

Denmark
Danemark
Dänemark

Report Q203

in the name of the Danish Group
by Christian AKHØJ

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.

Concerning damages, national law does not distinguish between different kinds of infringement. The conditions for liability are the same and the different kinds of infringement have no impact on the principles assessing the monetary compensation.

However, the various kinds of violation may have different influence on the size of loss, which will then have influence on the amount of damages or compensation awarded by the Courts.

To impose liabilities for damages in national law, several conditions must usually be met. The first condition is that there must be a wilful or negligent action of violation. Following the amendment to the Trade Marks Act in 2006, it is no longer possible to claim damages in case of an infringement in good faith. It remains to be seen how the Courts will set the standards for proving negligence. Good faith is increasingly seen as a defence not least in counterfeit cases where the defendants claim to have had the conviction that they were importing genuine goods as parallel import traders.

- 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 principle the assessment of damages in cases involving trademark infringement is no different from other types of cases: The party liable shall cover any and all loss suffered by the party holding the right. The right holder has the burden of proof.

The Trade Marks Act contains a section (§43), holding an infringer liable to pay damages or compensation for any damage caused by the infringement. Also a fee may be awarded without any corresponding loss, which is a principle in excess of the traditional basic rule that only the proven loss may be covered. This concept follows the principle of an imaginary license fee. It has been discussed in theory – and seems somewhat established today – that such fee has the function of a basic compensation and not of an additional sum on top of

damages covering the loss. (I.e. if the holder of the right is entitled to a fee, then further compensation will only be awarded to the extent there is a loss exceeding the awarded fee).

The rules also apply for the time passing between filing the application and registration of the trademark if the infringing party knew or should have known that the application for the trademark had been filed.

Basically the assessment is based on civil liability. In the sense that there is the option of awarding compensation without a loss (the fee concept), it could be argued that in Denmark we have in fact a combination of civil liability and violation of property ownership as the basis for assessing the compensation.

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.*

All factors relevant in the individual case assessing the loss suffered by the right owner are to be taken into account. Usually the value of the infringed trademark is not regarded as an independent factor in this respect.

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?*

The inherent distinctiveness of the trademark in question is most often important in assessing if there is a right or not and if there is an infringement. If the Court finds that there is a right and an infringement, the possible level of distinctiveness is of no - or at least very low - relevance. By the wording of judgments, Courts do not seem inclined to attach any importance to the possible popularity of a trademark. However, there seems to be a tendency that notoriously famous trademarks – perhaps in particular luxury related trademarks – enjoys the awarding of higher compensations than less famous trademarks. This may be explained by the fee concept, seeing that a famous luxury trademark may be able to obtain higher license fees. However, there is often not a clear distinction in the judgments between the fee element and the damages awarded.

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

Generally, Courts do not consider awarding damages for expenses in connection with marketing. However there are few exceptions if the investment made by the owner is rather large-scale or if the infringement is particularly negligent.

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

Yes. The problem is especially for the trademark owner to prove the loss and to make a clear calculation showing the financial impact. Most often the loss is calculated based on Gross Margin i.e. net turnover minus direct variable expenses.

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

When evaluating the violation and damages to the trademark, Courts seem reluctant in attaching any importance to price erosion. Wording of judgements gives only limited guidance in how the damages are evaluated by the Courts. To the extent a trademark owner can prove that price erosion is a result of an infringement, it could be possible to get this covered.

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?*

It is often difficult to prove any exact impact on sales due to infringement. In cases where counterfeit goods are distributed through the same channels as the genuine goods, it is typically reasonable to assume that there is a lost sale corresponding directly to the volume of infringing products sold. What traditionally matters is the loss incurred by the trademark owner. Hence, it is his lost sales that matter. The profit made by the infringer may be taken into account. However, this way of evaluating the sales and damages is not mentioned in the Trade Marks Act but only in the EU directive 2004/48, art. 13. This provision is not directly incorporated in the Trademark Act, but in judgements it is often seen that references are made to the principles of the Directive. This provision in the Directive may be regarded as covered by the fee concept in the Trademark Act as described above.

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

In cases where parallel imports are acts of trademark infringement, then the main principles of damages are treated similarly. However the nature of the loss suffered by the trademark owner is different than other kinds of infringement since parallel imported goods are genuine and sold with the consent of - and profits to - the trademark owner, just on another market. Typically the cases seen on this subjects deal with the issue of repacking and whether or not the parallel importer has acted within the acceptable limits. In these cases it seems that the Courts have set as a general legal principle to grant compensation or damages in the amount of what matches 5% of the infringing sales.

- 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:*

In general it is difficult to see clear answers to these questions from the Danish jurisprudence. The decisions are made and worded very specifically taking the circumstances in the individual cases into regard. Furthermore, the concept of taken the infringer's profit into account is rather new, and practice in this regard is yet fully established.

- a) *What are the key principles?*

When liability has been established the overriding key principle is that the loss shall be covered. The loss can consist of many different elements from case to case.

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

Lost profits are most often defined as Gross Margin related to lost sales. However, lost profits may include a broad variety of loss. Elements as damage to goodwill/reputation/image, disturbance of the market, price erosion are also seen in this context.

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

This issue has apparently not been subject to any judgment. A reasonable assumption would be that any attribution between the trademark owner and a licensee would be according to the loss suffered by either party.

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

Presumably not.

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

- a) *How is the royalty rate fixed?*

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

This is obviously a difficult issue. If the trademark is subject for licence, existing royalties may obviously serve as guidance. The same may be the case if similar marks concerning similar products on similar markets are subject to a relevant comparison. Otherwise, the Courts base their ruling on estimation.

- 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.*

It is possible by the assistance of the Sheriff's Court to be used in legal proceedings. In such proceedings, all reasonable and relevant information may be obtained, in particular information such as figures regarding sales volume, sales and purchase prices, source of the products, customers, sale and purchase agreements.

Furthermore, there is the possibility during legal procedures to request that the other party produce specific documents or information. If the infringer does not comply with such requests, the Judges may use this to his disadvantage.

There is one possibility of obtaining some information by administrative means:

In Customs seizure proceedings information as to the specific consignment may be provided i.e. number of goods, samples and receiver of the consignment.

- 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?*

The damage made to the trademark's reputation is considered by the Courts. The proof for such loss is naturally very difficult to assess since the damaging effect crops up among the clientele of the holder of the trademark in the way that the goodwill connected to the genuine product is diminished. This kind of damage usually has a more serious and long-term effect but the Courts rarely grant any specific damages for this kind of loss, often due to lack of proof. More often it is seen that the Courts accept a somewhat similar – but perhaps more short term effect – in the form of accepting loss due to disturbing the market conditions. This is not a very clear concept and may include a variety of elements.

Market disturbance also shows difficult to prove and therefore Courts are not likely to award damages that – in the eye of the right owner – match the actual loss caused by the infringement. The long term lost sales caused by market disturbance and/or diluting the reputation can often be severe but difficult or impossible to prove due to its rather complex and somewhat psychological nature of customer preferences.

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

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

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

When awarding damages, the wording of judgments show that Courts generally do not consider the moral/wilful element of the violation of the trademark right. Neither is the will to

profit or gain from counterfeit activities seen as a specific element in assessing the damages. Sometimes this element is mentioned in the grounds of judgments but it is not seen that specific amounts have been explained by this element.

After the amendment to the Trade Marks Act in 2006, the Courts may no longer award damages for violation of a trademark if the infringer is in good faith as regards the infringing nature of his activities.

Ignorance on the side of the infringer is rarely relevant in counterfeit cases. There may well be cases where the infringer had good faith as to the genuine character of the goods, and therefore the infringement is due to ignorance. If this is the conclusion of the Court, there may well be infringement but no basis for compensation. Ignorance as to the existence of a trademark registration will not be taken into consideration, however ignorance as to the scope of the right may well be the subject of good faith consideration. Due to the rather new nature of the good faith defence this question is yet to be tried in Court.

Generally, ignorance seems to be a subject closely related to the good faith defence opening the possibility for refusing damages rather than having influence on the level of compensation. I.e. in case there is an infringement and basis for liability, damages will be awarded without ignorance having (a specific or clear) influence on the level.

The scale of an infringement will have direct influence on the level of damages. In case there is generally a large number of counterfeit cases related to the specific trademark, it is not seen as a valid defence that this should lead to lower 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?*

The loss suffered by the trademark owner will in both cases be the basis for compensation. Agreements may deviate from this principle, in which case the Courts will take the contractual basis into consideration. Breach of contract may well have an influence on how the loss is calculated.

- 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?*

It is very difficult for the trademark owner to prove the full scope of his loss. In the eyes of the right owner, it is often obvious that severe damage has occurred as to lost sales, damage to the trademark and the goodwill. Many factors have influence on future sales and the Courts are rather reluctant to accept loose assumptions, calculations and arguments as basis for awarding damages. Furthermore a trademark owner will often have to produce confidential material to furnish the relevant proof.

However, the development in recent years has shown a more forthcoming attitude in the judgments and we see higher amounts awarded than previously.

Another practical problem in the right owners perspective, is the legal tradition that in litigation, the Courts are not awarding full cost coverage as to the legal expenses – especially lawyers fees. Even in cases where a right owner is fully winning the case, the infringer will only have to pay a small fraction (often 5 -25%) of the actual costs to the winning party.

The aggregated costs and damages awarded rarely satisfy the owner. Very often trademark owners chose not to pursue the matter of damages and solely concentrate on stopping the infringement.

- 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.

National law provides as a remedy for the confiscation of the infringing products in the form of injunction. However, the law only provides as a remedy for destruction of illicit goods where the goods have proven illicit after custom examination.

There has not been found any indication in Danish case law that the confiscation of the goods has had any influence on the level of compensation. In cases where it is claimed that the goods shall be destroyed, it is seen that cost of destruction may be a factor to be added to the compensation. Cost of destruction may be rather high in some cases, not least when environmental concerns influence the available type of destruction.

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

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

There is a general legal tradition that judgments are worded rather specifically towards the case concerned and thus offer very little guidance as to general principles. Furthermore, many cases end by a mutual agreement even after the final proceedings in Court have taken place. Finally the number of cases is likely to be influenced by the fact that Denmark is a rather small jurisdiction. These factors lead to the impression that we have rather limited guidance in the jurisprudence.

Case law regarding the damages for infringement, counterfeiting and piracy of Trademarks is not as clear as we would wish. There are very few judgments where the infringer is awarded heavy damages for the infringement. Still, the results have significantly improved (to the benefit of the right owners) in recent years and the reasons for judgments are explained more in detail than previously. It has been argued that right owners should make more efforts in proving or making their loss probable. However, it is also argued that the costs involved in filing such proof are too high compared to the possible gain.

- 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.*

N/A.

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.*

International harmonisation through a treaty seems ambitious but would in principle be desirable. The principles for awarding damages are often broadly applicable in judicial matters and a change of principles in IP-matters only may raise problems. It may be more relevant – and easier to obtain results – to work towards harmonisation on the national level.

- 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.*

It should be recognised that by its nature the loss suffered by the trademark owner often is substantial but difficult to prove. To some extent, this position might be improved by shifting

the burden of proof. I.e. in case of counterfeit goods on the market, it would seem safe to assume that the goods are of poor quality and that the goodwill attached to the trademark suffers significantly. If the infringer disagrees, he would have to prove the quality and that no harm was done to the goodwill.

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

In cases where the right owner is clearly winning a case, the Courts should be willing to grant full coverage of all usual and reasonable lawyer's fees and expenses to be paid by the infringer. The position on the costs issues would be relevant to investigate further. (See also resolution Q134 6 j).

Summary

Concerning damages, Danish law does not distinguish between different kinds of infringement. Various kinds of violation may have different influence on the size of loss, which will then have an influence on the amount awarded. The Trade Marks Act holds an infringer liable to pay damages or compensation for any damage caused by the infringement. Also a fee – based on a licence concept - may be awarded without any corresponding loss.

A right holder may obtain relevant proof through three official channels: 1) by mean of the Sheriff's Court, 2) during legal procedures requesting the other party to produce specific documents or information, and 3) Administratively in Customs seizure proceedings.

After the amendment to the Trade Marks Act in 2006, the Courts may no longer award damages for violation of a trademark if the infringer is in good faith.

It is difficult for the trademark owner to prove the full scope of his loss. The development in recent years has shown a more forthcoming attitude in the judgments and we see higher amounts awarded than previously. Still the aggregated costs and damages awarded rarely satisfy the owner. Often it is decided not to pursue the matter of damages and solely concentrate on stopping the infringement.

For future improvements we would suggest working for the recognition that by its nature the loss suffered by the trademark owner often is substantial but difficult to prove. To some extend, this position might be improved by shifting the burden of proof in favour of the right owner. Furthermore, the Courts should be willing to grant full coverage of lawyer's fees and expenses.

Résumé

En ce qui concerne les dommages-intérêts, la loi danoise ne distingue pas entre les différents types de préjudice. Les différents types de violation peuvent avoir une influence différente sur la perte subie, ce qui déterminera les dommages-intérêts prononcés. Selon la loi sur les marques, l'auteur du préjudice est tenu des dommages et intérêts dus au préjudice. Il y a également la possibilité d'accorder une compensation pour les droits de licence sans qu'il y ait eu une perte relative.

La preuve demandée peut être obtenue par trois voies officielles: 1) par l'intermédiaire de l'huissier, 2) en appelant l'auteur du préjudice à produire des documents ou informations particuliers pendant l'action judiciaire, et 3) administrativement, par la saisie douanière.

Depuis la modification de la loi sur les marques en 2006, les tribunaux ne peuvent plus accorder des dommages-intérêts pour le préjudice d'une marque si l'auteur du préjudice est de bonne foi.

C'est difficile pour le titulaire d'une marque de prouver le montant total de sa perte. Ces dernières années, l'attitude exprimée dans les jugements est devenue de plus en plus favorable et les

dommages-intérêts accordés sont plus importants qu'auparavant. Cependant, le total des frais et des dommages-intérêts accordés ne satisfait que rarement les titulaires de marque. Souvent, les titulaires décident de ne pas poursuivre le dédommagement et se concentrent simplement sur l'empêchement du préjudice.

En ce qui concerne une amélioration de la loi, nous proposons une reconnaissance du fait que par nature, la perte subie par le titulaire de la marque soit souvent considérable, mais très difficilement prouvée. Dans une certaine mesure, cette amélioration pourrait être faite par le déplacement de la charge de la preuve à l'avantage du titulaire de droit. En outre, les tribunaux devraient être disposés à accorder la compensation complète des frais et honoraires d'avocats.

Zusammenfassung

Bei Schadensersatzfragen, sondert dänisches Recht nicht zwischen den unterschiedlichen Rechtsverletzungen. Die verschiedenen Verletzungsformen können unterschiedlichen Einfluss auf die Grösse des Verlusts haben, welche wiederum Einfluss auf die zugesprochene Schadensersatzsumme bekommt. Gemäss dänischen Marken Rechts ist ein Verletzer für jeden Schaden den die Verletzung mit sich geführt hat zum Schadensersatz oder zum Leisten eines Ausgleichs verpflichtet. Beruhend auf ein Lizenz-Konzept kann dem Verletzer auch eine Gebühr ohne entsprechendem Verlust zugesprochen werden.

Zur entsprechenden Beweissicherung kann ein Rechtsinhaber die folgenden drei amtlichen Kanäle verwenden: 1) Ein Vollstreckungsgericht, 2) ein Rechtsverfahren (den Verletzer zur Vorlegung bestimmter Dokumente oder Informationen auffordern), sowie 3) ein Beschlagnahmeverfahren (verwaltungstechnisch durch die Zollbehörde)

Nach Änderung des dänischen Markengesetzes im Jahre 2006, darf ein Gericht einem gutgläubigen Verletzer nun keinen Schadensersatz für Markenverletzung mehr zusprechen.

Die Schwierigkeit für einen Markeninhaber besteht darin den gesamten Umfang seines Verlustes zu beweisen. Die Entwicklung der letzten Jahre hat jedoch eine kulante Haltung in den Beschlüssen sowie höhere zugesprochene Schadensersatzsummen gezeigt. Nichtsdestotrotz stellt ein zugesprochener Schadensersatz oder Ausgleich den Rechtsinhaber selten zufrieden. Es wird daher häufig beschlossen das Verfahren der Schadensersatzforderung nicht zu verfolgen, sondern sich ausschliesslich darauf zu konzentrieren die Verletzung zu stoppen.

Für zukünftige Verbesserungen schlagen wir vor an der Anerkennung bezüglich des Verlustes eines Markeninhabers, der von Natur aus wesentlich, jedoch schwierig zu beweisen, ist, zu arbeiten. In einem gewissen Umfang, könnte sich diese Tatsache durch einen Wandel der Beweislast zugunsten des Rechtsinhabers bessern. Ausserdem sollte ein Gericht Bereitwilligkeit zeigen den gesamten Ausgleich der Rechtsanwaltsgebühren zuzusprechen.