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Report Q203

in the name of the Luxembourg Group
by Nicolas DECKER

Damages for infringement, counterfeiting and piracy of Trademarks

Questions

I) 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.

   Luxembourg law does not distinguish between different kinds of infringement, counterfeiting and piracy of trademarks.

   If the infringer is acting with bad faith (this is the case when there is counterfeiting or piracy) the damages allowed by the courts will be higher.

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)?

   The assessment of damages is based on the ground of civil liability (article 1382 of the Civil Code).

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 otherwisehave 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 courts take into account, when determining the damages, all aspects of the case, namely the negative economic consequences suffered by the trademark owner, as his loss of profits and his moral damage and, on the other hand, the profits arising to the infringer.

The courts have also the possibility to fix a lump sum, which has to reach at least the amount of royalties or fees which would have been due by the infringer if he had requested the autorisation to use the trademark in question. (see Article 2.21 of the Benelux Treaty on intellectual property)[1].

Points a) to c), being negative economic consequences for the trademark owner, can be taken into consideration by the courts. As no case law exists for the time being, points d) and e) will most probably not be taken into account by the courts.

Parallel imports are not treated differently.

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?*

The law does not determine how the profits are defined and how the are calculated. No case law exists for the time being.

It will be most difficult to determine the lost profits of the trademark owner. If the court will apply this criteria, the damages will be determined *„ex aequo et bono."*

The profits which have arise to the infringer will be determined on the basis of his accounts.

The courts have the possibility to appoint an expert.

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?*

The law gives the courts the possibility, when determining the damages, to take into account the amount of the license fee or royalty the infringer would have paid if he had been authorized by the trademark owner to use the trademark.

The trademark has to be available for license which, generally, means that the lincense fee is known.

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.*

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[1] The Benelux Treaty on intellectual property (Convention Benelux en matière de propriété intellectuelle (marques et dessins ou modèles) has come into force on 1 September 2006.

According to article 2.22 (4) of the Benelux Treaty on intellectual property the courts may order that information on the origin and the distribution networks of the goods or services which infringe the trademark be provided by the infringer to 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 damage which occurs to the trademark in a reputational sense is one of the elements the courts will take into account when determining the damage. For the time being there is no case law in Luxembourg. As Belgian courts have already taken into account the damage which occurs to the trademark in a reputational sense, Luxembourg courts will most probably take the same decision.

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?

Moral element: see answer to question 7).

The ignorance of the trademark (the infringer is of good faith) will have as result that the court will reduce the damages. Article 2.21 (4) of the Benelux Treaty on intellectual property allows the trademark owner to claim not only damages (see question 3)) but also the transfer of the profits (cession du bénéfice) of the infringer. This „double damage“ is not possible, if the infringer is not of bad faith.

Scale of the counterfeiting: see answer to question 7).

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?*

Yes, the evaluation of damages will base on the same principles, if there is a violation of a licence.

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?*

The assessment of damages is difficult, as the trademark owner has to prove its damage.

As to the account of profits it is up to the infringer to give the court the different elements, which will enable the judges to determine the damages.

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.

According to article 2.22 (1) of the Benelux Treaty on intellectual property the courts may order, at the request of the trademark owner, the following measures:

– Recall of the infringing goods from the channels of the commerce.

– Definitive removal from the channels of commerce.

– Destruction of the goods.

These measures apply not only to the infringing goods but also to the material and the instruments which have been used in the creation of these goods.

These measures do not influence the evaluation of 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.

As courts decide mostly *„ex aequo et bono"* the jurisprudence is not very useful for the assessment of monetary compensation.

This will be different when the courts will apply the new Benelux regulation, which has come into force in 2006.

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.*

Text

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.*

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.*

Once the directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 transposed in the national laws of the EU- member states an important harmonization, as Europe is concerned, will be realized.

The principles of this directive can initiate a wider harmonization on an international level.