

Report Q203

in the name of the Hungarian 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.

The Hungarian law does not distinguish between various forms of trademark infringement (infringement, counterfeiting, piracy), therefore, such a differentiation does not exist in terms of liability either. All kinds of trademark infringement are governed by the same provisions of the Act No. XI of 1997 on the Protection of Trademarks and Geographical Indications (hereinafter referred to as Trademark Act) and by respective provisions and principles of the civil 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)?

The Hungarian trademark law provides for two essential forms of monetary compensation for damages in connection with infringement of a trademark. Both are defined as consequences of trademark infringement under Art. 27(2)(e) and Art. 27(3) of the Trademark Act.

- a) Art. 27(2)(e) provides for the return of enrichment, which is an objective consequence of the trademark infringement, for the obtaining of which the trademark owner does not have to prove any actual damage suffered. According to the Hungarian court practice the amount of enrichment which shall be paid by the infringer if the infringement is proven is the non-paid royalty fee which should have been paid by the infringer to the trademark owner if the use of the trademark had been legally licensed.

In our view, theoretically it is not excluded to claim the revenue of the infringer above the unpaid royalty, however, there is no precedent for this and according to the Hungarian court practice, all kinds of further damages of the trademark owner shall be claimed under Art. 27(3) (see below).

- b) Art. 27(3) of the Trademark Act entitles the trademark owner to claim damages in accordance with the rules of civil liability of the Hungarian Civil Code (Art. 339). The establishment and calculation principles of the damages follow the general rules of civil

liability. The trademark owner shall prove that the infringer's acts were unlawful, i.e. there was a trademark infringement, the volume of the damage occurred, and that the damages were caused by the infringing acts. The infringer is exempted from civil liability if he can prove that he acted in a way that is generally expectable under the given circumstances.

According to Art. 355(4) of the Civil Code the damages consist of the actual loss affecting the assets of the trademark owner, the lost profits of the trademark owner, non-pecuniary damages and costs of diminishing or avoiding the damages paid by the trademark owner. Regarding non-pecuniary damages we note that we have no information that in trademark infringement cases such damages have ever been awarded.

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?*

Yes. These factors shall be proven by the trademark owner.

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

We are not aware of any case where such factor was considered by the Hungarian Courts in the assessment of damages.

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

In case of return of enrichment such factor is not assessed directly, as the amount of enrichment is based on the hypothetical royalty fee. However, in the framework of compensation of damages, the decreased profitability of the trademark owner can be calculated as an element of the lost profit, if it is proven by the trademark owner.

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

We are not aware of any case where such question was raised in the judicial practice.

e) *Do the Courts distinguish between actual lost sales (i.e; the sales which would otherwise have been made by the trademark owner) and all sales made by the infringer? If so, which sales matter?*

Yes, the Hungarian Courts distinguish between the two forms referred to above. In case of return of enrichment, the assessment is based on the sales of the infringer by taking into account the royalty that should have been paid to the trademark owner, i.e. this assessment is limited to the damages occurred in terms of a license fee. The method of the calculation is that a hypothetical royalty fee is established as a percentage of the revenue of the infringer decreased with his direct costs.

In case of compensation of damages, the lost profit is calculated on the basis of the actual lost sales on the side of the trademark owner. In this case the revenue and the direct costs on the side of the trademark owner shall also be taken into account by the Court.

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

Under the Hungarian Trademark Act, parallel import also counts as infringement, unless an exhaustion of the rights occurred within the European Economic Area. There is no differentiation between this form and the other forms of trademark infringement.

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?*

In case of return of enrichment the royalty shall mean the trademark owner's lost profit in terms of trademark licensing. All kinds of lost profit of the trademark owner above the non-received royalty shall be calculated under the damages compensation. In the latter case, the profits of the infringer arising from the infringement are usually not taken into account. However, the profits realized by the infringer may be taken into consideration in a way that the royalty fee (in this case the enrichment) is usually determined as a percentage of the profit/revenue of the general licensee (in this case the infringer).

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

The profits of the infringer and the lost profits of the trademark owner are calculated on the basis of the total income from the product concerned taking into account the respective tax and direct costs as deductible items from the total income.

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

Generally, on the basis of the licence analogy, the Courts establish 5-12% of the profits of the infringer as enrichment. In case any of the parties can prove that on the specific market the percentage is lower or higher, and the base of the royalty fee is different (e.g. the income of the infringer), it is generally accepted by the Courts. The submission of actual licence agreements concerning similar products can help the Court to assess the hypothetical licence fee by way of analogy.

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

Yes. The strength of the trademark is a factor in determining the percentage (see above at 4c).

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

a) *How is the royalty rate fixed?*

The Courts tend to adapt the royalty fee to the actual market customs (see also at 4c).

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?*

We think the Courts would probably not take such circumstances into account. As far as we know, such an issue has never been decided by the Hungarian Courts so far. According to the opinion of the Hungarian Group, such a factor could be evaluated in the framework of a compensation of non-pecuniary damages.

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.*

Under Art. 95(9) of the Trademark Act in case of a party in trademark infringement proceedings has already substantiated its statements to a reasonable extent, upon the request of the party who shall provide evidences, the Court may order the other party to present and allow for review of documents and other physical items in his possession, and/or to notify of and to present bank, financial or commercial information and documents in his possession.

The Court generally appoints a forensic accounting expert who shall obtain the required data and calculate the enrichment or damages. Lost profit is usually supported by documentary evidences, which may be requested by the trademark owner. The Court may also oblige the

infringer to provide data regarding the volume of the distribution and the volume of produced and sold products.

- 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?*

It is considered by the Courts whether the reputation of the trademark is harmed by the committed counterfeiting. The dilution of the trademark can also be reflected in the consideration of general damages.

- 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 the course of the evaluation of damages compensation, the infringer shall be exempt from liability if he/she can prove that he/she acted in an expectable way under the given circumstances. Such an exemption is not available if the infringer acted in a willful way. However, these circumstances are not evaluated in connection with amount of the awarded damages. The scale of counterfeiting or piracy may be evaluated in the course of assessment of the specific amount of the awarded damages.

- 9) *Is the evaluation of damages based on the same principles in cases where the infringement also constitutes a violation of a contractual obligation, for example, a violation of a licence?*

We are not aware of any case law on this specific issue.

- 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 is usually difficult for the trademark owner to prove the amount of the damages suffered. Based on this, trademark owners often request so-called general damages compensation according to Art. 359(1) of the Civil Code. General damages might be lower than the actual damages, however, the amount of the damages, or certain elements of the amount, shall not be subject to evidence.

Another problem is that very often the volume of the infringing products cannot be established on the basis of the business books of the infringer, which again makes it very difficult to assess the amount of enrichment as well as damages. Some defendants do not provide information on the volume of the infringing products even after the Court issued an order for that effect.

It is usually difficult for the trademark owner to prove that the infringement actually caused damages, i.e. that the consumers have been actually misled by the infringing designation and chose the infringing product in the false belief of buying a genuine one. An outstandingly significant decrease in the sales may be considered by the Court.

- 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.

As far as we know, trademark owners have never claimed damages so far based on confiscated products, because such products have never been sold on the market. However, it might be possible to claim return of enrichment based on the non-received royalty for the seized products as well.

- 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.

Considering that trademark owners in most trademark infringement cases in Hungary only claim the establishment of the infringement and an order to stop the infringing activity and do not request monetary compensation, and that a great majority of monetary compensation claims are directed to obtain enrichment, no real judicial practice has developed, therefore, the general principle and jurisprudence regarding civil law damages compensation could not reach a satisfactory level of specification in the field trademark infringement.

- 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.*

One of the main reasons why trademark owners in Hungary tend not to claim monetary compensation is that infringers are often not in the position to pay any monetary compensation or they cannot be found any more at the execution. Furthermore, claimants very often face significant difficulty attempting to prove the amount of their damages or the unpaid license fee.

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.*

Summary

In Hungary, the number of cases related to damages claims based on trademark infringement is very limited. Trademark owners in most trademark infringement proceedings only claim the establishment of the infringement and an order to stop the infringement because in many cases the infringer is actually not available (does not actively take part in the lawsuit) and/or goes bankrupt under the proceedings. Consequently, trademark owners do not request monetary compensation, and even if they do most of the monetary compensation claims are directed to obtain enrichment (in most cases requesting the non-paid royalty fee). Therefore, as regards damages, judicial court practice

could not develop properly so far. In line with the Hungarian laws, there are two types of monetary compensations: enrichment which is an objective consequence of infringement and is practically equal to the non-paid royalty fee and damages which is granted under the general principles of Hungarian civil law in liabilities. The Hungarian trademark law does not distinguish between different types of infringement, instead all forms of infringement (infringement, counterfeiting and piracy) are regulated by uniform rules.

Résumé

En Hongrie, le nombre des cas liés aux demandes en réparation du dommage fondés sur une contrefaçon de marque est très limité. Dans la grande majorité des cas de contrefaçon de marque les propriétaires de marques se limitent à demander l'établissement et l'interdiction de la contrefaçon, étant donné que le contrefacteur souvent n'est pas disponible (ne participe pas activement dans le procès) et/ou fait faillite durant la procédure. Par conséquent, les propriétaires de marques ne demandent pas de compensation monétaire, et même si ils le font la plupart des demandes de compensation monétaire se portent sur une indemnité pour enrichissement, dans la plupart des cas il s'agit de demander des royalties non payées. Donc en ce qui concerne la réparation du dommage, la pratique judiciaire ne pouvait pas développer proprement jusqu'à aujourd'hui. En accord avec les lois hongroises, il y a deux genres de compensation monétaire: pour l'enrichissement qui est une conséquence objective de la contrefaçon et qui est pratiquement égale aux royalties non payées, et pour les dégâts qui est accordée selon les principes généraux du droit civil hongrois sur la responsabilité. La loi hongroise sur les marques ne distingue pas entre des formes différentes de contrefaçon, mais toutes formes de contrefaçon (contrefaçon, fraude et piraterie) sont réglées par des règles uniformes.

Zusammenfassung

In Ungarn ist die Anzahl der auf Markenverletzung beruhenden Schadensersatzansprüche sehr begrenzt. In meisten Markenverletzungen begnügt sich der Eigentümer der Marke mit der Feststellung und Unterlassung der Verletzung, denn in vielen Fällen ist der Verletzer nicht greifbar (nimmt nicht aktiv an dem Prozess teil) und/oder geht während des Verfahrens in Konkurs. Daher stellen Markeneigentümer keine finanziellen Gegenforderungen, und wenn sie es tun, so sind die meisten finanziellen Entschädigungsansprüche Bereicherungsansprüche (in den meisten Fällen Forderungen nicht gezahlter Lizenzgebühren). Daher konnte sich, was Schadensersatz betrifft, die richterliche Spruchpraxis bisher nicht wirklich entwickeln. In Einklang mit den ungarischen Gesetzen gibt es zwei Arten der finanziellen Entschädigung: Bereicherung, die eine objektive Folge der Verletzung und praktisch mit der nicht gezahlten Lizenzgebühr identisch ist, und Schadensersatz, der unter die allgemeinen Prinzipien des ungarischen Zivilrechtes fällt. Das ungarische Markengesetz unterscheidet nicht zwischen verschiedenen Arten der Verletzung, alle Formen der Verletzung (Verletzung, Nachahmung und Piraterie) sind durch gleiche Bestimmungen geregelt.