264-4/4).

Considering specifically damages, it is possible to identify in some recent decisions the application of general damage rules from de Brazilian IP Law. For example, in the case Miami Sports Importadora e Exportadora Ltda. v. Levi Strauss do Brasil Indústria e

Comércio Ltda., decided by the São Paulo Court of Appeal in 2007, the judge recognised Brazilian law prohibition to parallel imports and confirmed application of loss of profits general criteria (for more details about this rule, please see answers to item d of this question and item a of question 4) In another case, Nateli Comércio Internacional; Watch House Relógios e Canetas Ltda. v. Nike do Brasil Comércio e Participações Ltda., the Rio de Janeiro's Court of Appeal, recognizing general IP damage rules for parallel imports, established that indemnity in the specific case would be determined by the usual payed royalty for a trademark license added to 50%, due to the illicit act.

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?*

The key principles involve the premise that loss of profits shall be determined by the most favourable of the following criteria, vis-à-vis the injured party (i) the benefits that would have been gained by the injured party if the violation had not occurred; (ii) the benefits gained by the violator of a right; or (iii) the remuneration otherwise payable by the violator to the titleholder of violated rights for a license that would have legally permitted him to exploit the underlying asset.

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

The profits are usually defined and calculated under bookkeeping criteria. For the assessment of an indemnity, an expert investigation will be ordered on the accounting books of the aggrieved party in order to evaluate the losses incurred in view of the infringement, counterfeiting or piracy acts, as well as on the books of the violator, so the benefits obtained through those acts be verified. On those cases, the calculation most favourable to the aggrieved party will always be applied.

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

Neither the BIPL or other Brazilian Laws and Regulation establish rules on the attribution of profits shares to the owner or licensee of an infringed trademark. As mentioned above, art. 210 of the BIPL provides that the injured party will be entitled to the most favorable amount resulting from the calculation of (i) the benefits that the injured party would have obtained had the infringement not occurred; or (ii) the benefits obtained by the infringer; or (iii) the royalties that would otherwise have been paid by the infringer under a license agreement. Presumably, therefore, if the calculation under the criteria of item (ii) above is adopted, the owner of the infringed trademark would be entitled to the total amount of profits obtained by the infringer with the sale of the infringing product.

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

According to the previous answers, the strength of the trademarks will not directly come into play in apportioning the profits. This factor will certainly affect the assessment base of the indemnity rendered, as the stronger a trademark is, the higher will be the indemnity as the losses of the relevant owner and the benefits of the violator will be higher, but not modify the justification of the award.

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

a) *How is the royalty rate fixed?*

There are decisions determining payment of an indemnity equal to a percentage of the sale price of the product. For example, the Brazilian Higher Court of Appeals determined payment of an indemnity equal to 5% of the sale price of a soap as a consequence of the unauthorized use by a third party of the trademark affixed to this product during five years.

In any event, we believe the judge should analyse the royalty rate charged by the trademark owner worldwide.

- 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?*

There is no legislation in this regard. Therefore, the royalty rate charged by the trademark owner could be used as a criterion for determining a monetary compensation assessed on basis of a royalty.

- 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.*

As to the administrative proceedings, for the violation of trademarks, a procedure of search and seizure of the products can be initiated at the customs, and also a police investigation can be initiated in specialized anti-piracy police stations (which exist in certain states in Brazil) or in standard police stations.

As to judicial proceedings, the Brazilian Civil Procedural Code establishes that Judiciary personnel may use all necessary means to obtain relevant information, such as deposing witnesses, requesting documents in possession of the parties or public agencies, as well as supporting the expert report with floor plan, designs, photographs and any other documents.

However, unlike some countries, e.g. the United States, in Brazil there is no full disclosure procedure and the Brazilian discovery procedure is extremely limited. A specific court order will have to be issued in order to obtain information on unlawful activities causing the violation of the trademark.

- 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?*

Brazilian law does not expressly deal with trademark dilution. This issue has been recently brought to the review of the Brazilian Courts. In 2003, the Brazilian Higher Court of Appeals sentenced the infringer of "Louis Vuitton" trademark to pay moral damages in the amount of approximately US\$ 30,000.00 in view of debasement of the registered trademark and disparagement of the reputation of the respective owner (Special Appeal n. 466761).

In this specific decision, the courts stated that the damage caused to the trademark owner was based on the understanding that the imitation of its trademark in the manufacture and commercialization of purses and handbags caused substantial reduction in the sales of the products distinguished by the trademark.

The courts also stated that the evidence of activity of imitation of a product bearing a specific trademark constitutes sufficient element for the request of indemnification to the owner of the trademark, based on the damages to the trademark reputation.

In 2006, Rio de Janeiro's Federal Court of Appeal has decided a very interesting case explaining and applying the trademark dilution theory, based in art. 130, III, of the Brazilian IP Law. This article stands that "The titleholder of a mark or the applicant is further assured the right to: (...) III – safeguard its material integrity or reputation". Based in this rule the Federal Judge interpreted the possibility of the titleholder of a trademark to protect it against progressive dilution of its distinctive power. For dilution cases the decision recommends a

detailed analysis of (a) the possibility of material and moral damages of the trademark; (b) trademark distinctiveness, and (c) reputation of the mark. (Lua Nova Ind. e Com. de Produtos Alimentícios Ltda v. WM Wringley Jr Company, TRF2, AC n. 2002.51.01.514660-7)

- 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 moral/wilful element of the violation of a trademark right is an aspect not mentioned in the Brazilian legislation. According to the jurisprudence, the trademark owner would not have to evidence the intention of the trademark violator in order to be entitled to indemnification. However, the practice shows that judges may take the intention aspect into account in their decision.

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.

According to art. 3 of the Brazilian Law of Introduction to the Civil Code (Decree-Law n. 4,657 of September 4, 1942) "no one shall be excused from compliance by alleging lack of knowledge of the law." Therefore, nobody can claim that was unaware of the registration of trademark, which is public information, neither of the fact that the act performed is a crime. Thus, unawareness of infringement shall not be taken into consideration in assessment of damages or account of the profits, only having relevance in case of eventual condemnation at criminal sphere, to determine willful misconduct or negligence of the trademark violator.

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 or piracy is an additional element which influences the assessment of damages and/or account of the profits, since, according to Brazilian legal writings, the larger the number of counterfeited or pirated products is sold, the larger may be the indemnification to the trademark owner, and the more the dilution and depreciation of the trademark and/or the reputation of the owner of the trademark.

- 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?*

The evaluation of damages is based on the same principles in cases where the infringement also constitutes a violation of a contractual obligation. The difference is that the basis of the indemnity to be paid to the trademark owner may be already stated in the agreement.

- 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?*

In general, 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 are the following:

- i) Difficulties in defining the extension of the losses incurred;
- ii) Limitation in the discovery procedure;
- iii) Subjective criteria used by the judges; and
- iv) Technical ineptitude of Judiciary personnel.

- 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.

Search and seizure procedure is provided in Brazilian legislation. However, this measure aims to avoid a greater damage and protect the proof elements in order to facilitate the procedures to be managed during the court suit. In this sense, the State is the beneficiary of such precautionary measure and, thus, such measure does not influence 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.*

Yes, considering that Brazilian legislation is silent as to several aspects 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.

No, because Brazilian legislation is silent as to several aspects of monetary compensation for the violation of the trademark rights. The criteria for the calculation of indemnification are not clear and the enforcement procedures are not clearly established.

- 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.*

It is important to point out that Brazilian law specifies not only patrimonial damages, but also "moral" damages (pain and suffering, harm to reputation). Therefore, apart from patrimonial damages, there are cases which Brazilian courts consider the moral damages suffered by the trademark owner. The value of such damages is normally fixed based on the extent of the infringement and financial capacity of the violator.

In cases which moral damages are awarded, unlike situation involving patrimonial damages, the scale of the counterfeiting is an important element, since a few Brazilian court decisions define that moral damages can only be considered if vulgarization of the product or brand is caused by the offense. However, the scale of the counterfeiting necessary to configure this type of harm to the image of the product, brand or company has not yet been clearly defined in Brazilian judicial precedents, since there are a few decisions holding that the existence of the trademark infringement is sufficient to configure moral damages, while others have held that there must be proof of the extent of the harm.

Despite of the above, Brazilian Courts are indeed more likely to consider the moral damages in cases which the reputation of a famous trademark has been affected, based on the vulgarization of the brand name, as occurred in the Louis Vuitton case mentioned above.

Moreover, occasionally, moral damage is used by the Brazilian courts as a punitive measure, despite many different legal scholars and court decisions that consider that Brazilian Civil Code provides that the limit on compensation is the amount necessary to "make the injured party whole" but not providing any "enrichment without cause" over and above this.

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.*

We understand that evaluation of damages for violation of the trademark rights should be the subject of the international harmonisation and that this harmonisation should be undertaken through an international treaty (in this case, the Paris Convention for the Protection of Industrial Property).

- 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.*

We understand that the harmonised system for the evaluation of damages for violation of the trademark rights should be based on the amounts earned by the trademark violator due to the trademark violation. This is due to the fact that, in practice, among all criteria for calculating the monetary compensation due to trademark violation, this is the amount that could be more easily calculated.

Summary

In Brazil, the terms *infringement*, *counterfeiting* and *piracy* are used indistinctly to refer to all violations of trademark rights. Courts analyze the facts presented by the aggrieved party to judge a claim for damages related to trademarks. Considering assessment of damages, the classic theory of civil liability and the theory of presumption of damage are both applied. For establishing an indemnity, judges do not usually specify the facts that were taken into account to achieve the amount due. The Brazilian Industrial Property Law only establishes the criteria for loss of profits of the trademark owner arising from infringement. Since the criteria used by the judges are mostly subjective and not usually clear, trademark owners face some difficulties in assessment of the damages and account of the profits for the violation of the trademark rights. Case law is very important to understand the compensation for the violation of trademark rights in Brazil.

Résumé

Au Brésil, les termes *infraction*, *contrefaçon* et *piratage* sont utilisés indifféremment pour faire référence à tout les violations des droits de marques. Les juges analysent les faits présentés pour la partie lésée pour juger une demande de dommages-intérêts relative aux marques. À propos du dommages-intérêts, la classique théorie de la responsabilité civile et la théorie de la présomption de dommage sont les deux appliquées. Pour établir une indemnité, les juges ne spécifient pas usuellement les faits qui ont été considérés pour obtenir la valeur due. La loi brésilienne de propriété industrielle seulement établie les critères pour les bénéfices perdus du propriétaire de la marque dû l'infraction. Tenant que les critères utilisés par les juges sont la plus part subjectives et non fréquemment claires, les titulaires de marques rencontrent quelques difficultés pour la détermination de dommages-intérêts et pour comptabiliser les bénéfices pour la violation des droits de marques. La jurisprudence est très importante pour comprendre la compensation pour la violation de droits de marques au Brésil.

Zusammenfassung

In Brasilien werden die Begriffe *Verletzung*, *Fälschung* und *Piraterie* ohne Unterschied für alle Verstöße gegen die Markenrechte benutzt. Die Gerichte analysieren die von der beschädigten Partei behaupteten Fakten, um einen Anspruch auf Schadensersatz in Bezug auf Marken zu beurteilen. Hinsichtlich der Bewertung von Schadensersatz sind beide die klassische Theorie der zivilrechtlichen Haftung und die Theorie der Vermutung des Schadens anwendbar. Um den Schadensersatz festzustellen, erklären die Gerichte nicht immer die Fakten, die für die Bildung des fälligen Betrags berücksichtigt werden. Das brasilianische Gesetz zum geistigen Eigentum

legt nur die Kriterien für den aus den Verstößen kommenden Gewinnausfall des Markeninhabers vor. Da die von Gerichten benutzten Kriterien subjektiv und meistens unklar sind, erfahren die Markeninhaber einige Schwierigkeiten bei der Bewertung des Schadenersatz und der Gewinne bei Verletzungen der Markenrechte. Die Rechtsprechung ist sehr wichtig, um den Schadenersatz wegen Verletzung von Markenrechten in Brasilien zu verstehen.