

Report Q203

in the name of the Egyptian 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 Egyptian Intellectual Property Law No. 82 of 2002 (the "Law") recognizes the three different kinds of infringement, counterfeiting and piracy of trademarks and imposes penalties on their violators without offering a separate meaning or regulation in terms of penalties but they can all be defined under the broad context of. Article 113 of the Law which stipulates as follows:

"..... The perpetrator of any of the below acts shall be subject to imprisonment for not less than two months and payment of a fine of not less than five thousand pounds and not more than twenty thousand pounds, or either of them.

Whoever forges a trademark that is registered pursuant to the Law or counterfeits it in any way that leads to the misleading the public.

Whoever uses with **bad faith** a forged or counterfeited trademark.

Whoever affixes on his products with bad faith a trademark owned by a third party.

Whoever sells, offers for sale, deals in or possesses with the intention of selling or deals in products bearing a forged or counterfeited trademark or placed in an illegal manner while being aware of same"

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.

The various forms of violation of trademark rights do not provide for an explicit differentiation on the monetary compensation to be provided to the trademark owner resulting from any violation since in trademark infringement and unfair competition cases, the criteria for measuring monetary recovery are the same as detailed in answer to I (2) below. Thus the impact would be achieved through the means and techniques used by the trademark owner to convince the court of the amount of damage it suffered in order to receive an equivalent compensation.

Also any infringement under the broad meaning of a trademark, which we believe includes counterfeiting and piracy, shall be penalized under Article 66 of the Commercial Code which stipulates as follows:

"All actions that contravene the customs and norms of commercial trading shall be deemed unfair competition, including particularly acts of infringement of trademarks, trade names, patents, trade secrets in the possession of third parties, the right to invest and procuring employees to the shops of third parties in order to they disclose their employers' trade secrets or to cease working with them, in addition to all acts or claims that result in causing confusion to the shop, its products or weakening confidence in its owner, those in charge of its management or his products.

All illegal competition shall oblige its perpetrators to compensate the harm ensuing there from. The court shall be entitled to issue a decision for compensation in addition to ordering removal of the damage. The defaulter shall also bear the expenses of publishing a summary of the judgment in a daily news paper."

The applicant shall file the claim on the merits before the competent court within fifteen days from the issuance of said order or else the court order shall prescribe.

- 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)?

A trademark owner may have rights under tort for damages incurred as a result of the actions of unauthorized competitors pursuant to the Egyptian Civil Code.

There are at least five methods of appraising monetary recovery in the form of the following awards to the plaintiff:

- i) determined by the defendant's profits, either as a method of determining the plaintiff's loss or pursuant to the unjust enrichment theory;
- ii) measured by the actual business damages and losses caused by the wrongdoing;
- iii) determined by its own loss of profits caused by the wrongdoing;
- iv) determined by the loss as to his market share; and
- v) determined by the loss of the plaintiff's representatives.

These five forms of recovery are referred to as "monetary recovery" for determining the injury sustained to either the plaintiff or the public by the defendant's wrong. In any given case, a court may award the plaintiff one or more, or none of the five types of recovery.

- 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.*

As described in 2) above, the courts generally balance several factors when deciding what type, if any, of monetary damages to award, such as whether the defendant was willful, negligent or innocent; whether the plaintiff suffered losses in any provable amount; whether there is proof of actual confusion to some customers; and whether the defendant realized profits from its infringing actions.

- 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?*

Under Article 68 of Law No. 82 of 2002, the right of a trademark owner of a well known trademark recognized internationally and in Egypt shall enjoy protection under Law No. 82 of 2002 even if not registered in the Arab Republic of Egypt. As such, the courts do take into consideration how strong the trademark is in terms of its inherent distinctiveness and popularity acquired through its use and publicity. The trademark

owner could further enhance this aspect by submitting a report evidencing the cost of protecting and developing such trademark.

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

Yes; the courts will probably take into consideration the trademark owner's investment in developing the trademark provided the costs and efforts expended in achieving popularity of the trademark can be proven and evidenced.

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

Yes, the court shall take into account the direct impact of the infringing activity on the trademark owner in terms of profitability since it is actually one of the methods used by the court in appraising monetary recovery.

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

Yes price erosion is a newly adopted concept in Egypt which can be used by the courts when determining damages.

- 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 court generally takes loss of sales which would otherwise have been realized by the trademark owner into consideration if same can be evidenced, as described in (iii) under monetary recovery.

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

Under Article 71 of Law No. 82 of 2002 the right of a trademark owner in preventing parties from importing, using, selling or distributing the products characterized by such trademark shall be exhausted if he markets them in any other country or authorizes a third party to do so.

Consequently, courts will not treat a trademark owner who claims damages due to losses resulting from parallel imports in the same way it would treat a trademark owner who claims damages resulting from the three other different kinds of trademark infringement, as the concept of parallel imports is not deemed a trademark violation under the Egyptian Intellectual Property Law.

- 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:*

As discussed under (2) above the court will usually take into account the trademark owner's losses in profit caused by the wrongdoing and the defendant's profits, as a method of determining the plaintiff's loss.

- a) *What are the key principles?*

Key principles for evaluating the basis of lost or gained profits are account books, vouchers and balance sheets.

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

Under Article 191 of the Executive Regulations of the Egyptian Company Law "net profits" are defined as follows: *those profits resulting from the company's operations during the financial year after deducting all the necessary costs for realizing such profits, calculating*

and setting aside all depreciations and provisions stipulated under the accounting standards and practices before effecting any form of distribution for calculating and setting aside same.

Lost profits can be determined from balance sheet variations between financial statements dated prior to and after occurrence of the trademark infringement. Therefore, a trademark owner is the best party to prove to the court the amount of his lost profits.

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

In the event the court decides to award compensation for damage as a result of acts of infringement it would not specify and distribute the awarded damages instead a bulk amount would be awarded as damages to be divided between a trademark owner and a licensee. Therefore both the trademark owner and licensee must then liaise together to decide how to divide such amount between them should this not be determined under the contract.

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

In determining the amount of damages awarded based on lost profits and other factors described hereinabove, the court generally transfers such cases to the experts for an advisory opinion. Therefore it is highly expected that the court, based on the expert's report, would consider the strength of the trademark in addition to documents submitted by the trademark owner when apportioning the profits.

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

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

There are no criteria for fixing a royalty fee under Egyptian law which would vary from one case to another as regulated by the contract between both parties and/or the provisions determined in said contract.

- 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?*

Yes there is a great possibility that the court would consider that the trademark as being available for license and that the infringer could have applied for a license instead of counterfeiting the trademark.

- 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.*

From a practical point of view and without limitation, a trademark owner can present evidence for consideration in assessing the level of monetary compensation, such as:

- 1) Details of when the trademark owner first began trading, when it started trading internationally and when it started selling its products in Egypt;
- 2) company and trademark profile;
- 3) report by its auditors or an accounting firm evidencing:
 - how much the trademark owner is paying for trademark protection and development; and
 - the amount of damage and reduction in sales in Egypt and neighboring territories as a result of the infringer's activities.
- 4) Accounting books of both the infringer and trademark owner evidencing the amounts of profits gained by the infringer and profits lost by the trademark owner.

- 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 concept of diluting exclusivity is not one of the main factors employed by courts in determining their evaluation. However, if the trademark owner is able to solidly prove his case and evidence that the reputational loss of the trademark resulted in losses to profit, it would probably be taken into account by the court in its assessment.

- 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?*

Yes the moral/wilful element of violating the trademark right and particularly the will to profit or gain from counterfeit activities is an essential factor taken into consideration when evaluating the damages, as stipulated under Article 113 of Law No. 82 of 2002 cited hereinabove.

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.

Courts are unlikely to consider the infringer's ignorance of the trademark unless this is raised by the infringer as in such case there would be no grounds for requesting damages. However in case of repeated infringement Article 113 of the Law, Part (2) provides for a harsher penalty as follows:

"..... in case of repetition the penalty shall be imprisonment for not less than two months and payment of a fine of not less than ten thousand pounds and not more than fifty thousand pounds."

Also in case court accepts the infringer claims for ignorance, the trademark owner could still claim damages under Article 163 of the Civil Code every fault which causes injury to another imposes an obligation of reparation upon the person by whom it was committed. In light of Article 163 the trademark owner would still have justified grounds for compensation if he succeeds in proving to the court the amount injury it sustained due to the infringer's acts.

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?

Yes, the scale of counterfeiting or piracy would influence the assessment of damages and/or account of profits and result in probably greater damages, specially if the trademark right owner is able to evidence losses in exports resulting from counterfeiting and/or piracy of products that are sold overseas.

- 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?*

Evaluation of damages in those cases where the infringement constitutes a violation of a contractual obligation shall depend on the terms of the contract and whether it provides for damages in case of infringement. If not, then assessment of damages shall be determined by the court in accordance with the aforementioned factors.

- 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?*

One of the problems that might arise in challenging the trademark owner's rights is when the infringer acquires a registration of the counterfeited mark with the authorities in order to acquire the right to use same.

Another problem is derived from the fact that usually infringers try to dilute their corporate documents evidencing their profits.

- 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.

Confiscation of counterfeited goods will not influence evaluation of damages as it is an additional penalty over and above compensation as provided in Article 113 of the Law, which stipulates as follows:

"..... In all cases the court shall rule to confiscate the products subject matter of the crime in addition to monies and products resulting therefrom and tools used in the crime.

Additionally, the court may decide to close the establishment used by the perpetrator in committing the crime for a period not exceeding six months when ruling in the indictment and in case of repetition closure shall be mandatory."

In addition to the above, the competent court may issue an order to apply any precautionary measures as stipulated in Article 115 of the Intellectual Property Law which reads as follows:

"The Chief Justice of the court with jurisdiction over the original claim shall, upon request of the interested parties and by virtue of a court order instruct that one or more of the following precautionary measures be taken:

1. Evidencing infringements of the protected right;
2. Carrying out a detailed survey and description of machines and equipment that are used or have been used in committing the crime, and the products and goods or names of stores, packaging, invoices, correspondences, advertisements, etc. on which the infringing trademark, reference or geographic symbol was placed, as well as imported goods upon their arrival;
3. Attaching the items referred to under (ii) above.

In all cases, the Chief Justice may order the appointment of one or more experts to assist the bailiff who is assigned to execute the court order and may also order the applicant to pay an appropriate security deposit.

- 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.*

Jurisprudence is usually cited in memoranda of defense submitted by trademark owners to courts to support acceptance of a claim.

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; we believe the degree of certainty in evaluating compensation is insufficient since despite having five methods of appraising monetary recovery which act as guidelines for judges

to determine the injury that either the plaintiff or public has suffered by the defendant's wrongdoing, it still requires a great deal of effort on the part of claimant to evidence the amount of his losses and receive a satisfactory 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.*

Given that according to the Egyptian Civil Code Courts are granted a discretionary power to determine the amount of damages awarded in the absence of a written agreement using the guidelines outlined hereinabove, we believe that it would be useful to tackle issues relating to the formation of the courts panels in each jurisdiction in having specialized courts for adjudicating cases of a commercial nature relating to compensation and specific training for such judges in order to enhance their ability to evaluate compensations. Furthermore, in Egypt the courts usually transfer such cases for the review of experts who are usually better qualified to determine same; accordingly, we believe that review of their business conduct could be advantageous.

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 are of the view that there should be universally accepted general principles and guidelines for courts to use when evaluating damages for trademark right violations. Notwithstanding, it may be too early and difficult to adopt an international treaty with regards to a unified principle to cover all jurisdictions, which differ greatly in their legal systems.

- 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 believe a harmonized system would be achieved if it incorporates the following:

- Adopting a clearer demarcation between the three types of infringement and the resulting penalties and damages in order they are assessed on a more concrete basis without the claimant being obliged to evidence the amount of his losses in order to achieve a satisfactory compensation.
- Appointing extra experts who are specialized in intellectual property rights.
- Establishing specialized courts with experts for determining monetary compensation as the current process prolongs the finalization of cases. It should be noted that the Egyptian parliament recently raised the possibility of investigating the creation of specialized courts for economic litigation.
- Providing judges with training on intellectual property matters.

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

We recommend that Egyptian judicial system implements the concept of specialized courts and increases the numbers of experts to upgrade the efficiency and speed of finalizing cases.

Summary

Law No. 82 of 2002 recognizes the three different kinds of infringement and imposes penalties on their violators who can also be penalized under Article 66 of the Egyptian Commercial Code in addition to possible rights under tort for damages incurred as a result of the actions of infringers pursuant to the Egyptian Civil Code.

As yet, the Law does not provide for an explicit differentiation with regards to the monetary compensation awarded but there are provisions for the courts to appraise monetary recovery. The courts generally balance several factors when evaluating damages such as whether the defendant was willful, negligent or innocent; whether the plaintiff suffered losses in any provable amount; whether there is proof of actual confusion to some customers; and whether the defendant realized profits from its infringing actions which requires a great deal of effort on the part of trademark owner to achieve satisfactory compensation.

Therefore we hope the Egyptian legislation would adopt a clearer approach to differentiate between the three types of infringement and corresponding penalties to avoid such effort on the part of the claimant, and that court investigate the creation of specialized courts for economic litigation.