

Principles Governing Damages in Trademark Infringement

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Received 24 June 2010

Award of damages as a relief in trademark infringement, has increasingly assumed importance in the modernized economies of the world; though grant of punitive damages is more recent. Initially, in order to restrain infringers, the courts usually granted injunction and in rare cases, granted damages. Damages are awarded to monetarily compensate the aggrieved party that has suffered injury. However, with increasing instances of piracy and growth of counterfeit goods, the courts have come to realize that awarding punitive damages may be a necessary deterrent to protect the interest of trademark holders. This article compares the principles governing damages in trademark infringement in United Kingdom, European Union, and United States of America while rendering an insight into the principle of damages as conceived under the Indian trademark law.

Keywords: Trademark infringement, damages, compensatory damages, punitive damages

The liberalization of economies has resulted in trade circles growing closer. Multinational companies are actively seeking to spread their businesses across the globe, thus making their products available across geographical barriers. Most of these companies have an array of goods and services, which bear trademarks susceptible to the threat of misuse and infringement.

Infringement of a trademark occurs when someone else uses a trademark that is same as or similar to a registered trademark for the same or similar goods or services.¹ Closely related to the infringement of trademarks is the offence of ‘passing off’. Passing off is committed when one passes off his goods as that of another. In other words, it is the use of a mark that induces a consumer to believe it to be the goods or services of another. The concept of passing off has essentially evolved from English common law. The main difference between passing off and infringement has been laid down by the Hon’ble Supreme Court in *Kaviraj Pandit Durga Dutt Sharma v Navaratna Pharmaceutical Laboratories*,² as follows:

‘While an action for passing off is a common law remedy being in substance an action for deceit, that is, a passing off by a person of his own goods as those of another, that is not the gist of an action for infringement. The action for infringement is a statutory remedy

conferred on the registered proprietor of a registered trade mark for the vindication of the exclusive right to the use of the trade mark in relation to those goods (Vide s. 21 of the Act). The use by the defendant of the trade mark of the plaintiff is not essential in an action for passing off, but is the sine qua non in the case of an action for infringement.’

Thus, a plaintiff, who is unable to prove infringement of any statutory right may still have a remedy in common law, where the defendant by imitating the mark, claimed by the plaintiff as a trademark, has been guilty of passing off.³

Evolution of Trademark Law

The history of trademarks can be traced back to very early days of civilization. Potters’ marks which appeared in relics left from the Greek and Roman periods, were used to identify the potter of a particular article. In the course of time, different methods to identify and distinguish property developed. Proprietary marks like names and symbols were affixed to goods to enable one person to distinguish his possessions from those of others. Around the 10th century, a mark called a ‘merchant’s mark’ was prevalent and was used to identify owners of goods who were missing due to shipwrecks, pirate attacks, and other disasters. In guilds of the middle ages, craftsmen and merchants would protect their marks from sub-standard goods by affixing marks known as

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‘production marks’ to goods and thus maintain trust in the guilds. Although, these marks may not be the same as trademarks in the modern sense, they were used as identifiers by the owners.

The English legal system has undergone significant transition over the years. Initially the Merchandise Marks Act was passed in 1862 and the Trade Mark Registration Act was passed in 1875. Thereafter, came the Trademarks Act of 1905, which was amended in 1919 and 1937; finally in 1938 a new Trademark Act was passed. The 1938 Trademark Act contained novel concepts such as associated trademarks, a consent-to-use system, a defensive mark system, and non-claiming right system.

The American trademark law was initially influenced by the English law. However, USA is a Federal State, and the State courts adjudicate on the basis of State laws and Federal courts adjudicate on the basis of Federal laws. In 1870, the Federal Trade Mark Act was enacted to protect trademarks but it was later abolished due to inconsistency with the US Constitution. A trademark law replaced this Act in 1881. Finally in 1946, the Lanham Act was enacted which put more emphasis on the ‘use based principle’. According to this principle, a mark is registered on proof of actual use and not on mere intention to use. However in 1988, this Act was amended, as a result of which, intent to use is now sufficient to apply for trademark registration.⁴

Damages in Trademark Infringement

Relief in the form of damages is one of the remedies available in claims of tortious liability. Damages are the sum of money, which a person wronged, is entitled to receive from the wrongdoer as compensation for the wrong. The general rule in fixing the sum to be given as damages is that, it should as close as possible to that amount which will put the injured party in the same position as he would have been in, if he had not sustained the wrong for which he is getting compensation.³

Usually, damages are remedial rather than preventive or punitive. However, in a few instances, punitive damages in addition to compensatory damages may be awarded. Accordingly, there are three main categories of damages recognized under law: (i) Compensatory damages, (ii) Nominal damages, and (iii) Punitive damages.

Compensatory Damages

Compensatory damages are awarded with an intention of putting the party who has suffered injury

in the same position as he would have been had the tortious act not been committed. In case of compensatory damages, the defendant will be liable to the plaintiff for all the natural and direct consequences of the defendant’s wrongful act but not for remote consequences. This is in conformity with the earliest rationale behind damages, as conceived under the law of torts.

Nominal Damages

Nominal damages are awarded to the aggrieved party who is able to establish that he or she has suffered an injury caused by the wrongful conduct of a wrongdoer, but cannot offer proof of a loss that can be compensated. The amount awarded is generally a small, symbolic sum.

Punitive Damages

Punitive damages are awarded to the aggrieved party in addition to compensatory damages when the defendant’s conduct is willful, malicious and oppressive. The award of punitive damages is at the discretion of the courts. In most jurisdictions, punitive damages are awarded, (i) to punish one guilty of a willful wrong; (ii) to deter the defendant and potential offenders from further misconduct; and (iii) as an approximate award to plaintiff of his expenses of litigation.⁵

Award of Damages: Law and Judicial Trends

European Union and United Kingdom

In EU countries, damages are assessed taking into account the quantity of goods that could have been sold by the claimant, if the defendant had not infringed the claimant’s right. The tendency of the courts in EU is to place trademark owners in the same position, as they would have been had the defendant not infringed the claimant’s rights. The courts also take into account the duration of infringement while determining damages. Where the claimant is unable to prove actual losses, courts have awarded lump sum amount on the basis of royalties, which the claimant would have earned if the defendant had obtained authorization from the claimant. Compensation is also awarded for depreciation of goodwill and reputation of trademark. Punitive damages in the form of double royalties, higher damages for intentional infringement, coercive payments are not awarded in any EU country, except Bulgaria.

In England, courts have awarded damages based on defendant’s unfair profits as an alternative to damages

for a claimant's direct loss of profit. Damages may be granted to a claimant on the basis that the defendant's goods are of such poor quality in relation to the claimant's goods that they injure the trade reputation of the claimant.

The principle of 'compensation *ex aequo et bono*' (compensation according to what is right and good) is not recognized in England. When it is not possible to ascertain the lost profits, the infringer is bound to pay at least nominal damages and the legal costs of the court action.

The English law does not explicitly provide for the award of punitive damages in cases of trademark infringement.⁶ In the famous case of *Rookes v Barnard*⁷, Lord Devlin made the following observation with respect to punitive or exemplary damages:

'Exemplary damages are essentially different from ordinary damages. The object of damages in the usual sense of the term is to compensate. The object of exemplary damages is to punish and deter. It may well be thought that this confuses the civil and criminal functions of the law; and indeed, so far as I know, the idea of exemplary damages is peculiar to English law. There is not any decision of this House approving an award of exemplary damages and your lordships therefore have to consider whether it is open to the House to remove an anomaly from the law of England.

...[I]t is very well established that the jury (or the judge if the award is left to him) can take into account the motives and conduct of the defendant where they aggravate the injury done to the plaintiff. There may be malevolence or spite or the manner of committing the wrong may be such as to injure the plaintiff's proper feelings of dignity and pride. These are matters, which the jury can take into account in assessing the appropriate compensation. Indeed, when one examines the cases in which large damages have been awarded for conduct of this sort, it is not at all easy to say whether the idea of compensation or the idea of punishment has prevailed.

...Exemplary damages originated just two hundred years ago in the cause celebre of John Wilkes and the North Briton in which the legality of a general warrant was successfully

challenged. Mr. Wilkes' house had been searched under a general warrant and the action of trespass which he brought as a result of it is reported in *Wilkes v Wood*...PRATT, C.J., in his direction to the jury said: 'Damages are designed not only as a satisfaction to the injured person, but likewise as a punishment to the guilty, to deter from any such proceeding for the future, and as a proof of the detestation of the jury to the action itself.' The jury awarded £1,000.'

United States

Trademark law in USA is based primarily on notions of incentives and search costs, which includes creating incentives for the trademark owner to produce quality products, creating disincentives for cheaters, and lowering the search costs for consumers looking for their preferred products or services. In 1995, the Supreme Court of USA observed, 'in principle, trademark law, by preventing others from copying a source-identifying mark, reduces the customer's costs of shopping and making purchasing decisions, for it quickly and easily assures a potential customer that this item—the item with this mark—is made by the same producer as other similarly marked items that he or she liked (or disliked) in the past. At the same time, the law helps assure a producer that he (and not an imitating competitor) will reap the financial, reputation-related rewards associated with a desirable product. The law thereby encourages the production of quality products, and simultaneously discourages those who hope to sell inferior products by capitalizing on a consumer's inability quickly to evaluate the quality of an item offered for sale.'⁸

As per the above interpretation, monetary damages for trademark violations centre on economic considerations rather than notions of punishment.⁹ Moreover in USA, there is no practice of granting damages for trademark infringement except on proof of bad faith and actual instances of confusion. While granting damages, the courts have to take into account several factors such as whether the defendant was negligent or careless, whether there was a possibility of confusion, whether the defendant realized any profits out of his infringing actions, etc.

In modern times, the courts have occasionally awarded damages on the rationale of deterrence to defendants or preventing their unjust enrichment. The court's resistance in awarding damages can be attributed to the notion that an injunction is sufficient

to deter a potential infringer. But in case of a habitual pirate or counterfeiter, deterrence alone is not sufficient and damages will have to be imposed. Also, courts in US do not award damages and account of profits simultaneously. Only one of them can be awarded. For monetary recovery, proof of actual confusion or deception is necessary.

The Federal courts have held that Section 35 of the Lanham Act does not say that a successful plaintiff is entitled to a monetary relief in all cases in addition to an injunctive relief. In fact, the award for damages is 'subject to the principles of equity.' Where the court feels that injunction will satisfy the principle of equity and where there is no proof of fraud or passing off, monetary relief will be denied.

In some states of USA, punitive damages are allowed in cases of trademark infringement and unfair competition. It is pertinent to note here that, punitive damages cannot be awarded unless actual damages have also been awarded. The Lanham Act of USA provides for trebling of actual damages and increasing or decreasing actual damages if necessary.¹⁰

India

Prior to the current legislation in force, the Trade and Merchandise Marks Act of 1958 governed the law on trademarks in India. However, it was felt that a comprehensive review of existing law should be made in view of the developments in trading and commercial practices, increasing globalization of trade and industry, etc. To achieve these purposes, the Trade Marks Act, 1999 was passed. Although the 1999 Act is in force at present, the 1958 Act comes to play in litigations involving marks that were registered under it. Both, the 1958 Act and the 1999 Act, recognize the offences of infringement and passing off and provide for remedies.

The most significant changes brought about by the 1999 Act were as follows:

- 1 Providing for registration of trademark for 'Services'.
- 2 Providing for registration of 'Collective Marks', owned by Associations.
- 3 Providing an Appellate Board for speedy disposal of appeals.

Under the Trademarks Act 1999, the Indian courts may grant the following reliefs for infringement and passing off:

Permanent and temporary injunctions; compensatory and punitive damages; rendition of accounts; or delivery of the infringing goods, labels, marks for destruction/erasure.

While injunction is a remedy arising out of the Civil Procedure Code 1908, in India, awarding damages as a remedy emerged as a result of tortious liability. Although, granting injunctions was the usual remedy, Indian courts, especially the High Courts have recently started awarding both compensatory and punitive damages for trademark infringement. The trend of awarding punitive damages in the realm of trademarks started with *Time Incorporated v Lokesh Srivastava*¹¹, where the Court awarded both compensatory damages and punitive damages for infringement of the trademark 'TIME'. The Court awarded the plaintiff Rs 5 lakhs, for loss of reputation, plus Rs 5 lakhs in punitive damages, including interest; the total damages awarded being Rs 16 lakhs.¹² The Court drew a distinction between compensatory and punitive damages and observed that punitive damages need to be awarded in this case because not only did the plaintiff suffer due to infringement, but readers of the defendant's magazine also suffered. They were deceived because they purchased a magazine believing it to be published by the plaintiff. The Court observed that the time was ripe to award punitive damages with a view to discourage lawbreakers. The Court also observed that punitive damages should be penal in nature with the quantum being dependant on the flagrancy of infringement.¹³

In *Microsoft Corporation v Mr Kiran and Anr.*,¹⁴ the Court observed:

'The legal position in India with respect to granting damages in cases of infringement of trademarks and copyrights, has been progressive. The courts have now started granting the relief of damages with the view that a defendant cannot escape damages as a consequence of its disappearing from the legal proceedings. The claimant has a right to damages regardless of the defendant's state of mind, and that is so regardless of whether the cause of action is infringement of a registered mark, or passing off.'

In *Microsoft Corporation v Mr Rajendra Pawar*¹⁵, the Delhi High Court referred to the case of *Mathias v Accor Economy Lodging Inc.*¹⁶ The Court, while elucidating the factors underlying the grant of punitive damages, observed that one of the functions of punitive damages is to relieve the pressure on an overloaded criminal justice system by providing a civil alternative to criminal prosecution of minor crimes. It was further observed that the award of

punitive damages serves the additional purpose of limiting the defendant's ability to profit from his fraud by escaping detection and prosecution.

In *Microsoft Corporation v Deepak Raval*¹⁷, the Delhi High Court held that the justification for award of compensatory damages was to make up for the loss suffered by the plaintiff and the rationale behind granting punitive damages is to deter a wrong doer and the like-minded from indulging in such unlawful activities. This is more so when an action has criminal propensity. Thus, while awarding punitive damages, courts have taken into consideration the conduct of the defendants who have 'willfully calculated to exploit the advantage of an established mark' (as used in US courts), or 'flagrancy of the defendant's conduct' (test adopted by Australian courts). The English courts have used the test of 'dishonest trader', i.e., one who deals in products knowing that they are counterfeit or is 'recklessly indifferent' as to whether or not they are counterfeit.

In *Hero Honda Motors Limited v Shree Assuramji Scooters*¹⁸, the Court observed:

'This Court has no hesitation in saying that the time has come when the courts dealing with actions for infringement of trademarks, copyrights, patents, etc. should not only grant compensatory damages but award punitive damages also with a view to discourage and dishearten law breakers who indulge in violations with impunity out of lust for money so that they realize that in case they are caught, they would be liable not only to reimburse the aggrieved party but would be liable to pay punitive damages also, which may spell financial disaster for them.'

Changing Scenario

Looking at the present trend of the Indian Judiciary in cases pertaining to trademark infringement, it appears that the Judiciary has become more receptive to the idea of granting punitive damages along with compensatory damages. In ambiguous questions of law, the Indian Judiciary has relied upon the decisions and doctrines of the English, American and Australian courts. It is pertinent to note that there were no reported judgments related to granting damages for trademark infringement until the year 2005, in the *Time Incorporated v Lokesh Srivastava*¹¹ case. This could be attributed to the fact that the commercial significance of intellectual property assets was not realized until recent times. After the *Time Incorporated* case, courts have granted punitive

damages when well-known brands, having market reputation and goodwill, have suffered huge monetary losses due to trademark infringement and/or passing off. This welcome change in the judicial trend may be attributed to the fact that globalization and opening up of the Indian economy which occurred in early 1990s, led to a greater recognition of the concept of protecting brands, labels and identity.

As IP valuation will undertake a structured scheme in the days to come, it is expected that the principle relating to damages will also evolve and become more concrete to meet the needs of the time. Nevertheless, it is encouraging to witness courts acknowledge the commercial value that intellectual assets have attained.

Conclusion

US trademark law is primarily governed by market-place realities and not by technicalities, *per se* rules, or by punitive or punishment notion. Given trademark law's importance in overall commercial regulation, the economics-based approach of US trademark law is practical, useful, and effective.⁹

When it comes to the EU, the 'Directive on the Enforcement of IP Rights'¹⁹, requires countries of the EU to amend their national laws in accordance with the principles set out in the Directive, with a view to harmonizing the procedural rules and substantive law relating to the enforcement of IP rights in all Member States. Although, the directive aims at removing disparities between the systems of the Member States, inconsistency still prevails as regards precautionary measures, corrective measures, injunctions, alternative measures, damages, legal costs, and publicity measures.⁴

Just as in civil law countries, the main function of damages in England and Wales is the compensation of the claimant, and not the punishment of the wrongdoer. However, from the eighteenth century onwards, punitive damages have been occasionally granted to mark the court's disapproval of the defendant's conduct.

In India, the principles involving damages in trademark infringement are still evolving and the Indian courts are continuously adapting and developing newer interpretations. The focus on awarding damages has intensified due to increase in piracy and the need for deterrence, importance of compensating plaintiffs in an environment where the costs of litigation are increasing, and the need to relieve pressure on the country's criminal justice system by fashioning more civil remedies.²⁰

Acknowledgment

The authors would like to sincerely thank Ms Divya Subramanian for her valuable inputs and Lex Orbis for its support.

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