

## **Report Q203**

in the name of the Estonian 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.*

According to the Penal Code there are two kinds of infringement, counterfeiting and piracy generally recognized: intentional act and negligent act.

Intent is deliberate intent, direct intent or indirect intent. A person is deemed to have committed an act with deliberate intent if the aim of the person is to create circumstances which belong to the necessary elements of an offence and is aware that such circumstances occur or if he or she at least foresees the occurrence of such circumstances. A person is also deemed to have committed an act with deliberate intent if the person assumes that the circumstances which constitute the necessary elements of an offence are an essential prerequisite for the achievement of the aim. A person is deemed to have committed an act with direct intent if the person knowingly creates circumstances which belong to the necessary elements of an offence and wants or at least tacitly accepts the creation of the circumstances. A person is deemed to have committed an act with indirect intent if the person foresees the occurrence of circumstances which constitute the necessary elements of an offence and tacitly accepts that such circumstance may occur.

A person who at the time of commission of an act is unaware that a circumstance which constitutes a necessary element of an offence is not deemed to have committed the act intentionally. In such case the person shall be held liable for an offence committed through negligence in the cases provided by law. A person who at the time of commission of an act erroneously assumes circumstances which would constitute the necessary elements of an offence for which a more lenient punishment is prescribed, shall be liable for an intentional offence the commission of which the person intended. Ignorance of law shall not preclude intent or negligence.

Negligence is recklessness or carelessness. A person is deemed to have committed an act through recklessness if the person foresees the occurrence of circumstances which constitute the necessary elements of an offence but, due to inattentiveness or irresponsibility, seeks to avoid the occurrence of such circumstances. A person is deemed to have committed an act through carelessness if the person is unaware of the occurrence of a circumstance which constitutes a necessary element of an offence but should have foreseen the occurrence of the circumstance in the case of attentive and conscientious performance.

The Estonian Trade Marks Act lays down criminal offences specific to counterfeiting and piracy. It protects against unauthorised copying of registered or well-known trademarks. It will also involve providing a range of sanctions such as imprisonment, fines, confiscation of goods and equipment used in the manufacture or distribution of counterfeit goods.

*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.*

Knowing violation of the exclusive rights of the owner of a trademark provides higher monetary compensation than unlawful act committed through negligence.

- 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.*

Article 101 of the Civil Code sets out the compensation principle that the victim should be placed in the situation in which it would have been had the infringement not happened. It is requested to provide direct relationship between the profits realised by the infringer and the harm suffered by the trademark owner. According to Article 57 (1) 2) the Trademark Act the proprietor of a trade mark may file an action against a person infringing the exclusive right, including a licensee who violated the terms of the licence agreement for compensation for patrimonial damage caused intentionally or due to negligence, including loss of profit and moral damage.

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

The assessment is based according to the civil general liability rules.

- 3) *The Groups are asked to indicate what factors are taken into account in the assessment of damages and how the value of the trademark is used in this assessment.*

The assessment of damages is mainly based on the losses suffered and the profits of which the trademark rights owner has been deprived. The courts also use additional aspects to assess the damages to be awarded to the trademark owner, such as the volume of the infringing activity, the well-known character of the infringed trademark and the nature of the goods at issue. In order to establish the value of a trademark as a right and assessment must be carried out. The victim has the right to apply for a corresponding examination to be carried out, or to provide an expert opinion.

- 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?*

We expect that to some extent the Courts shall consider these criteria, but there is no case law yet.

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

Yes, the investment as a part of the value associated with the mark shall be taken into consideration upon recognising a trademark as being known or well known.

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

If the damages caused to the trademark owner are considered to be the trademark owner's lost profit, then the plaintiff must prove the causal connection between the damages and the infringing activity since loss of profit can be caused by other market circumstances.

- d) *Do the Courts take into account price erosion? If so, how?*  
It is unclear due to lack of any court cases in this field.
- 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?*  
Difference is made and both or either may be considered in the assessment of damages depending on particular circumstances.
- f) *Do the Courts treat parallel imports differently? If so, what is the legal basis for this differentiation?*  
It is unclear due to lack of practice in this field.
- 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 have not been established due to lack of practice.
- b) *How are the profits defined and how are they calculated?*  
Calculations are based on the lost income of the trademark owner that would be received through the selling of the genuine product, or on the sales of the infringing product and the entire profit realized on those sales for trademark infringement.
- c) *What shares of the profits are attributed to the trademark owner and any licensees?*  
In case damages are claimed by both trademark owner and licensees it is expected that distribution of profits, or loss of profit for that matter, is regulated in the license agreement or a further agreement between these parties.
- d) *Does the strength of the trademark come into play in apportioning the profits?*  
It is not clear due to the lack of existing case law in this field. We can expect that practice in other countries and ECJ will influence the practice of the Estonian courts.
- 5) *In case the monetary compensation is assessed on basis of a royalty,*
- a) *How is the royalty rate fixed?*  
There are no general rules for fixing royalty rate.
- 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?*  
The Courts shall take into consideration the price the violator should have paid if he would have obtained the license for the use of the relevant right. It is possible to set reparations in a specific amount when a trademark license was issued for payment and that payment can be used to establish the amount of reparations. In case no licenses were issued for the specific trademark, then the data of similar transactions in the market can be used to calculate the amount of reparations.
- 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.*  
According to Article 57 (1) 2) the Trademark Act the proprietor may request from the person infringing the exclusive right, through the court, information concerning the origin, the manner

and channels of distribution and the amount of unlawfully designated goods, including the names and addresses of the manufacturer, supplier, previous proprietors and resellers of such goods, if the proprietor of a trade mark has filed an action for the protection of an exclusive right. Article 280 of the Code of Civil Procedure states that if an action is filed due to an infringement or danger of infringement of copyright and related rights or industrial property rights, the court may require at the reasoned request of the plaintiff that the defendant or another person provide written information concerning the origin and distribution systems of the goods or services infringing a right arising from intellectual property. The court may request information from a person infringing the rights in the production or distribution of such goods, or provision of such service. In order to establish the value of a trademark as a right and assessment must be carried out. The plaintiff has the right to apply for a corresponding examination to be carried out, or to provide an expert opinion.

- 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?*

Since no court decisions have been passed regarding monetary compensation awarded in counterfeiting or trademark infringement cases, the question of the prejudice suffered by the trademark owner to the trademark in a reputational sense is also lacking any case law in this field.

The damage caused in this respect may express, for instance, the depreciation of the reputation of a trademark. Based on our legislation, especially considering the definition of the "monetary damage" stated by the law, while if it could be proved and shown to the court that the injured party has suffered the decrease in the value of property due to the depreciation of the trademark (even if it will be incurred in the future), the damages of the injured party should be recoverable under the monetary damages.

- 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?*

Since no case law exists in this respect, it may be concluded based on our legislation that the nature of the liability may be taken into account while establishing the amount of the monetary compensation (based on Article 140(1) of Law of Obligations Act). Therefore, the wilful element of the violation may be considered in the evaluation of the 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.*

*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?*

Complicated to answer due to the lack of any case law in this field.

- 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 general principles in the evaluation of damages in the violation of the contractual obligations are same, but while the tort liability is based on the culpability of the tortfeasor, the culpability is not relevant in cases of the violation of contractual obligations, unless the

contract includes the provision that the party violating the contractual obligation is liable for the damages in case of his culpability.

Otherwise, a person violating the contractual obligation is relieved from the liability only in cases of excuse (i.e. in case of force majeure).

- 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?*

Since no case law exists in this field, it would be complicated again to comment the question. Some cases are pending at the court and the real outcome of the results is not predictable.

Still, the current lack of any case law may be in some aspects associated with the problems in calculating the damages in the counterfeiting and trademark infringement cases, while having no real experience so far. Also, from the other side, the Estonian market is so small that does not probably encourage the trademark owners to claim for the damages that are in many cases complicated to calculate and to prove to the court. The monetary compensation claims have been decided by the courts in other aspects of the law, while the persons have unlawfully caused the damages, but since the trademark field is quite specific, these decisions and calculation methods can be regarded just as some guidance, but cannot be brought over entirely into the field connected with counterfeiting and trademark infringement cases.

Obviously a new provision of our legislation, i.e. the second sentence of Article 127(6) of Law of Obligations Act, which states that "If the compensation is requested for the infringement of copyright, related rights or industrial property rights, the court may, if this is reasonable, to award the damage as a fixed amount, taking into consideration *inter alia* the price the violator should have paid if he would have obtained the license for the use of the relevant right" is providing more substantial grounds in the arguments and calculation methods, encouraging the trademark owners to claim for monetary compensation in unlawfully caused actions by the persons violating their rights.

- 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.*

Complicated to answer due to the lack of any case law in this field. However, that fact of confiscation should under Estonian legislation have no effect on evaluating 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.*

*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.*

Complicated to comment due to the lack of any case law in this field.

- 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.*

We would leave this unanswered for the time being until our group obtains more experience on this particular matter.

## **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.*

The Estonian group believes that it would be beneficial to harmonise and establish internationally a general framework for the evaluation of damages for violation of the trademark rights and this should be undertaken through an international treaty, if 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.*

We would leave this unanswered for the time being until our group obtains more experience on this particular matter.

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

Further developments of the calculation of the amount of damages for infringement, counterfeiting and piracy of trademarks should be constantly monitored and we encourage AIPPI to address this issue in more detail as soon the implementation legislation of the Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights has been strengthened.

### **Summary**

Estonian national law distinguishes between different kinds of infringement and counterfeiting of trademarks as provided in the Estonian Trademarks Act and other related legislation such as the Penal Code and the Law of Obligations Act.

Estonian national law sets out the compensation principle that the victim should be placed in the situation in which it would have been had the infringement not happened. It is requested to provide direct relationship between the profits realised by the infringer and the harm suffered by the trademark owner. The assessment is based according to the civil general liability rules and several factors are taken into account in the assessment of damages.

The Estonian group believes that it would be beneficial to harmonise and establish internationally a general framework for the evaluation of damages for violation of the trademark rights and if necessary this should be undertaken through an international treaty.

### **Résumé**

La loi nationale estonienne fait la distinction entre les différents types de l'imitation et le contrefaçon de marques, se basant sur la Loi Estonienne des Marques et les autres législations liée comme le Code Pénal et la Loi de Droit des Obligations.

La loi nationale estonienne prévue le principe de compensation, selon lequel la victime doit être placée dans la situation dans laquelle il aurait été sans l'acte de l'imitation. Il est demandé de fournir le rapport direct entre les profits obtenus par le transgresseur et le mal subi par le propriétaire de marque. Le jugement se fonde sur les règles de responsabilité générales civiles tandis que dans l'évaluation de dommages on prend en considération plusieurs facteurs.

Le groupe estonien croit qu'il serait favorable d'harmoniser et d'établir un cadre général international pour l'évaluation des dommages en cas de violation des droits de marque et, en cas de besoin, cela devrait être entrepris par un traité international.

### **Zusammenfassung**

Estnisches staatliches Recht unterscheidet zwischen unterschiedlichen Arten der Verletzung und dem Fälschen von eingetragenen Marken, wie in den estnischen Markengesetz zur Verfügung gestellt fungieren und andere in Verbindung stehende Gesetzgebung wie der Strafcode und das Schuldrechtgesetz fungieren.

Estnisches staatliches Recht legte die Ausgleich Grundregel dar, dass das Opfer in die Situation gelegt werden sollte, in der es der nicht geschehenen Verletzung gehabt worden sein würde. Es wird verlangt, um direktes Verhältnis zwischen den Profiten, die durch das Verletzer verwirklicht werden und dem Schaden zur Verfügung zu stellen, der vom Markeninhaber erlitten wird. Die Einschätzung basiert entsprechend den allgemeinen Verbindlichkeit höflichrichtlinien und einige Faktoren werden in Betracht in die Schadensermittlung gezogen.

Die estnische Gruppe glaubt, dass es vorteilhaft sein würde, einen allgemeinen Rahmen für die Auswertung der Beschädigungen für Verletzung der Markenrechte international zu harmonisieren und herzustellen und wenn notwendig dieses durch einen internationalen Vertrag aufgenommen werden sollte.