

## **Report Q203**

in the name of the Canadian 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.*

There is no distinction in types of claims that can be asserted by a party in respect of infringement, counterfeiting and piracy of trade-marks. In respect of each the trade-mark owner may claim for infringement (*Trade-marks Act* s.19, 20), depreciation of the value of the goodwill in the trade-mark (*Trade-marks Act* s.22), creation of confusion and passing off (*Trade-marks Act* s.7(b),(c)), or common law passing off.

However, there are criminal remedies which are applicable to counterfeiting - forging a trade-mark with intent to deceive or defraud (*Criminal Code* s. 407), passing off with intent to deceive or defraud (*Criminal Code* s. 408), possession of instruments for use in forging a trade-mark (*Criminal Code* s. 409).

*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.*

There is no distinction in types of remedies that can be recovered by a party in respect of infringement, counterfeiting and piracy of trade-marks. The possible monetary remedies are the damages of the plaintiff or the profits of the defendant (but not both), prejudgment interest, and punitive damages if the infringement, etc. is outrageous, although, in cases of counterfeiting or piracy punitive damages are more readily available.

In the case of a criminal offence under s. 407, 408 or 409 of the *Criminal Code*, the punishment may be imprisonment for up to two years and/or a fine. When it is determined that an offence has been committed, the Court has powers under s. 491.1 and 738 of the *Criminal Code* to make restitution orders. Such orders are not available unless the loss is capable of ready calculations and there are no serious legal or factual issues regarding entitlement.

- 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)?*

As referred to above, in the case of infringement, depreciation of the value of the goodwill in the trade-mark, creation of confusion and passing off the trade-mark owner is entitled to recover the damages of the plaintiff or the profits of the defendant (but not both).

Damages are a legal remedy. The theory of damages is that the infringement etc. is recompense for the harm done to the plaintiff.

An account of profits is an equitable remedy. An account of the infringer's profits is based on the premise that the defendant, by reason of its wrongful conduct, has improperly received profits which belong to the plaintiff. The objective of the award is to restore those actual profits to their rightful owner, the plaintiff, hereby eliminating whatever unjust enrichment has been procured by the defendant. The harm done to the plaintiff is irrelevant.

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?*

Not directly.

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

Not normally.

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

Yes. The Courts look at the profit that the plaintiff would have made but for the infringement.

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

Yes, if it can be proved. The Courts can give recovery for the effect of price reductions by the plaintiff to meet competition from the infringing goods, but not for price erosion caused by the economy or other factors unrelated to the infringement.

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?*

In the case of trade mark infringement, the court will order the lost profits of the trade mark owners of the trade-mark owner on those sales that the trade-mark owner would have made but for the infringement and can award a royalty in respect of those infringing sales that the trade-mark owner would not have made on the theory that every infringing sale is a wrong to the trade-mark owner.

In a case of passing off by selling counterfeit goods the same principles probably are applicable.

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

Parallel imports are not counterfeit goods.

Where the goods imported originate with the owner of the trade-mark or are sold under licence from the owner of the trade-mark, it is difficult to prevent their importation since they were authorized by the trade-mark owner. A different result may be obtained if the domestic trade-mark is owned by the domestic company and its product differs from that of related companies, but in such case, one must be careful to establish and maintain the distinctiveness of the trade-mark as distinguishing the local company and not the international group.

If parallel imports infringe, the same remedies apply as in other cases of infringement.

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?*

In Canada we have very limited jurisprudence concerning the assessment of damages or an account of profits in trade-mark cases. There is more jurisprudence in patent cases and the discussion which follows is premised on the expectation that similar principles would be applicable.

In the case of damages:

- i) The plaintiff has the burden of proof, but the defendant being a wrongdoer the damages will be liberally assessed. And due allowance will be made for difficulties of proof.
- ii) The object is to compensate the trade-mark owner not to punish the infringer.
- iii) Every infringement is a wrong to the trade-mark owner.
- iv) Where the trade-mark owner licences the use of the trade-mark, the licence royalty is a measure of the damages sustained.
- vi) In other cases, the trade-mark owner can recover the damages sustained which are not too remote.
- vii) A plaintiff usually is entitled to recover interest on the damages sustained, usually calculated as simple interest.

In the case of an account of the infringer's profits:

- i) The plaintiff has the burden to prove the revenues received by the defendant from the infringement (but such proof is facilitated by the disclosure which the defendant must make pursuant to the discovery procedures in Canadian litigation practice).
- ii) The defendant has the burden to prove all deductions to be made from the revenues to establish the profits.
- iii) The object is not to punish the infringer, but to prevent his unjust enrichment.
- iv) The infringer is required to disgorge the profits improperly made as a result of the infringement.
- v) Where an infringer claims that part of the profits did not result from the infringement, the burden is on that infringer to prove his right to apportionment and the absence of a causal link between that portion of the profits and the infringement.
- vi) A plaintiff is entitled as part of the accounting to recover deemed earnings from the use of the monies unjustly withheld, usually calculated as compound interest.

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

Profits, whether lost profits in a damages calculation or an account of the infringer's profits are normally calculated using differential or incremental accounting. In calculating the net profits one deducts from the revenues derived from sales the variable expenses attributable to the products and, any increase in fixed expenses attributable to those products, i.e. only those expenses, both variable and fixed, which actually contributed to the sums that the plaintiff would have received or that the defendant received as the case may be.

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

Normally, a licensee does not have a basis of claim for trade mark infringement, although, pursuant to s. 50(3) of the Trade-marks Act, a licensee may take action for infringement as if it were the owner if the owner refuses to do so.

In a damages calculation, if a trade mark owner and licensee were permitted to claim, each would prove its own loss of profits. For example, the owner's loss might be its lost royalties.

In an account of an infringer's profits, there would be no particular attribution as between the trade-mark owner and the licensee.

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

No.

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

a) *How is the royalty rate fixed?*

There have been no reported cases of the fixing of a royalty rate as damages in a trade-mark infringement case in Canada. If such a case occurred one would expect the following principles to apply:

- i) If there is an established royalty, probably normally that rate would apply.
- ii) If there was no established royalty, the rate would be that which would have been negotiated by a willing licensor and willing licensee. There are numerous factors which impact such a hypothetical negotiation which vary with the particular field.

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?*

In such a case, it is expected that the court would consider this fact and the royalty rate at which the licence was available would be an upper limit of the damages.

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.*

A trade-mark owner is entitled to obtain all relevant documents and information, including the extent of the infringement – the infringer's sales, marketing, advertising and other use of the mark, the infringer's financial records which bear on its profits, any information supporting any claim for apportionment. The infringer is obliged to list and produce for inspection all relevant documents and the infringer, if an individual, or a representative of a corporate infringer can be examined orally for discovery as to all relevant issues.

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?*

This might be considered, but we have no case doing so or identifying pertinent factors.

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?*

Wilfulness is not a factor in assessing the quantum of the damages sustained by a trade-mark owner or the profits of an infringer, but it could be a basis for an award of punitive damages.

*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.*

Ignorance is not a factor in assessing the quantum of the damages sustained by a trade-mark owner, but it might impact whether an account of the infringer's profits was awarded since an account of profits is an equitable remedy. It would preclude an award of punitive damages for which there must be outrageous conduct.

*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 activity would not influence the nature of the assessment of the damages sustained by a trade-mark owner or the profits of an infringer, but it would be expected to affect the quantum of both compensatory damages and punitive damages.

- 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?*

While one might have infringement by a licensee, it seems unlikely that there would be counterfeiting or piracy by a licensee.

In theory the damages for breach of contract are based on what would have been the plaintiff's situation had the contract been performed, whereas in a claim for infringement the issue is what damage has been caused to the plaintiff by the infringement.

- 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 proving damages it may be difficult for the trademark owner to prove that a decrease in sales or market share relate to the acts of infringement and not other economic or competitive factors. The trademark owner may also have difficulty proving the profits lost on a product if the sales and costs data for that product are grouped with other products not in dispute. In proving the profits earned by the infringer similar difficulties may be experienced if sales and costs data are accumulated for a group of products, only some of which infringed.

- 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.*

As a general rule confiscation does not influence the evaluation of damages or profits. Damages or profits are intended as compensation for the infringer's past infringing conduct, confiscation is intended to prevent future infringing conduct.

- 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.*

As indicated above, there is relatively limited jurisprudence directly related to remedies for trade mark infringement, but the authorities regarding remedies for patent infringement give reasonable guidance in this regard.

*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.*

*In the case of counterfeiting, it might be appropriate to enable a trade mark owner to elect a form of statutory damages, similar to the scheme available for copyright infringement, rather than to require the trade mark owner to prove lost sales and consequent lost profits.*

## **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 doubt that international harmonization and hence a treaty is necessary.*

- 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.*

*We think that countries should be encouraged to adopt a system of statutory damages for trade mark counterfeiting as discussed above re question 13.*