

Report Q203

in the name of the Norwegian Group
by Thomas RUKIN

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.*

Norwegian trademark law does not distinguish between different kinds of infringement, counterfeiting and piracy of trademarks. However, the law distinguishes between wilful and negligent infringement and also between good and bad faith on the part of the infringer.

Under the Norwegian Trademarks Act, a trademark owner is not automatically entitled to claim damages from the infringer, if the infringement was made in good faith. It is up to the court's discretion to decide if it is reasonable to award compensation for the infringing use, and compensation for any further damage suffered.

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 answer is yes, see the answer to question 2 for further detail.

- 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.*

Under the Trademarks Act, the trademark owner is, entitled to compensation for the use, usually understood to mean a "reasonable license fee", as well as compensation for any further loss. The latter is usually understood to mean that the right owner can claim his loss of gross margin on sales that the infringer deprived him of. Also the loss of good will and compensation for future expenses to repair the damages consisting in disruption or disturbances in the marketplace are sometimes claimed. The courts' willingness to award compensation for such losses is somewhat varying. Some authors on the subject advocate that the right owner should be entitled to claim that the infringer render up the profits he has reaped from the infringing activities, if that is higher than the financial losses caused to the right owner. Others advocate the principle of a reasonable compensation for the use. Punitive damages are not awarded and no one appears to be in favour of introducing them.

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 on the principle that the right owner should be compensated for his losses (the principle of "reparation") caused by the wrong done to him, however with rules on mitigation in cases where the infringer was not much to blame. Further, the assessment should

ensure the right owner a compensation for the exploitation of his efforts, which have resulted in the creation of the IP. Finally, the “deterrent” effect of the liability also plays a role, but admittedly this is not an important element, neither in Norwegian tort law, nor in the acts that have provisions governing the assessment of damages for violations.

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?*

Yes, the Courts would take the strength of the trademark into consideration when assessing the “reasonable license fee”. It is thought that the inherent distinctiveness approach would not so easily be taken by a Court, but certainly the trademark owner would rely on evidence to show widespread, long and intensive use of the mark.

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

Yes, that would be one element in the overall assessment.

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

The Courts would not investigate this if it was not relied upon by the trademark proprietor, but even then, the focus is on the loss of profits caused by the infringement. It is thought that the Courts would not be particularly interested in the impact of the infringement on profitability.

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

Yes, the Courts would take price erosion into account, if this was (convincingly) argued by counsel.

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?*

Yes the Courts would distinguish between the two. If the Court is to assess the lost profits of the trademark proprietor, it will have to decide the number of lost sales and the gross margin that was thereby lost. If the Court was to assess the profits reaped by the infringer, the sales made by it would matter. Only in the case of a market with only two suppliers and full exchangeability would the number of sales lost by one equal the increase in the sales of the other.

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

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?*

Lost profits: loss of gross margin (number of sales lost x average gross margin)
Account of profits: number of infringing sales x gross margin.

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

See answer to 4) a).

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

It is not possible to answer this question, without knowing the product or service involved, and even then it might be guesswork.

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

No.

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

a) *How is the royalty rate fixed?*

If possible, by finding what the usual royalty rate is in commercially negotiated license agreement in the relevant market.

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?*

If the mark is available for license, then the royalty rate it can be licensed for will be applied to calculate the compensation for the use.

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.*

There is no pre-trial discovery. Prior to trial, a party may request that the other party produce documents in its possession. There is a duty to comply, provided the documents requested are relevant, but the request has to specify which document or documents are requested to be disclosed. However, the it is not necessary to know the date of a document or the identity of the person that prepared or sent it. If a party fails to comply, the court may order that the document be disclosed. As to information not to be found in any document, the trademark owner can ask that information needed to calculate the damages claim be disclosed, and failure by the infringer to assist in this regard may backfire on it, meaning that the Court would be likely to go with an estimate prepared by the claimant.

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?*

There are examples of this form of prejudice having been considered by the courts, often in conjunctions with "loss of goodwill", "market disturbances", "falling prices", etc. The Courts require that the prejudice should have produced a financial loss, since non-economic losses are not compensated.

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 moral/wilful element of the violation of a trademark right is taken into consideration in the evaluation of damages, since if the violation occurred in good faith, the award of compensation is the Court's discretion. When the violation was wilful or negligent, the Court can mitigate the compensation, depending on the moral element of the violation.

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.

Ignorance of the trademark may have an impact on the assessment, whereas ignorance of the infringement will not.

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?

In principle, no, since the law on compensation for damages has no punitive element in the Norwegian.

- 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?*

It is thought that it would be.

- 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 main problem facing the trademark owner is substantiating his own loss of profit. Besides the reluctance many businesses will feel against disclosing in open court and to competitors their cost structure and margins, there is often the difficulty in substantiating what sales the trademark owner would have made, had it not been for the infringing activities. Turning to the "reasonable license fee" approach, there are many product markets in which trademark licensing does not occur. Trying to find out what the average license fee is for trademarks is often difficult or impossible.

- 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.

In the case of infringing products that have been confiscated or withdrawn from trade, the primary remedy is for the illicit sign to be removed, deleted or modified so that it no longer constitutes an infringement. If this is viable, but also if the infringing products have to be destroyed, the Courts will maintain that the trademark owner has suffered no loss relative to any products that never made it to the market.

- 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.

The jurisprudence is a useful source of information when assessing the monetary compensation for the violation of trademarks rights.

The Norwegian group believes that the degree of certainty in the law on evaluation of the compensation is generally satisfactory.

- 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.*

The Norwegian group would favour the introduction of a rule that, at least in all situations where the infringement was wilful or grossly negligent, the compensation should be evaluated, at the discretion of the trademark owner, on the basis of the higher of

- a) the trademark owner's loss of profit + any additional damages or costs, including costs necessary to limit the losses or re-establish the reputation of the mark, and
- b) an account of the profits arising from the infringement,

the trademark owner to retain the option of claiming, instead, compensation for the use of the mark.

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 Norwegian group holds the view that, provided that most jurisdictions afford the trademark owner the right to full compensation for his economic losses caused by the infringement, and national provisions ensure that, at least in case of wilful or grossly negligent conduct of the infringer, he may have to render up all the profits made on his infringement, further harmonisation may not be necessary. The group accepts that some jurisdictions afford the trademark owner the right to triple damages or similar "enhanced" damages. If the risk of detection is limited, the consequences of detection may have to be harsher, to achieve a satisfactory level of deterrence. However, also the likelihood of, and the consequences of criminal prosecution play a role here, and the group believes that the importance lies in the aggregate effect.

- 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.*

As mentioned above in the answer to question 13, a system based on account of profits, however never less than full compensation for any losses suffered, would be a sound basis for harmonisation.

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

No suggestions.

Summary

The law distinguishes between wilful and negligent infringement and good and bad faith on the part of the infringer, but not between different categories of infringement. The trademark owner is entitled to compensation for the use of the trademark ("a reasonable license fee") as well as compensation for any further loss (only if exceeding the former). Loss of gross margin and loss of goodwill and disruption of the market are often claimed. Punitive damages are not available.

The Courts will look into actual loss sales when assessing loss of gross margin, but will look to all sales made by the infringer if the "reasonable license fee" compensation is to be determined. Some authors have advocated that the Courts could award compensation on the basis of an account of the infringer's profits. The Norwegian Group believes that whenever the infringement was wilful or grossly negligent, the compensation should be, at the discretion of the trademark owner, equal to his loss of profit plus any additional damages or costs or an account of the profits reaped by the infringer, the option of claiming, instead, compensation for the use of the mark always to remain

available as an alternative. The Norwegian Group would favour international harmonisation on the basis of this approach at least as a minimum solution.

Résumé

La loi discerne entre la contrefaçon volontaire ou négligente et la bonne ou mauvaise foi du contrefacteur, mais pas entre les différentes catégories de contrefaçon. Le propriétaire de la marque de fabrique est titulaire des dommages et intérêts pour l'usage de la marque ("une indemnité compensatrice adéquate") et aussi des dommages et intérêts pour quelque perte en plus (uniquement si elle excède la compensation). Les titulaires des marques contrefaites réclament souvent la perte de marge brute et la perte des fonds de commerce/goodwill, et la compensation pour les interruptions du marché dérivantes de la contrefaçon. La loi norvégienne ne connaît les dommages punitifs.

En évaluant les pertes de marge brute les tribunaux examinent les pertes de ventes réelles, mais s'il s'agit de déterminer quelle sera "l'indemnité compensatrice adéquate", il examinent toute vente faite par le contrefacteur. Quelques auteurs ont soutenu que les tribunaux peuvent, même sous la loi actuelle, adjuger des dommages et intérêts sur la base d'un calcul des profits du contrefacteur. Le groupe norvégien estime que chaque fois que la contrefaçon est intentionnelle ou le coupable négligent, la compensation devrait être, à la discrétion du propriétaire de la marque, égale aux pertes du titulaire plus quelque dommage ou coût supplémentaire ou au profit fait par le contrefacteur, l'option de réclamer, au lieu de ce qui a été mentionné ci-dessus, une compensation pour l'usage de la marque, restant toujours une alternative valable. Le groupe norvégien est pour l'harmonisation internationale sur la base de cette approche, en tout cas comme une solution minimum.

Zusammenfassung

Das norwegische Recht unterscheidet zwischen vorsätzlichem und fahrlässigem Verstoß und Gut- und Bösgläubigkeit des Rechtsverletzers, aber nicht zwischen unterschiedlichen Kategorien von Verstößen. Der Eigentümer einer Marke ist berechtigt, eine Entschädigung für die Nutzung der Marke zu verlangen ("eine angemessene Lizenzgebühr"). Darüber hinaus hat er einen Anspruch auf Entschädigung jeglichen weiteren Schadens (d.h., der Schaden, der über den bereits geltend gemachten Schaden hinausgeht). Häufig wird Schadensersatz im Hinblick auf Rückgang und Verlust von Bruttogewinnmargen, Good-will und Marktstörung eingeklagt. Entschädigungszahlungen mit Strafcharakter („punitive damages“) sind nicht zugelassen.

Die Gerichte werden bei der Festsetzung des Verlusts von Bruttogewinnmargen die tatsächlichen Verkaufsverluste untersuchen. Für den Fall jedoch, dass eine Entschädigung auf Grundlage einer "angemessenen Lizenzgebühr" festzusetzen ist, werden die Gerichte sämtliche Verkäufe des Rechtsverletzers bei ihrer Bewertung hinzuziehen. Einige Autoren haben vorgeschlagen, dass die Gerichte die Herausgabe des vom Rechtsverletzer erwirtschafteten Gewinns zugunsten des Eigentümers des Schutzrechtes zusprechen sollten. Bei vorsätzlichen oder grob fahrlässigen Verstößen sollte die Entschädigung nach Ansicht der norwegischen Gruppe nach dem Ermessen des Markeninhabers der Höhe nach gleich dem entgangenen Gewinn bemessen sein zuzüglich jeglicher zusätzlicher Schäden oder Kosten oder auf Herausgabe des vom Verletzter erwirtschafteten Gewinns lauten mit der stets als Alternative verbleibenden Möglichkeit, den für die Nutzung der Marke entsprechenden Betrag einzufordern. Die norwegische Gruppe würde eine internationale Harmonisierung auf Basis der hier vertretenen Betrachtungsweise jedenfalls als Mindestlösung befürworten.