

### **Report Q203**

in the name of the Polish 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.*

*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.*

Polish law, as far as civil remedies are concerned, does not distinguish between different kinds of trademark infringement, such as counterfeiting or piracy. Even though counterfeiting of trademarks is defined in Polish IP Law (a counterfeit trademark means any mark identical with or indistinguishable in the course of regular trade from a registered trademark, unlawfully used for goods covered by the registration), this category of trademark infringement has been distinguished for the purposes of criminal sanctions. The only regulation within the scope of civil liability that refers to counterfeiting, as a separate category of trademark infringement provides that in the case of products bearing a counterfeit trademark, the Court, when deciding on further disposal of the products, may only in exceptional cases recognise removal of the trademark sufficient enough for putting the product into circulation.

- 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 for the violation of trademark rights in Poland is based on the ground of civil liability. Polish IP Law, in its regulations concerning damages for trademark infringement, directly refers to the general rules of civil liability (as provided in the Civil Code).

It should be noted that Poland, as a Member State of the European Community, has been obliged to implement the provisions of Directive 2004/48/EC on the enforcement of intellectual property rights. Consequently, beside possibility of awarding damages for trademark infringement pursuant to the general rules of civil liability, there has been adopted a new provision of Polish IP Law enabling the trademark owner to seek compensation for damages calculated on the basis of a hypothetical royalty. However, while awarding damages on the basis of a hypothetical royalty, some general rules of civil liability must be observed (the infringement must be wilful and damage as such must be proven; only indication of a causal link is not required).

In addition to the claims concerning compensation for damages (either pursuant to the general rules of civil liability or on the basis of a hypothetical royalty) there exists in Polish IP Law a separate claim for recovery of the unlawfully obtained profits. It is still under discussion whether the general rules of civil law concerning so-called unlawful enrichment should apply to this claim.

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?*

The strength of the infringed trademark, in particular in terms of its popularity acquired through use and publicity, is an important factor taken into account in the assessment of damages by the Courts in Poland.

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

The investment made by the trademark owner, in particular in order to make the trademark known, is taken into account in the assessment of damages by the Courts in Poland.

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

The Courts in Poland, when assessing damages, do consider what direct effect the infringing activity has had on the trademark owner's profitability. In particular, the following circumstances are taken into account: decrease of the trademark's economic value, costs associated with modification or complete change of business profile (necessary as a result of the infringement), costs associated with redress of the infringement's consequences, price erosion, decrease of the production and sales figures, etc.

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

Price erosion, as a circumstance linked directly with the trademark owner's profitability, is taken into account in the assessment of damages by the Courts in Poland. It is especially important in cases where the infringer is offering his products or services (marked with an identical or similar trademark) for prices much lower than the prices of the trademark owner's products or services. Usually, in such situation, in order to avoid elimination from the market, the trademark owner is forced to lower its own prices.

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?*

Actual lost sales and sales made by the infringer are distinguished under Polish law. The sales which would have been made by the trademark owner if the infringement had not happened are treated as the most important part of the whole profit lost by the trademark owner. As such, they constitute an inherent component of the damages that is called *lucrum cessans*.

As regards the sales made by the infringer and the corresponding profits, they can only serve as an auxiliary indicator of the damages suffered by the trademark owner (in particular, when the damages are calculated on the basis of a royalty). Even though there can be found several decisions of the Polish Courts evaluating damages in relation to the infringer's profits, such profits are usually treated as a subject of separate claim for recovery of the unlawfully obtained profits. It is observed that in the majority of cases the whole profit gained by the infringer does not correlate with actual loss in the trademark owner's property.

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

As far as the assessment of damages is concerned, there is no legal basis in Polish IP Law for differentiation between illegal parallel imports and other kinds of trademark infringement. The Polish Group is not aware of such differentiation made by the Courts in Poland.

- 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?*

Some of the key principles have been described under item 3.e) above. It is important that a causal link between the infringement and the profits lost by the trademark owner (alternatively, the profits gained by the infringer) is established. It means that in each case it is necessary to indicate that obtaining the said profits was objectively possible for the trademark owner and realistic (highly probable). It also involves a comparison between the present state of the trademark owner's property and a hypothetical state that would have existed without the infringement. As regards the profits arising from the infringement, they can be taken into account only in their part, i.e. the part that in normal circumstances (without the infringement) would have been gained by the trademark owner.

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

Please see item 4.a) above.

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

Neither statutory nor case law in Poland provide for rules indicating what shares of the profits shall be attributed to the trademark owner and to licensees. It is stressed, however, that the profits gained (or expected to be gained in lack of the infringement) by an exclusive licensee should be taken into consideration, in particular where the licensee is the only entity authorized to use the trademark.

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

The strength of the trademark influences directly the trademark's value and, at the same time, the trademark owner's profitability. Therefore, it can come into play in apportioning the profits in trademark infringement cases in Poland.

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

- a) *How is the royalty rate fixed?*

Even prior to implementation of the provisions of Directive 2004/48/EC to Polish IP Law it was allowed, although without explicit provision in IP Law, to assess the monetary compensation on the basis of a hypothetical royalty. Now, the amended IP Law clearly provides that, as an alternative to the general rules of civil liability, the Court may set the damages as a lump sum corresponding with (but not higher than) a licence fee or other appropriate royalty which would have been due if the infringer had obtained authorization to use the trademark. Such a hypothetical royalty is usually calculated in relation to the turnover or sales figures of the infringer, if directly connected with the infringement. As it was stated under item 2) above, while awarding damages on the basis of a hypothetical royalty, some general rules of civil liability must be observed (the infringement must be wilful and damage as such must be proven).

- 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?*

There is no jurisprudence yet that would be based on the new provisions of Polish IP Law concerning the assessment of damages. At the time when applying the general rules of civil liability was the only method of such assessment, the principle of causal link (between the infringement and the damage) required indication that concluding of a licence agreement, either with the infringer or with a third party, had been highly probable. Therefore, in the majority of cases, the mark in question must have been available for licence. The Polish Group believes that under the amended IP Law there is no such requirement and there is no necessity now to indicate a causal link between the infringer's wilful activities and the damages in a form of non-obtained licence fee.

- 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.*

Polish IP Law, amended in this aspect in 2007 (also in the course of implementation of Directive 2004/48/EC), provides that the following information in relation to the unlawful activities causing violation of the trademark rights can be obtained by the trademark owner in judicial proceedings: information on the origin and distribution networks of the infringing goods, such as names and addresses of the producers, manufacturers, distributors, suppliers and other previous holders of the infringing goods; information on the quantities and the prices of the infringing goods produced, manufactured, sold, received or ordered. The infringer, or under certain circumstances a third party, can be ordered by the Court to divulge information only if it is indispensable to pursue the claims and the infringement is highly probable.

- 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?*

Directive 2004/48/EC requires that the judicial authorities, when setting the damages, take into account all appropriate aspects, such as the negative economic consequences and elements other than economic factors. Even though there is no such an explicit provision in Polish IP Law, the damage to the trademark in a reputational sense (diluting exclusivity) can be considered by the Courts in Poland. It is required, however, that such a prejudice suffered by the trademark owner has certain negative economic consequences. This requirement results from the general principle of civil liability according to which damages for trademark infringement are set only on the basis of specific economic criteria. The Courts in Poland, when setting damages, are not able to take into account the moral prejudice suffered through the infringement, which seems not to be in line with the corresponding provisions of Directive 2004/48/EC.

- 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?*

Only a wilful violation of trademark rights can be subject to compensation for damages under Polish IP Law - either on the basis of the general rules of civil liability or on the basis

of a hypothetical royalty. It means that the infringer must have engaged in the infringing activity knowingly, or at least with reasonable grounds to know. This has to be proven by the trademark owner.

The scale of the counterfeiting does constitute an additional element which can influence the assessment of damages by the Courts in Poland.

- 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?*

As a general rule, according to Polish IP Law, a licensor (trademark owner) may enforce against a licensee who contravenes any provision of the licence agreement (with regard to its duration and territory covered by the licence, the form in which the licensed trademark may be used, as well as the scope of the goods or services for which the trademark may be used or the quality thereof) the same claims as in regular trademark infringement cases, including the claims for damages. As an alternative, the licensor may use the general rules of civil law pertaining to contractual liability for breach of obligations under the licence 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?*

The most significant difficulties faced by the trademark owners in Poland in the assessment of the damages for the violation of trademark rights are: difficulties connected with evidencing the damages and the corresponding compensation, and difficulties connected with indication of a causal link between the infringement and the damages suffered. It is hoped that the new provisions of Polish IP Law, concerning the right to information and the new methods of damage calculation will minimize the said difficulties. It is also worthwhile to note that the Polish Civil Procedure Code provides for possibility of awarding by the Court, in situations where evidencing of exact damage is too difficult or impossible, after taking into account all circumstances of the case, an "appropriate amount" as a compensation.

- 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.*

Polish IP Law provides that the Court, when ruling on the trademark infringement, may, at the trademark owner's request, decide as to the disposal of unlawfully marked products and means used in their marking (only if owned by the infringer). In particular, the Court may order their destruction or removal from the market, or decide on giving them to the trademark owner on the account of due compensation. Such a disposal, in cases where the products bearing the illicit sign or the means used in their marking are given to the trademark owner, obviously influences the evaluation of the damages. This results from the principle that the claim for damages can only have a compensatory purpose and it may not cause an undue enrichment on the part of the trademark owner.

- 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 Polish Group does not consider the jurisprudence in Poland to be a useful source of information and comparison on the assessment of monetary compensation for the violation of

trademark rights. This results from the fact that the Polish jurisprudence is not very stable and uniform in this area. In consequence, it is not sufficiently predictable yet. Last year the Polish Group invited, with some degree of satisfaction, the new provisions of IP Law in the field of compensation for damages. It is hoped that the new regulation will ensure higher degree of certainty in evaluation of the compensation for trademark infringements in Poland.

- 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.*

Directive 2004/48/EC has proven that the evaluation of damages for violation of the trademark rights can be the subject of a successful harmonisation, at least within the European Community. Naturally, some reservations about the directive's implementation itself, to Polish IP Law, could be expressed. Nevertheless, the Polish Group strongly supports the idea of the international harmonisation of the subject matter, as long as the traditional systems of civil liability that exist under national laws are not deconstructed.

- 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.*

The harmonised system for the evaluation of damages for violation of the trademark rights can be safely based on solutions provided for in Directive 2004/48/EC. It should allow trademark owners to seek compensation for damages on the basis of the general rules of civil liability existing under national laws (taking into account all appropriate aspects, such as the negative economic consequences, including profits lost by the trademark owner and unfair profits made by the infringer) or, alternatively, on the basis of hypothetical royalties or other fees.

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

## **Summary**

The system for the evaluation of damages for trademark infringements in Poland is now harmonized with the European Community legislation. It allows trademark owners to seek compensation for damages on the basis of the general rules of civil liability, taking into account all the negative economic consequences, including actual damage suffered and profits lost by the injured party. As an alternative, Polish IP law allows trademark owners to seek compensation calculated on the basis of a hypothetical royalty or other due fee. In both options only a wilful violation of trademark rights can be subject to compensation for damages. On the other hand, there exists in Polish IP law a separate claim for recovery of the profits unlawfully obtained by the infringer, irrespective of whether the infringer acted knowingly or with reasonable grounds to know.