

Report Q203

in the name of the United Kingdom Group
by Richard ABNETT, Sara ASHBY, Ian COATES, Michael EDENBOROUGH,
Paul McCLENAGHAN, Denise McFARLAND, Alexander MADGWICK,
Rolland MALLISON, Timothy PINTO, Louise POPPLE and Jan VLECK

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.

In brief, the response to the two parts of this question are “No” and “Maybe” respectively. There is no formal distinction between these types of trade mark infraction in the United Kingdom, but the difference in scale and mental element might affect the monetary compensation.

At the outset, it is important to note that the definitions of counterfeiting and piracy as adopted by AIPPI in setting this question have no direct comparison under the law in the United Kingdom dealing with civil trade mark infringement, which is governed by sections 9 and 10 of the Trade Marks Act 1994 (the “TMA 1994”), which in turn is based upon the First Council Directive 89/104/EEC Article 5.

The conditions for trade mark infringement are that the defaulter must use, without the consent of the trade mark proprietor, in the course of trade, a sign that is either identical or similar to the registered marks in relation to goods or services that are either identical or similar to those for which the mark is registered. In the case of identity of sign and goods and services, then liability is absolute. However, if the sign or the allegedly infringing goods or services are merely similar to the registered mark or the goods and services for which the mark is registered, then the rights holder might establish that there exists a likelihood of confusion, which includes the likelihood of association, by the relevant public. That confusion or association must be as to trade origin, i.e. the confused public must (wrongly) believe that the allegedly infringing goods or services originate from the rights holder or from an economically linked entity.

Further, trade mark infringement may be established if the mark in question has a reputation, and the allegedly infringing use is without the consent of the registered proprietor and in the course of trade, but without due cause, of an identical or similar sign in relation to identical, similar or dissimilar goods or services and would take unfair advantage of, or be detrimental to, the distinctive character or repute of the mark.

As indicated at the beginning, the term “counterfeiting” has no exact counterpart in UK law. In intellectual property matters, the term is normally reserved for copyright infringement in a

criminal context. The closest analogy in the trade mark context would be the criminal provisions contained in section 92 of the TMA 1994. This is because civil trade mark infringement is a tort of strict liability, which means that there is no requirement for any mens rea. In contrast, criminal liability in trade mark matters only arises if the alleged infringer acts *“with a view to gain for himself or another, or with intent to cause loss to another”*. Similarly, the term *“piracy”* has no direct parallel in civil trade mark matters. The way in which it has been defined for the purposes of this Question would, *prima facie*, fall within the scope of the Serious Organised Crime and Police Act 2005, which is concerned with criminal liability. As criminal provisions are outside of the scope of this Question, these aspects will not be considered further.

Further, in contrast to copyright infringement, there is no provision within the TMA 1994 that awards increased monetary compensation when the infringement has been flagrant (cf. the Copyright, Designs and Patents Act 1988 s 97(2) (the *“CDPA 1988”*)). However, under the EU Enforcement Directive 2004/48/EC Article 13 (the *“Enforcement Directive”*), which has been incorporated in the national law of the United Kingdom (Intellectual Property (Enforcement, etc.) Regulations 2006, regulation 3 (the *“UK Regulation”*)), when an infringer knowingly or with reasonable grounds to know, has engaged in an infringing activity, then *“damages”* shall relate to the *“actual prejudice”* that has occurred and *“shall take into account all appropriate aspects, such as the negative economic consequences, including lost profits, which the injured party has suffered, any unfair profits made by the infringer and, in appropriate cases, elements other than economic factors, such as the moral prejudice caused to the rightholder by the infringement”*. There is no jurisprudence on this point at present, and so it is possible only to state that maybe the level of monetary compensation might be affected by the different types of infringement covered by the Question.

Furthermore, it is important to note that this response to this Question is limited to the jurisprudence of England and Wales, because the vast majority of cases are heard there. As such the jurisprudence of Scotland and Northern Ireland (which have separate legal codes, in particular when considering remedies) have not been taken into consideration.

Finally by way of introductory remarks, intellectual property infringement cases are nearly always conducted in two separate trials. The first is to establish liability as a matter of principle, and the second is to determine the quantum of monetary compensation that might be due to the (now vindicated) rights holder. Given this procedural division, it is rare for a case to proceed to the second step, as most infringers simply capitulate after liability has been established against them. As a result, there is remarkably little jurisprudence on the subject of damages.

- 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 brief, assessment is based upon a ground of civil liability, in particular a breach of a statutory tort. This is despite the fact that a trade mark is, by statutory definition, considered to be personal property (TMA 1994 s 22). Moreover, a registered trade mark is defined to be a *“property right obtained by the registration of the trade mark under this Act”*, and *“in an action for infringement all such relief by way of damages, injunctions, accounts or otherwise is available to [the registered proprietor of the infringed mark] as is available in respect of the infringement of any other property right”* (TMA 1994 sections 2(1) and 14(2) respectively). However, to-date, there is no jurisprudence that is based upon this consideration.

Pecuniary relief due to a wronged rights holder based upon an infringement of a statutory tort may take either of two fundamentally different forms. The first is called *“damages”* and is intended to compensate the wronged party for the *“loss and damage”* that it has suffered

and aims to place it in the same position as if no wrong had occurred. This is a common law remedy and arises as of right. The second is called "an account of profits" and is intended to deprive the wrong-doer of the unjust enrichment that has accrued to it by reason of its tortious acts. This is an equitable remedy, and so may only be granted in the discretion of the court. A wronged rights holder must elect whether or not to be awarded damages or to seek an account of profits: it may not (under current jurisprudence) have both. (In passing, there are two further principal complications. The first is that there does exist an equitable right to damages, in contrast to the common law right, but there is no jurisprudence on this issue in the context of trade mark infringement, and so it will not be considered further. The second is the law in Scotland is different from that in England and Wales when dealing with equitable remedies. Again, this point will not be considered further.)

Therefore, as indicated above, infringement of a trade mark is a statutory tort, and so it is governed by the fundamental principles that that the wronged-party should be restored to the position it would have been in if no wrong had been done (i.e. restoration to the *status quo ante*); and that the wronged-party can recover in respect of loss and damage that was (i) caused by the wrong, (ii) foreseeable (i.e. not too remote), and (iii) not excluded from recovery by public or social policy.

There are various other points that arise from a consideration of these fundamental factors, for example:

- a) Damages are compensatory, i.e. they are intended to compensate the wronged-party for its loss; rather than being punitive, i.e. they are not intended to punish the wrong-doer.
- b) Loss and damage is not presumed, but must be proved by the wronged-party. Therefore, there is no concept of pre-set, fixed damages for certain types of infringement. However, even though the burden of proof lies with the wronged-party to establish its loss, damages will be assessed liberally, as the potential payee is a proven wrong-doer, and it is almost impossible as a matter of practice to assess the true level of damages accurately, because by the very nature of the enquiry, a court is dealing with a hypothetical situation.
- c) It is irrelevant that the wrong-doer could have competed lawfully.
- d) If the wronged-party was a manufacturer or other dealer in the goods or services under consideration, then the damages equate to the profits that it has lost on diverted sales of those goods and services by the wrong-doer.
- e) If, however, the wrong-doer has made more sales than the wronged-party would have made, then the wrong-doer must pay a notional royalty, which is based upon the royalty that a hypothetical willing licensor and willing licensee would have agreed in all the circumstances. Evidence of rate of such a royalty rate might be available from comparable licences, but often this calculation amounts to a legal fiction.
- f) The state of mind of the wrong-doer is irrelevant, because the tort is one of strict liability, and so deliberate wrong-doers might be considered to escape lightly, because under an enquiry as to damages, they would be considered in the same way as an innocent infringer. However, in such a case, a court might award an account of profits against a deliberate wrong-doer in order to deprive such an infringer of any unjust enrichment; while such a remedy might not be granted by a court in the exercise of its discretion against an innocent infringer.
- g) A wronged-party cannot recover more than once for each wrong suffered, i.e. there is a prohibition against double recovery. This commonly manifests itself when there is a commercial chain of infringement committed by different parties. The wronged-party may recover against each wrong-doer only in respect of the loss and damage suffered by the wronged-party for each separate infringing act, e.g. the manufacture, the wholesale sale and the retail sale. (Further, a wronged-party may only elect for an enquiry as to

damages or an account of profits for the whole chain, i.e. it may not have one for one part of the claim and the other remedy in respect of a different part.)

- h) If the wronged-party can show that other, non-infringing, sales have been lost as a result of having lost the infringing sales, then it may claim its lost profit in relation to those "convoyed" goods and services as well.
- i) Similarly, if the wrong-doer was able to enter the market artificially early due to its tortious activities, i.e. a party who behave lawfully would only have been able to enter the market later, then the loss and damage suffered by the wronged-part during that intermediate period may also be sought.
- j) If the wronged-party has had to lower its prices because of the activities of the wrong-doer, then damages are recoverable in respect of that price depression.
- k) At common law, a licensee (even an exclusive one) has no *locus standii* to sue, and hence no basis to seek damages. However, the position can be, and has been, changed by statute (TMA 1994 section 30 and 31). As such, even a non-exclusive licensee can now bring an action in certain circumstances and so seek damages. If the rights holder is the claimant, then it can seek damages on behalf of any loss and damage suffered by a licensee so long as it establishes that loss.
- l) However, damages are not recovery on a conversionary basis, i.e. the wronged party cannot seek damages based directly upon the value of the goods or services wrongly marked. This sort of "conversion" damages was formerly possible under the Copyright Act 1956 in respect of copyright infringement, but it was removed under the current copyright act (the CDPA 1988), because on occasions it resulted in a windfall profit to the wronged-party.
- m) A fundamental potential problem with this form of relief is that a wrong-doer might still profit from its tortious acts, because the monetary compensation that it has had to pay to the wronged-party is less than the profit that it has made.
- n) Finally, a wronged-party is under a duty to mitigate its loss, i.e. it must act in a manner that reduces the loss, rather than acting in a manner that exacerbates that loss. The claimant must take all reasonable steps in this regard, but in practice, damages are rarely reduced for failure to mitigate.

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?*

Only indirectly, as the strength of the trade mark might affect the level of potential profit lost by the rights holder, or might affect the level of the notional royalty rate if damages need to be assessed as between a willing licensor and licensee.

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

Again, only indirectly, in the manner indicated above, and potentially by reason of its effect upon the potential head of damage that relates to any depreciation in the value to be placed upon the property right by reason of the unlawful activities.

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

Yes. For example, the infringing activity might have forced the wronged-party to lower its prices, in which case, damages are recoverable for that price depression. Furthermore,

there might be a depression in the capital value that can be ascribed to the trade mark by reason of any infringing activity that results in tarnishing of the mark (i.e. because the mark has lost some exclusivity). This would form part of the assessment of damage flowing from the infringement.

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

Yes, as indicated above.

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. Actual lost sales by the wronged-party are compensated by an award of damages equivalent to the lost profit. Other sales made by the infringer that would not otherwise have been made by the wronged-party, are compensated on the basis of a notional royalty that would be agreed between a hypothetical willing licensor and licensee. There might be different notional royalty rates for the various unlawful activities relating to different goods and services.

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

No. There is no fundamental difference between infringement that arises from parallel importation and other types of infringement. Note, however, that the prohibition against double recovery would mean that the wronged-party could not recover any damages that would notionally relate to the first sale from the rights holder to a party from whom the wrong-doer unlawfully then imported the infringing goods. As such, the wronged-party's loss-and-damage should be limited to the loss of the extra profit that it would have made if it sold the goods in question directly into the importing country.

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 key principles used to determine the value of the monetary compensation when based upon the lost profits to the rights holder have been detailed in the response to Question 2 above.

The key principles used to determine the value of the monetary compensation when based upon the profits (made by the wrong-doer) arising from the infringement are:

a) The wrong-doer must be taken as it is found, i.e. if the wronged-party could have made more profit in a similar situation that is irrelevant, it is the actual profit made by the wrong-doer that is relevant.

b) The maximum payment that might be due is the total profit that was made by the infringer that resulted from the infringing acts. Therefore, there is a need to apportion the profits made by the infringer in order to determine those that resulted from the unlawful activities, so as to separate out those that resulted from lawful activities. That apportionment should be logical and based upon the facts, rather than merely random and based upon mere surmise. One approach is to apportion profit in proportion to the costs and expenditure that relate to each part of the whole that contributed to the overall profit.

c) There is no reduction in the sum that might be due if all or any of the infringing acts could have been made lawfully.

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

- a) The potentially available profits are the net profits that resulted from the unlawful activities.
- b) The wrong-doer is permitted to deduct various expenses in order to arrive at a net profit figure, rather than taking the gross profit. This can cause problems, because it means in effect that the unlawful activities have contributed to the running costs of the wrong-doer's lawful business. Moreover, this typically complicates the accountancy evidence to such an extent that this remedy becomes unattractive as a matter of practice, as commonly it is possible to massage the figures to such an extent that no net profit was made. This means that potentially a wrong-doer can still retain some of its unjustified enrichment, because it is only deprived of a notional royalty.

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

When assessing what share of the damages should be attributed to the rights holder and any licenses, the court will *"in infringement proceedings brought by the proprietor of a registered trade mark any loss suffered or likely to be suffered by licensees shall be taken into account; and the court may give such directions as it thinks fit as to the extent to which the plaintiff is to hold the proceeds of any pecuniary remedy on behalf of licensees"* (TMA 1994 s 30(6)). There are no similar statutory provisions when assessing how the profits should be attributed between such parties. When damages are claimed, they will be apportioned so as to compensate the trademark owner and the licensees for their respective losses. When an account of profits is claimed, since this is an equitable remedy, it is likely that a court would order a division that is just and equitable in all the circumstances.

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

Yes, but only indirectly, as that factor might influence the just and equitable division of the available profits by a court.

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

a) *How is the royalty rate fixed?*

The royalty rate is that deemed to have been agreed between a hypothetical willing licensor and willing licensee. Comparable licences for the same or similar goods granted by the rights holder would provide some guidance. Evidence of third parties' royalty rate might also assist. Potentially, different rates could be applied for licensees who cost more to service than those that are easier.

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 case law directly on this point. However, when determining the appropriate royalty rate, it is assumed that the parties are willing to enter into a licence. Yet, in practice, the availability or otherwise of a licence under normal circumstances is a factor that might be taken into consideration indirectly by the court when determining the appropriate royalty rate, because it would affect the rate of any royalty at which a licence would be hypothetically willingly granted. Furthermore, in such a situation, an existing exclusive licensee might well have a separate claim for loss and damage against the wrong-doer, because the exclusive licensee has suffered its loss of exclusivity, and so should be compensated for the premium that it paid for having such exclusivity. Similarly, a non-exclusive licensee that as a matter of fact was the only exploiter of the mark in question in the relevant market, might have suffered loss and damage.

- 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.*

In general, as mentioned earlier, an intellectual property action will be split into two parts: the first to determine liability in principle, and the second to determine the level of monetary compensation if liability is established. Once, liability has been established, the successful rights holder may then seek preliminary disclosure from the wrong-doer in order for the rights holder to make an informed choice between electing for an enquiry for damages or an account of profits. This preliminary disclosure is supposed to be limited to such matters as the total number of sales made by the wrong-doer, the sale price and the profit margin. Once the rights holder has elected which path to follow, then the matter proceeds as if it were a normal piece of civil litigation. Therefore, the claimant sets out its case in a statement of case, and the defendant responds by detailing those issues that it admits, does not admit or denies. If a matter remains in issue (either because it is denied or not admitted), then disclosure (i.e. listing all the relevant documents) and inspection then takes place.

The Civil Procedure Rules 1998 (CPR), which govern all civil litigation proceedings in England and Wales, contain a number of provisions relating to the disclosure and inspection of documents. Once the proceeding has been commenced, the court will generally order the parties to give "standard disclosure" of documents. Broadly, the requirement is to disclose any documents on which the party relies or that adversely affects his or any other parties' case or supports any other parties' case. However, the procedure is flexible, and there is power for the court to limit disclosure in certain cases. Any party to the proceedings may also apply for "specific disclosure" of particular documents or classes of documents if certain conditions are met. There is also a general right to inspect any documents referred to in another parties' evidence or pleadings. The CPR also provides, in certain circumstances, for disclosure against a person who is not a party to the proceeding and for "pre-action disclosure" before the proceeding has been commenced.

In each of these cases, the documents disclosed may relate to sales made by the defendant. In particular, it is not uncommon for claimants to seek specific disclosure of the identity of the defendant's suppliers and customers. (Sometimes, disclosure of an alleged wrong-doer's suppliers and customers is sought before liability has been determined; in which case, normally it is easier to obtain disclosure of the suppliers' details than the customers', because a court is normally more sympathetic to a rights holder tracing the allegedly infringing goods back to the source, rather than risk jeopardizing the alleged wrong-doer's business by allowing the right holder to contact its customers in a situation where no wrong has yet been determined.)

Where documents disclosed contain confidential information, the court may order, or the parties may agree, that the information may be redacted or subject to a suitable confidentiality agreement between the parties before inspection is allowed. However, commercial confidentiality *per se* is no bar for disclosure to be given.

In addition to the above, any person can apply to the court, without notice to the respondent, for a search order (formerly known as an Anton Piller order) where there is a risk that evidence would be destroyed if notice were given. This requires the respondent to allow certain persons to enter its premises for the purpose of inspecting and removing evidence, including infringing articles, and to disclose the source of such articles. Similarly, there is power to freeze the respondent's assets (formerly known as a Mareva order) where there is a real possibility that they will be dissipated beyond the power of the court's jurisdiction.

There is also scope to obtain information and documents from third parties who (whether innocently or otherwise) have become mixed-up in the allegedly unlawful acts so as to facilitate an infringement (a so-called Norwich Pharmacal order). Typically, such an order will

be granted only where it is necessary to enable an action to be brought against the ultimate wrong-doer.

There is also scope for information discovered by Customs and Trading Standards Officers in pursuance to searches made by them to be disclosed to rights holders.

- 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?*

Damage to reputation is considered by the courts. Section 10(3) of the TMA 1994 provides that *"a person infringes a registered trade mark if he uses in the course of a trade, in relation to goods or services, a sign which is identical or similar to the trade mark, where the trade mark has a reputation in the United Kingdom and the use of the sign, being without due cause, takes unfair advantage of, or is detrimental to, the distinctive character or the repute of the trade mark"*.

Infringement may therefore arise where there is detriment to reputation (also known as "tarnishing"), for example, because the infringing goods are of inferior quality or the use of the sign on the infringing goods brings about negative connotations to the trade mark owner's goods.

This section therefore contemplates loss of reputation as a separate head of damage recoverable in addition to lost sales and other losses. This provision was new to UK law with the introduction of the 1994 Act. While there have been a number of cases on the interpretation of the section, there appears to be no reported cases on which factors should be considered in quantifying damage to reputation. Likewise, there is no guidance on whether damage to reputation is recoverable where there is a confusion-based claim of infringement.

It should be noted that compensation for damage to reputation would not be recoverable where an account of profits is elected, because that remedy is concerned with the unjustified enrichment of the wrong-doer, rather than the loss and damage suffered by the rights holder. However, it is possible that the Enforcement Directive might have altered this previous exclusion.

- 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?*

In general, no. Under current UK jurisprudence, the mental element of an infringer is irrelevant when assessing the level of compensation that is appropriate for breach of a statutory tort such as a trade mark infringement.

However, the UK Regulation, which implements the Enforcement Directive, provides that *"where the defendant knew, or had reasonable grounds to know" that he was engaged in infringing activity, then the courts shall take into account all appropriate factors including "elements other than economic factors, including the moral prejudice caused to the claimant by the infringement"*.

The UK Regulation is new to UK law and (as far as we are aware) there has been no case to date that has invoked it.

In theory, it may also be possible to obtain exemplary damages (to punish the wrong-doer) for trade mark infringement under the rule in *Rookes v Bernard*¹. This case, which did not concern intellectual property rights, provides that exemplary damages may be awarded where there is wrongful conduct which has been calculated by the defendant to make a profit for itself that may well exceed the compensation payable to the claimant. However, a later case² added an additional requirement, that the cause of action must be one in which exemplary damages had been awarded prior to *Rookes v Bernard*, which would seemingly exclude damages for trade mark infringement. To further complicate matters, this additional requirement was itself put in doubt in a more recent case³. The position is therefore uncertain, although it is submitted that it is highly unlikely that exemplary damages would be available for trade mark infringement, because there is no statutory provision for it. (In passing, it ought to be noted that for certain other intellectual property rights, such as copyright, there is a statutory basis for what are termed “additional” damages (e.g. CDPA 1988 s 97(2)). Strictly, additional damages are still compensatory in nature, in contrast to exemplary damages, which are punitive in nature, as their name suggests.)

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.

In general, no. Trade mark infringement is a strict liability tort. As such ignorance of the trade mark and of the unlawful nature of the infringing acts is irrelevant to the assessment of damages (and the assessment on an account of profits). Damages are awarded on a purely compensatory basis even if the infringement is innocent. However, as an account of profits is an equitable remedy, if the wrong-doer were innocent, a court would be inclined to refuse to grant such a relief to the wronged-party.

The Enforcement Directive also provides that in the case “where the infringer did not knowingly, or with reasonable grounds know, engage in infringing activity, Member States may lay down that the judicial authorities may order the recovery of profits or the payment of damages, which may be pre-established”. With one caveat, this corresponds to the traditional approach in the UK to the assessment of monetary compensation. The caveat is that traditionally there is no provision for “pre-established” damages (i.e. damages set at a fixed, but unproven, level) under UK law.

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?

No, the scale of the infringement *per se* is not an *additional* element that influences the assessment of the damages or account of profits due.

- 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, damages for breach of contract are intended to put the claimant in the same position it would have been had the contract been performed (i.e. the contemplated profit), whereas damages for trade mark infringement (a statutory tort) are intended to put the claimant in the position it would have been had the wrongful act not occurred (i.e. compensation to return the wronged party to the *status quo ante*).

¹ [1964] AC 1129.

² *AB v South West Water* [1993] QB 507.

³ *Kuddus* [2001] UKHL/29, [2002] 2 AC 122.

Nonetheless, they have certain principles in common. Both are broadly aimed at compensating the claimant and are subject to the usual rules requiring the claimant to mitigate its losses. Both also require proof of actual loss caused by the breach, otherwise only nominal damages will generally be awarded. In addition, damages for breach of contract must not be too remote⁴. This means that only such losses as may fairly and reasonably be considered as either (i) arising "naturally" (according to the usual course of things) from the breach or (ii) such as may reasonably be supposed to have been in the contemplation of the parties at the time they made the contract, are recoverable. This is similar to the issue of foreseeability in tort.

Damages may be pursued in parallel under contract and tort (e.g. where the infringement also constitutes breach of a licence or undertaking). However, the claimant cannot recover twice for the same wrong (i.e. double recovery is excluded as a matter of public policy).

- 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?*

Particular difficulties arise from the fact that the onus is on the claimant to prove (on the balance of probabilities) the damage caused to it. This usually requires the claimant to provide evidence covering such matters as its sale prices, costs and discounts, which most claimants are reluctant to do for reasons of confidentiality.

It can also be difficult for claimants to provide evidence as to what its sales would have been, but for the infringement; or what a reasonable royalty fee should be, especially if the claimant is not (in fact) a willing licensor. It is also difficult to quantify damage to reputation and other losses the claimant may have suffered such as price erosion or increased advertising costs aimed at counteracting the infringement.

Difficulties also arise from the lack of guidance on certain issues. In particular, there are no cases considering detriment to reputation or dilution as separate heads of damage. Likewise, there is uncertainty as regards what costs and overheads should be deducted to calculate the defendant's true profit where an account of profits is elected.

Lastly, difficulties also arise from the fact that damages are largely compensatory in nature and do not seek to punish the infringer. On occasions, because of the risks associated with seeking an account of profits, a wronged-party might only seek an enquiry as to damages, and so (in essence) the wrong-doer might still profit from its unlawful acts. For other intellectual property rights, it is possible to claim "additional" damages in addition to those that would arise under a usual consideration of the compensatory principles involved. These additional damages address such matters as the unjust enrichment accrued to the wrong-doer and the flagrancy of the infringing acts.

- 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 UK a trade mark proprietor may apply for a court order for the delivery-up of any infringing goods which the infringing party has in his possession, custody or control in the course of business (TMA 1994 section 16). The court may order that the infringing goods are either destroyed or forfeited to such person as the court might think fit (which could include the rights holder, or (if different) the wronged-party)) (TMA 1994 section 19(1)).

⁴ Hadley v Baxendale (1854) 9 Ex 341.

The remedy of delivery-up is independent from an assessment of damages. However, when considering whether to grant an order for delivery-up and destruction of infringing goods or forfeiture, the court will consider the other remedies available to the trade mark proprietor and whether they would be adequate to compensate the proprietor and any licensee and protect their interests.

- 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 indicated previously, there is a paucity of case law dealing with damages in relation to trade mark infringement. In fact, most of the cases that have been relied upon in order to outline the general principles concern either patent or copyright infringement.

As such there is a low level of certainty on the evaluation of the appropriate level of compensation.

- 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 civil remedies available in the UK to act against counterfeiting and piracy by rights holders are poorly developed, if at all. The threat of damages assessed on the normal compensatory basis is often insufficient as the unjust enrichment is often sufficiently large that even after paying such compensation, the wrong-doer is still in profit.

Further, in any event, the wrong-doer might have few traceable assets or might simply disappear, or become dissolved if a corporate entity. Therefore, trade mark proprietors often have difficulty in obtaining satisfactory monetary compensation in these circumstances.

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 UK Group believes that there is a need for harmonisation in relation to the evaluation of damages where harmonisation of the substantive law on infringement already exists, e.g. in relation to Community trade marks. At present, the rights of proprietors of Community trade marks are harmonized, and yet the evaluation of damages must be conducted in accordance with the particular national law in which the infringement occurred. Thus, in a situation in which there was similar infringing activities by a wrong-doer in a number of Member States, this would almost invariably result in damages being assessed on a different basis in each country. That is unsatisfactory.

In relation to international harmonisation, it should be recalled that evaluation of damages is part of the general national law on torts, rather than being specific to intellectual property matters, and trade marks in particular. However, it may be possible to harmonise the evaluation of damages at a sufficiently high level of generality (for example, that they should be compensatory in nature), thereby setting a minimum that signatory countries could apply.

- 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.*

Primarily, monetary compensation should be compensatory in nature. However, when the infringement is flagrant or the wrong-doer is unjustly enriched, then additional damages

ought to be available in order to ensure that a willful infringer does not unduly benefit from its wrong-doing.

In the most serious cases, then punitive damages ought to be considered. Seriousness in this context might include recidivists, repeat offenders, or the manufacture and sale of dangerous goods. However, it remains an issue whether such damages should be payable to the right holders or to the state, because in the former situation, a rights holder might thereby gain an unjustified benefit. Yet, given the time, effort and irrecoverable costs associated with taking infringement proceedings, it might be considered that such an unjustified benefit in an isolated case (in essence) amounts to compensation to the rights holder for all the other situations in which it has not been fully compensated for its loss and damage.

In the case of an account of profits, the gross rather than the net profit should be forfeited by the wrong-doer to ensure that there is no cross subsidizing of the wrong-doer's business by its unlawful acts.

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

Some infringement is innocent. In such cases, the courts ought to be able to take that into account when assessing the appropriate relief that ought to be granted to the wronged-party, including whether or not it is appropriate in all the circumstances to award damages or deprive the wrong-doer of its profits.

Other remedies, such as delivery-up (at the wrong-doer's expense) and forfeiture to the rights holder or other wronged-party ought to be considered in more detail, and awarded more often in practice.

Furthermore, when the scale or flagrancy or both of the unlawful activities justify it, then it ought to be easier to ensure that the individuals responsible for the unlawful activities are held personally responsible.

Summary

Under the current jurisprudence in the UK, damages for trade mark infringement are purely compensatory in nature, and are intended to place the wronged-party in the same position as if no wrong has occurred. As such, the wronged-party may seek its lost profits on any sales that have been diverted by the wrong-doer, and in respect of additional sales made by the wrong-doer, it must pay the hypothetical royalty rate that would be paid by a willing licensee to a willing licensor. There is no discount for an innocent infringer, nor are additional damages payable by a willful infringer, who might therefore still be unjustifiably enriched by its unlawful activities.

To correct that particular injustice, it is suggested that additional damages ought to be available to deal with flagrant infringements and to ensure that a wrong-doer is not unjustifiably enriched by its unlawful activities. Punitive damages might be appropriate if the scale or flagrancy or both are particularly serious so as to act as a deterrent both to that wrong-doer and to other potential wrong-doers.

Résumé

Selon la jurisprudence actuelle, les dommages-intérêts relatifs aux violations de marques au Royaume-Uni sont purement compensatoires et sont destinés à mettre la victime dans la même position que si aucune violation n'avait eu lieu.

Dans ce contexte, celle-ci peut réclamer au contrevenant la perte de bénéfice, et, concernant les ventes supplémentaires, une redevance de licence conforme à ce qui aurait été payé au concédant par un bénéficiaire de licence régulier.

Il n'existe pas de réduction pour le contrevenant négligent, pas plus que d'augmentations pour le contrefacteur intentionnel, ce dernier ayant toujours pu s'être injustement enrichi par le biais de ses actes de contrefaçon.

Afin de remédier à cette particulière injustice, il a été proposé d'offrir des dommages-intérêts additionnels contre le violateur notoire, afin de s'assurer notamment qu'un contrevenant ne puisse pas s'enrichir injustement grâce à ses actes de violation. Des dommages intérêts punitifs peuvent être appropriés, si l'ampleur de la violation et/ou de l'évidence est particulièrement grave et avoir ainsi une action dissuasive vis-à-vis de ce contrevenant ou de tout autre violateur potentiel.

Zusammenfassung

Nach der derzeitigen Rechtsprechung in Grossbritannien ist Schadensersatz für Markenverletzungen rein kompensatorisch und dient dazu, die verletzte Partei in die Position zu versetzen, die sie ohne Verletzung inne gehabt hätte. Insofern kann die verletzte Partei den durch den Verletzer entgangenen Gewinn fordern und bezüglich zusätzlicher Verkäufe durch den Verletzer eine angemessene Lizenzgebühr, die von einem ordentlichen Lizenznehmer an einen Lizenzgeber gezahlt worden wäre. Abschläge für den fahrlässigen Verletzer gibt es nicht, ebenso wenig wie Aufschläge für den vorsätzlichen Verletzer, der somit nach wie vor ungerechtfertigt bereichert sein kann durch seine Verletzungshandlungen.

Zur Korrektur dieser besonderen Ungerechtigkeit wird vorgeschlagen, zusätzlichen Schadensersatz zur Verfügung zu stellen, als Handhabe gegen offenkundige Verletzer und um sicherzustellen, dass ein Verletzer nicht ungerechtfertigt bereichert wird durch seine Verletzungshandlungen. Strafzuschläge zum Schadensersatz könnten geeignet sein, wenn das Ausmass der Verletzung und/oder deren Offenkundigkeit besonders schwerwiegend sind, als Abschreckung für diesen, wie auch für potentielle andere Verletzer.