

Report Q203

in the name of the South African Group
by Wim ALBERTS and Llewellyn PARKER

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 South African Trade Marks Act 194 of 1993 makes provisions for infringement in terms of the following:

Section 34(1)(a): Unauthorised use in relation to goods or services in respect of which the trade mark is registered, of an identical mark or a mark so nearly resembling it as to be likely to deceive or cause confusion;

Section 34(1)(b): Unauthorised use of a mark which is identical or similar to the trade mark registered, in the course of trade in relation to goods or services which are so similar to the goods or services in respect of which the trade mark is registered, that in such use there exists the likelihood of confusion or deception;

Section 34(1)(c): Unauthorised use in the course of trade in relation to any goods or services of a mark which is well known in South Africa and where the use of the mark would be likely to take unfair advantage of or be detrimental to the distinctive character or the repute of the registered trade mark, notwithstanding the absence of confusion or deception.

Section 35: A foreign proprietor of a mark which deserves protection as a well known mark in terms of the Paris Convention, can restrain the use of a mark here if the proprietor of the well known mark is either a national of a convention country, or a person domiciled in a convention country, or has a real and effective industrial or commercial establishment in a convention country.

In terms of the Counterfeit Goods Act 37 of 1997, counterfeiting means the manufacturing, producing or making of any goods, without the authority of the owner, whereby the protected goods are imitated in such a manner and to such a degree that those other goods are substantially identical copies of the protected goods, or the making or production of a colourable imitation of the protected goods so that the goods are calculated to be confused with the protected goods.

There are certain acts which are considered to be offences in terms of the Counterfeit Goods Act, namely:

- a) The possession of counterfeit goods for the purpose of trade;

- b) The manufacturing or producing of counterfeit goods, except if for private and domestic use;
- c) The selling, hiring, bartering or offering of the counterfeit goods for sale;
- d) The act of exhibiting the goods in public for the purpose of trade;
- e) The act of distributing the goods for the purpose of trade or for any other purpose that will cause prejudice to the owner of the trade mark;
- f) The act of importing of counterfeit goods;
- g) The act of disposing of the counterfeit goods in the course of trade.

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 issue of a distinction between the various types of infringement, as related to damages, has not yet arisen in our case law. In other words, the term "piracy" does not have a fixed meaning in South African trade mark law.

- 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)?

In general, delictual liability is based on fault. This fault can take the form of intention or negligence (dolus/culpa).

The basis of a monetary award for trade mark infringement is compensatory, and relates to the damage caused by the infringement of the statutory right.

- 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?*

Text

- 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 otherwise have 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?*

These issues have not yet specifically featured in South African case law. It can however be stated that the measure of damages, in principle, is the same as for any other delict, which is compensation to the plaintiff for patrimonial loss, actual loss or prospective, by reason of the infringement. As an alternative to damages, and at the option of the trade mark owner, a reasonable royalty that would be payable by a licensee for the use of the trade mark, can be claimed.

To succeed in this claim a plaintiff will simply have to prove what a reasonable royalty is as a percentage of the price, the price itself and the quantity of sales. What constitutes a reasonable royalty will have to be determined on a case by case basis.

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?*

These issues have not yet specifically featured in our South African law.

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 above issues have not yet specifically featured in the case law. It can be mentioned though that the royalty amount is calculated as a percentage of the price of the infringing goods. The price and total number of sales will have to be determined. A reasonable royalty that would be payable by a licensee for the use of the trade mark, can be claimed.

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.*

The trade mark owner can obtain information on the total number of goods that the infringer sold, distributed, imported or manufactured. Copies of bank statements, bills of entry, bills of lading, invoices, inventories, packing lists etc. can be obtained through discovery or an court order for an investigation into these aspects can be made.

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 court does take this aspect into consideration. Section 34(1)(c) of the Act is known as the anti-dilution section and states that the unauthorised use in the course of trade in relation to any goods or services of a mark which is identical or similar to a trade mark registered, if such trade mark is well-known in South Africa and the use of the mark would be likely to take unfair advantage of, or be detrimental to the distinctive character or the repute of the registered trade mark, notwithstanding the absence of confusion and deception, will amount to infringement. In determining whether the defendant's use is detrimental to the distinctive character or repute of the registered trade mark the following factors would be taken into consideration:

- a) whether the trade mark is inherently distinctive (such as a invented word) or whether it has acquired distinctiveness through use;
- b) the nature and extent of use of the same or a similar mark by third parties;

- c) the degree of recognition of the proprietors' mark in its and the defendant's channels of trade.

An invented trade mark is less likely to be used by third parties than a trade mark which has acquired distinctiveness through use. Where extensive use is made by third parties of the same or similar mark it will be difficult for the plaintiff to argue that the use by the defendant would be likely to harm the already diluted commercial magnetism of the mark, except where the use is in relation to goods or services which are totally unrelated to the goods or services of the plaintiff and defendant.

The value of the commercial magnetism or selling power of a trade mark is protected and the court takes in consideration whether this asset is affected by the infringement. Substantial economic harm will also be considered.

The likelihood of loss of sales by virtue of the reduced commercial magnetism is also considered. The mark is a direct link to the sales and if the mark is diluted the sales will be affected.

- 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?

In a criminal context, it is of course necessary to prove intent, in the sense of at least *dolus eventualis*, that is, knowledge of the unlawful nature of the activities. "Wilful intent" beyond that is likely to aggravate the accused's position. In a criminal context, the scale of counterfeiting will be an aggravating factor. If, in a civil matter, the alleged infringer had no reasonable grounds to know that the particular goods were of an infringing nature, an order for damages cannot be made against him. This aspect is not completely clear though.

- 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?*

This issue has not yet specifically arisen in the South African case law.

- 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 often occurs that the local distributor operates an informal business, with no proper administrative structure. It is thus difficult to obtain accurate documentation that will provide proof of the extent of the sales of the infringing goods. For this reason, trade mark proprietors are often content merely to obtain an interdict to prevent the continued sales of such goods.

- 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.

The confiscation of counterfeit goods does not influence the evaluation of damages. The plaintiff can claim damages or a reasonable royalty but that is not influenced by the confiscation of the counterfeit goods.

- 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 already indicated above, our law has not dealt with a number of issues relating to the obtainment of damages, and it is not readily foreseeable that it may provide comprehensive guidance.

- 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.*

No comment is made here.

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.*

Uniformity is of course a goal which will be to the benefit of trade mark owners. However, due regard will have to be given to particular principles found in the various countries. An international treaty, the provisions of which can be incorporated into local laws as far as it is compatible with existing local principles, could be of value.

- 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.*

No comment is made here.

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

No comment is made here.