

Report Q203

in the name of the Israeli Group
by Tal BAND

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.

There is no statutory distinction between infringement, counterfeiting and piracy of trademarks, nor does case law make any such explicit distinction.

- 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)?

While trademarks are, of course, proprietary rights, case law does not explicitly discuss the theoretical basis for assessing damages for trademark infringement. The kinship of trademark infringement and passing off under Israeli law may suggest civil liability as the grounds for assessing damages. Indeed, case law sometimes makes recourse to torts legislation (namely, the Commercial Civil Wrongs Law) in order to award statutory damages for trademark infringement, as compensation under the Trademarks Ordinance is contingent upon proving actual damage suffered by the trademark proprietor.

Usually, courts do not carry out a detailed assessment of damages resulting from trademark infringement and award damages "at large". As noted above, since the introduction of the Commercial Civil Wrongs Law in 1999, which provides for statutory compensation for passing off (up to a specified limit), courts sometimes rely on the recourse available under such law in order to award statutory compensation for trademark infringement as well. In the majority of cases, said statutory compensation for trademark infringement is awarded by way of estimation, up to the maximum amount set out in the Commercial Civil Wrongs Law for statutory damages. Case law suggests that such compensation contains punitive elements and is not solely based on actual quantification of damages suffered or profits lost by the trademark owner.

- 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?*
- b) *Do the Courts take into consideration the investment made by the trademark owner in order to make the trade mark known?*
- c) *Do the Courts consider what direct effect the infringing activity has had on the trademark proprietors profitability? If so, how?*
- d) *Do the Courts take into account price erosion? If so, how?*
- 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?*
- f) *Do the Courts treat parallel imports differently? If so, what is the legal basis for this differentiation?*

The factors relevant to estimating compensation include, but are not limited to, the following: term and scope of infringement, wilfulness of the infringer, infringer's profits attributable to the infringement, profits lost on account of the infringement, commercial strength and nature of the infringer, price erosion and cease and desist notices prior to suit.

Parallel importation of trademarked goods of genuine origin is allowed under Israeli law and does not amount to trademark 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?*
 - b) *How are the profits defined and how are they calculated?*
 - c) *What shares of the profits are attributed to the trademark owner and any licensees?*
 - d) *Does the strength of the trademark come into play in apportioning the profits?*

An infringer's profits that are taken into account for estimating compensation to the trademark owner, are those attributable to the infringement (i.e., profits from customers confused by the trademark) and not the total sales made under the infringing mark. Restitution may also be obtained under the Unjust Enrichment Law.

- 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?*

No case law was found on this point, but an analogy may be drawn from the Patents Law, which acknowledges this factor.

- 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.*

When a special relationship exists between the trademark owner and the infringer (i.e., contractual or license-based), the trademark owner may plead for a giving of accounts procedure which will oblige the infringer to reveal his earnings owing to the infringement and thus owed to the trademark holder. It has been suggested that the giving of accounts excludes other compensation.

The Commercial Civil Wrongs Law, which provides for the tort of passing off, allows the court to issue an *Anton Piller*-like order, i.e. appointing an official receiver who will be authorized, *inter alia*, to enter the premises of the defendant and of third parties in order to seize goods used to commit the tort and to seize evidence where there is a reasonable suspicion of their concealment. The Civil Procedure Rules, 1984, provide for a similar injunction.

The Merchandise Marks Ordinance provides for criminal proceedings concerning false commercial descriptions (including trademarks) of goods. Under this legislation, the sale of infringing goods in good faith, despite taking all necessary precautions in ascertaining the relevant IP rights, will nevertheless be deemed a criminal offence, unless the seller disclosed, at the demand of the IP proprietor, any information in his possession regarding the source of the infringing goods. Furthermore, a person using another's trademark bears the burden of proof regarding the trademark owner's permission for said use. The Merchandise Marks Ordinance allows the court to grant a search order for the falsely marked goods.

In implementation of Articles 51-60 TRIPS, the Trademarks Ordinance and the Customs Ordinance allow the customs authorities, *inter alia*, to suspend the release of goods allegedly in infringement of trademark rights, at the request of a trademark holder, so that he may inspect the goods in question and learn the identity of the importer in order to substantiate his claims.

The Value Added Tax Law, 1975, enables third parties to petition the Minister of Finance to disclose otherwise confidential information procured by the relevant authorities in implementation of said legislation. Such information may be useful to IP proprietors in assessing the scope of infringement, as well as ascertaining the source of the infringing goods.

- 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 theory of trademark dilution is part and parcel of Israeli trademark law, but is yet to leave its mark with regard to evaluating compensation.

- 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?

As mentioned, statutory compensation for trademark infringement is of a punitive nature and takes into account the measure of the infringer's wilfulness. In one case, it was held that passive infringement with no intent to deceive (i.e., not removing a trademark from machines sold to the infringer by the trademark owner, who did not timely demand their removal) is taken into account when awarding lower compensation.

- 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?*

Previous contractual or license-based relations between the trademark owner and the infringer may allow recourse to contractual or quasi-contract suits, instead of a trademark infringement suit.

- 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?*

When discovery proceedings fail to establish the infringer's profits attributable to the infringement, or when such profits anyhow cannot project the sum of damages to the trademark proprietor (as per dilution, for instance), plaintiff has little leeway to prove with sufficient evidence his damages to profit and goodwill.

Israeli courts are well aware of the difficulty in establishing actual damages in IP infringement cases, allowing for frequent recourse to other routes for compensation, such as statutory compensation or restitution.

- 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.

The Trademarks Ordinance allows the court to transfer ownership of the infringing goods to the trademark owner, in return for consideration equal to the value of the goods, but for the infringement.

- 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.

Israeli case law does not offer a sufficiently coherent or detailed framework for the assessment of compensation for trademark infringement. In appropriate cases, an analogy may be drawn from case law regarding compensation from patent or copyright infringement.

- 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.*

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.*

No.

- 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.*