

Report Q203

in the name of the Philippine Group

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.

While Philippine intellectual property law¹ treats trademark counterfeiting and piracy as species of "infringement", the law however makes a distinction regarding the means of committing infringement, viz.:

- Use in commerce of any reproduction, counterfeit, copy, colourable imitation of a registered mark/container/dominant feature thereof in connection with the following acts:
 - sale
 - offering for sale
 - distribution
 - advertising
 - preparatory steps necessary to carry out the sale of such goods or serviceswhich use is *likely to cause confusion*, to **cause mistake**, or to **deceive**.
- Reproduction, counterfeiting, copying or making colourable imitations of a registered mark or a dominant feature thereof, and the application of such reproductions, counterfeits, copies or colourable imitations to labels, signs, prints, packages, receptacles or advertisements intended to be used in the sale, offering for sale, distribution, advertising of goods or services, or in connection with such use is *likely to cause confusion*, to **cause mistake**, or to **deceive**.

Infringement takes place at the moment any of the aforementioned acts are committed regardless of whether or not there is actual sale of the goods or services using the infringing material, but the amount of damages that may be recovered depends on whether or not the offender committed the foregoing acts with the knowledge that such imitation is likely to cause confusion, to cause mistake, or to deceive.

¹ All the intellectual property laws in the Philippines are codified and embodied in Republic Act No. 8293, otherwise known as the "Intellectual Property Code of the Philippines". Under Section 4 of the Intellectual Property Code, the term "intellectual property rights" consists of: a) copy right and related rights; b) trademarks and service marks; c) geographic indications; d) industrial designs; e) patents; f) layout-designs (topographies) of integrated circuits; and g) protection and undisclosed information".

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.*

- General Rule: Under the Intellectual Property Code of the Philippines, the owner of a registered mark may recover damages from any person who infringes on his rights, and damages may be computed pursuant to the following guidelines:
 - 1) If the damage may be approximately quantified, then either
 - a) the **reasonable profit which the complainant would have made** had the defendant not infringed on his rights, or
 - b) the **profit the defendant actually made out of the infringement.**
 - 2) If damages cannot be readily ascertained, then the court may award as damages a **reasonable percentage** based upon
 - a) amount of gross sales of the defendant, or
 - b) value of the servicesin connection with which the mark or trade name was used in the infringement of the rights of the complaining party.
 - 3) If **actual intent to mislead** the public or to **defraud** the complainant is **shown, damages may be doubled** at the discretion of the court.
- Exception: The INNOCENT INFRINGER who
 - a) Is engaged solely in the business of printing the mark or other infringing materials;
 - b) Is the publisher or distributor of electronic or printed media where the infringing material is part of a paid advertisement; or
 - c) Used the mark in good faith before the filing date or priority date of a registered mark.

For the owner of a registered mark to be entitled to recover profits or damages, the acts of infringement must have been committed with knowledge that the imitation is likely to cause confusion, to cause mistake, or to deceive. A presumption arises that the infringer had such knowledge if the registrant gives notice of the registration of his mark by displaying "Registered Mark" or ®, or the infringer had actual notice of the registration.

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 depends on how the infringement is committed, and in some instances, on who commits the infringement. The assessment is based on civil liability, violation of property rights and, when applicable, tort, such as when there is actual intent to mislead or defraud in the commission of the infringing acts.

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?*

While the Courts take into consideration the strength of the mark, both in its inherent distinctiveness and the popularity acquired through use and publicity in infringement suits, the assessment of damages is based on the provisions of Sections 156 to 160 of the Intellectual Property Code, and when applicable, the provisions on damages of the New Civil Code of the Philippines.

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

While proof of the investment made by the trademark owner to make the mark known may be adduced in the course of litigation in an infringement suit, it is not expressly included in the valuation of the mark.

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

Yes. Remember that the owner of a registered mark may recover damages from any person who infringes on his rights, and damages may be based on:

- i) the **reasonable profit which the complainant would have made** had the defendant not infringed on his rights, or
- ii) the **profit the defendant actually made out of the infringement,**
- iii) a **reasonable percentage** based upon amount of gross sales of the defendant, or value of the services in connection with which the mark or trade name was used in the infringement of the rights of the complaining party.

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

While the term price erosion has not been used by the Philippine Courts in trademark infringement cases so far, the Courts may take into consideration trademark dilution or erosion that the infringement may cause.

- 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 kind of sales that matters depends on whether or not the damage may be reasonably ascertained. Thus, if the damage may be approximately quantified, then the guide would be:

- i) the **reasonable profit which the complainant would have made** had the defendant not infringed on his rights, or
- ii) the **profit the defendant actually made out of the infringement,**

but if damages cannot be readily ascertained, then the Courts may award as damages a **reasonable percentage** based upon:

- i) amount of gross sales of the defendant, or
- ii) value of the services in connection with which the mark or trade name was used in the infringement of the rights of the complaining party.

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

Yes. Parallel importation, especially when characterized by fraud, is treated as a wrongful interference with contracts by strangers thereto. Injunctive relief may be availed of by a sole authorized distributor because the right to perform an exclusive distributorship agreement and to reap the profits resulting from such performance are proprietary rights which a party may protect which may otherwise not be diminished, nay, rendered illusory by the expedient act of utilizing or interposing a person or firm to obtain goods from the supplier to defeat the very purpose for which the exclusive distributorship was conceptualized, at the expense of the sole authorized distributor.

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, as a general rule, is a question of fact that may be proved by the presentation of relevant evidence such as sales invoices and other documents evidencing sales.

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

i) If the damage may be approximately quantified, then either

a) the **reasonable profit which the complainant would have made** had the defendant not infringed on his rights, or

b) the **profit the defendant actually made out of the infringement.**

ii) If damages cannot be readily ascertained, then the court may award as damages a **reasonable percentage** based upon

a) amount of gross sales of the defendant, or

b) value of the services in connection with which the mark or trade name was used in the infringement of the rights of the complaining party.

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

As stated in the previous question, the reasonable profit which the trademark owner would have made had the defendant not infringed his mark is part of the calculation of damages that may be awarded the owner.

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

Philippine Courts take cognizance of the strength of the trademark in apportioning profits in a trademark infringement situation.

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

a) *How is the royalty rate fixed?*

The royalty rate is fixed generally by agreement of the parties to trademark arrangements, and parties cannot be forced to enter into a royalty agreement by judicial fiat. Compulsory licensing finds no application in trademark law. Hence, proof of the relevant royalty arrangement may be adduced in evidence to prove claim for monetary compensation based on royalty.

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?*

While there appears to be no jurisprudence in this respect, the mark's availability for license should be relevant in proving damages of claim for royalties or monetary compensation.

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.*

Information that the trademark owner may possibly obtain in administrative or judicial proceedings relevant to the assessment of monetary compensation may include sales invoices, inventory receipts, actual inventory information of the infringing items and other pieces of evidences of the extent of distribution and/or sale of goods bearing the trademark being infringed.

- 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 registered trademark owner may use his mark on the same or similar products, in different segments of the market, and at different price levels depending on variations of the products for specific segments of the market. The Philippine Supreme Court has recognized that the registered trademark owner enjoys protection in product and market areas that are the normal potential expansion of his business. Thus, the Court has declared:

Modern law recognizes that the protection to which the owner of a trademark is entitled is not limited to guarding his goods or business from actual market competition with identical or similar products of the parties, but extends to all cases in which the use by a junior appropriator of a trade-mark or trade-name is likely to lead to a confusion of source, as where prospective purchasers would be misled into thinking that the complaining party has extended his business into the field or is in any way connected with the activities of the infringer; or when it forestalls the normal potential expansion of his business.

In one case, the Philippine Supreme Court ruled that trademark dilution is the lessening of the capacity of a famous mark to identify and distinguish goods or services, regardless of the presence or absence of: (1) competition between the owner of the famous mark and other parties; or (2) likelihood of confusion, mistake or deception. Subject to the principles of equity, the owner of a famous mark is entitled to an injunction "against another person's commercial use in commerce of a mark or trade name, if such use begins after the mark has become famous and causes dilution of the distinctive quality of the mark."

This is intended to protect famous marks from subsequent uses that blur distinctiveness of the mark or tarnish or disparage it.

- 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 wilful element of the violation of a trademark right is taken into consideration in the evaluation of the damages and/or account of the profits, such that if actual intent to mislead the public or to defraud the complainant is shown, the amount of damages that shall be awarded may be doubled.

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.

Yes, but only under certain circumstances, such as in the case of an innocent infringer described as follows:

- a) Is engaged solely in the business of printing the mark or other infringing materials;
- b) Is the publisher or distributor of electronic or printed media where the infringing material is part of a paid advertisement; or
- c) Used the mark in good faith before the filing date or priority date of a registered mark.

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?

The scale of counterfeiting impacts on the determination on how egregious the infringement is which in turn affects the Courts' assessment of damages and/account of the profits. As stated in the previous answer, competent proof on the scale of counterfeiting will be weighed heavily against the infringer's intent to mislead the public or to defraud the complainant and may result in the award of double damages.

- 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?*

Violation of a license is treated in this jurisdiction as a breach contract and accordingly governed by the provisions of the new Civil Code of the Philippines on contract law. However, absent any jurisprudential guideposts in assessing damages in case of violation of trademark licenses, Philippine Courts may employ by analogy principles in trademark infringement in the evaluation of what damages may be imposed against the party in breach of a trademark license agreement.

- 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?*

Trademark owners are likely to encounter difficulties in obtaining specific, quantified, judicially admissible and credible data about the revenues generated from the sale and/or distribution of products infringing on their own marks or services. Their own presentation of reasonable profits that could have been realized had the infringing material not existed, or the valuation of the service or the mark, may also be challenged. Moreover, the trademark proprietor may be faced with the prospect of having to divulge or disclose closely-guarded trade secrets in the course of discovery proceedings as an incidence of or in actual litigation.

- 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 this jurisdiction, there is a need to make an accounting for items confiscated by the proper authorities in connection with the violation of trademark rights, and the inventory of the items confiscated may be presented to support the charge of infringement and as evidence for claims of profit loss.

- 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.

More definite guidelines for determining what is a reasonable profit, a reasonable percentage of the gross sales, and a generally acceptable manner of valuation for marks should be arrived at. There is a dearth of jurisprudence in this territory which may guide litigants in pursuing their claim for and evaluation of compensation. Unfortunately, congressional deliberations on this issue appear scant and are hardly available to guide the litigants and the Courts in evaluating what exactly and precisely is the "legislative wisdom" behind these provisions of the Intellectual Property Code specifically on the issue of assessment of monetary compensation for violation of trademark and allied rights.

- 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.*

In answering the issue(s) posited in **Q203 Form**, it should be useful to note that relevant jurisprudence in other jurisdictions (particularly in the United States) has persuasive application to cases tried by Philippine Courts. Thus, absent any local precedence (which most of the time is the case with respect to interpretation of statutes modeled after U.S. statutes on corporations, securities, commerce, federal rules on procedure, trademark, copyright, patent, layout-designs, cyberspace, etc.), Philippine Courts invariably apply American case law in the adjudication of cases in these areas of law.

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.*