

Report Q203

in the name of the Portuguese 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.*

As a basis for the obligation to provide compensation, Portuguese law does not distinguish between “infringement” and “counterfeiting”, but rather includes these two concepts in the same reality, which is that of violation or usurpation of a registered trademark. However, it can be defended that the first concept is understood as violation of a trademark right provided for in the substantive law on industrial property and the second as violation of a trademark right punishable by penal law.

Additionally, “piracy” is usually used for violation of the rights protected and governed by another field of intellectual property, namely copyright.

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 monetary compensation to be paid to the owner does not depend on this distinction. The monetary compensation is calculated on the basis of the damages caused to the owner of the right, when such damages exist or, if they do not exist, on the basis of unjust enrichment.

- 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)?

Portuguese law provides for at least two bases for the obligation to provide compensation for the violation of trademark rights:

- there is an obligation to provide compensation in cases where damage was caused to the property of the owner of the right, in accordance with the rules of civil liability – Article 483 of the Civil Code.
- and/or when enrichment of the infringer occurred to the detriment of the owner of the right, in accordance with the rules of unjust enrichment – Article 473 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?*

Theoretically, the reputation or well-known character of a trademark can constitute a factor to take into account in the assessment of a request for indemnification, especially where damages are determined which may affect the reputation and image of the trademark.

However, we are not aware of any cases in which the Portuguese Courts have given relevance to this factor upon granting a request for indemnification.

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

Theoretically, amounts relating to investment and advertising can constitute factors to take into account in requests for indemnification, especially in cases where damages are determined which may affect the image and reputation of a trademark.

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

Yes, whenever the infringement has caused damage to the property of the owner. The amount of the compensation should reconstitute the situation that would exist if the damage had not occurred. Compensation is to be established as a monetary amount whenever reconstitution of the previously existing situation is not possible and it is quantified as the difference between the assets of the injured party on the latest date that can be taken into account by the Court and those that the injured party would have on the same date if the damage had not occurred – Article 566 of the Civil Code.

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

Generally, in accordance with civil law – Article 564 of the Civil Code – the Courts can take account of price erosion for calculating the monetary compensation.

However, we are not aware of any decision in respect of industrial property matters in which the use of this provision has been made.

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?*

It is necessary to distinguish between cases of the right to indemnification in which the basis for the obligation is civil liability and those in which it derives from unjust enrichment.

In the first case, the amount of the compensation may correspond to the lost profits – i.e. the loss which was in fact incurred by the owner of the right.

In the second case, the amount of the compensation may correspond to the total sales made by the infringer, provided that there is a causal connection between the amount established and the infringement committed.

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

We are not aware of any decision given by the Portuguese Courts in respect of monetary compensation resulting from parallel imports.

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?*

The monetary compensation shall correspond to the amount of the profits that the owner of the right did not obtain as a consequence of the infringement of this right, i.e. the profit obtained by the infringer as a result of the infringement may be higher or lower than the profit that the owner of the trademark did not obtain.

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

They are defined by the amount of the profits that the owner did not receive as a direct consequence of the infringement and can be attested, in particular, through information relating to accounts prior or contemporaneous to the infringement.

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

The amount of the profits is attributed to the party which filed the request for indemnification and proves that it incurred losses deriving from the infringement. The condition of owner or licensee, in itself, is not a determining factor in the distribution of the monetary compensation.

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

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?*

Only when the request for indemnification is filed on the basis of the rules of unjust enrichment by intervention – Article 473 of the Civil Code – shall the amount of the compensation correspond to the value of the use of the infringed trademark, i.e. the price that the infringer would pay for using this trademark. The Supreme Court of Justice gave a decision on this matter on 24th February 2005 in Case no. 4601/04, also known as the “Colombo” case.

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.*

Within the scope of civil procedure, it is possible to request the Court to order the infringer of a given trademark to disclose before the Court namely the sales figures relating to a given product and the places where and entities to whom that product was sold.

If a company is involved, it is also possible to request that its accounts be disclosed, in order to assess the profit margin obtained with the sales of the products concerned.

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?*

Generally, the “dilution” of a trademark is considered by Portuguese doctrine as one of the damages caused by the infringement of rights deriving from the registration of reputed trademarks.

However, in Portuguese jurisprudence this damage is not assessed independently, for within the scope of the legal criteria relating to monetary compensation, our law stipulates that it

must be demonstrated that there is a causal connection between the trademark infringement and the "dilution" of the respective trademark. In the majority of cases, this proof is either impossible or too expensive.

- 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, and particularly the will to profit or gain from counterfeiting activities, is not evaluated for the purpose of quantification of the damages or profits and respective monetary compensation.

For the quantification and attribution of compensation to the injured party, it is necessary to prove the causal connection between the fact and the damage.

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 and/or ignorance of the infringement of the trademark are not relevant for the purpose of evaluation of the damages or quantification of the profits; it is sufficient to prove the causal connection between the facts attributed to the infringer and the damages suffered by the injured party.

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 accordance with the general principles, the scale of the infringement constitutes the main issue for the purpose of calculating the monetary compensation to be granted to the injured party.

- 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?*

No. The principles which govern contractual obligations, such as those resulting from the violation of a licence, are not the same as those which govern extra-contractual obligations, such as civil liability for trademark infringement, thus the assessment of damages should be based on the principles which govern each of these types of liability.

- 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?*

It has been difficult to demonstrate in Court the specific damages incurred deriving from the infringement of trademark rights. In the majority of cases, it is difficult to demonstrate the financial status of the trademark owner before and after the infringement. It is difficult to demonstrate the profit which was not obtained due to the infringement or the percentage of the decrease in sales, being also difficult to demonstrate the extent of the unjust enrichment of the infringer.

However, Portuguese law on civil procedure provides for forms of evidence – particularly expert evidence – that make it possible to overcome such difficulties.

- 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.

Portuguese law [Article 319 "Seizure at customs", Article 340 "Seizure" and Article 342 "Inspection and seizure" of the Industrial Property Code] provides, as a remedy for the violation of a trademark right, for the seizure of the products bearing the illicit sign. As regards the evaluation of the damages, the seizure of the products bearing the illicit sign is not taken into consideration. In accordance with Article 564 of the Civil Code, the obligation of paying compensation covers the following:

- actual loss suffered by the rightholder;
- future loss when it is possible to evaluate it;
- lost profits that the injured party has suffered.

Furthermore, some changes will occur when Portugal adopts Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights.

The above-mentioned Directive states in Article 13(1)(a) that elements other than economic factors, such as the moral prejudice caused to the rightholder by the infringement shall be taken into account when the judicial authorities set 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.

Yes. Jurisprudence is a useful source of information and comparison in the assessment of monetary compensation for the violation of trademark rights. Despite the fact that the Portuguese legal system is not a "case law" system, the Portuguese Courts tend to follow the existing jurisprudence. However, jurisprudence is not binding.

- 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 Group considers that as regards legislative and judicial matters, the Portuguese reality makes it difficult to contextualise the issues raised and consequently the respective replies.

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.*

The Group believes that a possible harmonisation of the procedure for the evaluation of damages caused by the violation of a trademark right would be advisable.

Nevertheless, the Group considers that a possible harmonisation should allow each of the interested jurisdictions to have the necessary flexibility to legislate in accordance with its own particularities.

After being transposed into the Portuguese legal system, Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights may be a useful contribution for resolving the type of difficulties which are currently encountered in Portugal in the evaluation and calculation of damages caused by the violation of trademark rights.