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## **Damages as a Consequence of Trademark Infringement**

Are the rightholders' needs fulfilled through its current functions?

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## PREFACE

In the late 2009 I was given the task from MAQS law firm to investigate why the levels of damages for trademark infringements often turn out low. Trademarks carry significant values and inefficient measures to enforce such rights could be devastating. The topic led me to consider what role the trademark *de facto* has in society today and furthermore how important it is for practitioners to be able to access efficient measures for enforcing and guarding their trademark rights. My somewhat shifted focus led me to face the reality, the trademark rightholders, to realize how practitioners have chosen to strategically work to enforce and look after the trademark rights. As I believe that the rightholders' view is the most important view in this settling I have chosen to use this as the fundament of this thesis and handle the issues from the perspective of the rightholder: the actor whose rights I believe should be looked after.

I want to take the opportunity to thank all persons involved in my master thesis work for investing their valuable time in talking to me.

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## ABSTRACT

We see them everywhere. They carry significant values. All companies have one. Many companies build their business around one. This is what we call a trademark. The trademark is a mark for recognition and functions as a warranty for survival and continuous income which makes companies invest heavily in it. The biggest, currently existing, threat to trademarks is infringements. Infringements have grown into a significant multinational organized criminality. One of the reasons is that it is cheap to infringe. Currently, the damages provision in the Trademark Act is frequently discussed and criticized. In order to investigate whether this criticism is justified, this master thesis aims to compare the prevailing legal situation of trademark infringement damages to the needs and requirements of active trademark rightholders. The result illustrates that the damages in practice fail to repair the rightholder's injury caused by the infringement as well as to prevent the potential infringer from infringing. The paper accordingly illustrates *why* the intended functions of the damages are not fulfilled, *where* the system fails and *what* consequences such failure has. From case law, legal doctrine and public press I have been able to extract a number of methods for calculating and supporting damages caused by trademark infringements. The intention is for it to function as a tool for rightholders when determining which method is most appropriate for their specific infringement situation.

Key words: Trademark infringement; Trademark rightholders; Counterfeiting; Damages

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## DEFINITIONS AND ABBREVIATIONS

Intellectual property rights <i>or</i> IPR	Patents, trademarks, copyrights and designs
Internal Market	The internal market of the European Union which is characterized by the free movement of goods, services, capital and persons.
The Directive	The European Directive on enforcement of intellectual property rights 2004/48/EC
NIR	Nordic intellectual property law review
SOU	The Swedish Government Official Reports
Prop <i>or</i> Proposition	Proposal of a new or revised legislation
DS	Department letter
NJA	Case law from the Swedish Supreme Court
RH	Case law from the Swedish Courts of Appeal
Hovrätt <i>or</i> HovR	The Court of Appeals
Tingsrätt	The District Courts
MD	The Market Court

## INTRODUCTION

### A Problem with Devastating Effects

In order to achieve a functional Internal Market restrictions preventing freedom of movement and fair competition must be eliminated. The intention is for the Internal Market to provide an environment that allows for innovation and creativity. As technological developments move forward and constant innovation turns into one of the most valuable aspects in a company, effective measures making such development sustainable become crucial. Sufficient protection of intellectual properties becomes essential in order for companies to invest in innovation and creativity and for the market to grow and develop. Not merely does a sufficient protection of intellectual properties promote for further innovation and technological development but it also improves employments and competitiveness on the Internal Market.

Infringements are currently one of the major threats to today's intellectual properties. By infringing the infringer chooses to take a free ride on someone else's intellectual property, instead of investing in an own technology, logo, mark or design. Today, infringements have grown to a vast business and in 2008 over 178 million articles were seized at the EU Borders compared to 79 million the year before. 54 percent of all fake products are coming out of China which makes the country the biggest threat of them all.<sup>1</sup>

The following master thesis work will focus on one of the most valuable intellectual properties, *the trademark*, which today is ascribed significant value. In general, every company uses some kind of mark for customers to recognize their products or services. A trademark is what distinguishes a company and their products from others'. The distinctiveness is what helps customers to find their way back to the company from which they purchased the product or service. Thus, through the use of trademarks companies create a warranty for survival and continuous income. To build a valuable trademark however requires substantial resources and work. But after succeeding to establish the distinctiveness and valuable associations the trademark could carry significant values which facilitates for the company to generate profits in the future.<sup>2</sup> John Stuart, Chairman of Quaker, once said that "*If this business were split up, I would give you the land and bricks and mortar, and I would take the brands and trademarks, and I would fare better than you*" (ca. 1900).

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<sup>1</sup> Commissions statistics from 2008

<http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/1106&format=HTML&aged=0&language=en&guiLanguage=en>.

<sup>2</sup> See for example Interbrand's (in association with JP Morgan) brand valuation [http://www.brandchannel.com/papers\\_review.asp?sp\\_id=357](http://www.brandchannel.com/papers_review.asp?sp_id=357).

An infringement could cause substantial damage to a company's trademark. Not merely does it destroy the trademark's distinctiveness it also ruins its function as a guarantee for the company's products or services. Certain injury caused by an infringement could perhaps not even be restored. Since trademarks today represent such substantial values it is tempting for others to take advantage of such values. This is also the reason why infringement eventuates constantly and has turned into a major problem for trademark owners. Counterfeiting and piracy is amounted to nearly five percent of today's economy.<sup>3</sup> In 2005 counterfeiting was valued at \$200 billion per year.<sup>4</sup> From the 178 million articles detained by the EU Borders in 2008 a large number constituted items of trademark infringement.

Not merely is counterfeiting a problem to the rightholders and their business, it has socio-economical effects. Counterfeiting risks undermining innovation and negatively effects a country's economical growth. Subsequently, counterfeiting could also affect the consumers since the goods pass no control and could therefore include safety and health risks. In addition, since tax revenues are foregone and costs are incurred in combating the problem also the government is affected by the growing problem.

Due to the trademark's significant values and to the increased frequency of infringements effective measures are required to prevent the negative development. If companies could not protect and enforce their trademarks against infringers and their illegal activities there is a significant risk that infringements would fully ruin a company's trademark which eventually could vanish. Consequently, the company could risk falling.

One crucial measure for enforcing a trademark is damages. The intention of damages is not merely to repay the rightholder for the economical loss caused through the infringement, it is also to deter the potential infringer from actually committing the infringement, i.e. it should act preventive. In order for the damages to fulfill its intended function the rightholder should be entitled compensation for his or her total loss and injury caused by the infringing action. A major problem lies however in calculating and supporting the loss that has been caused by the infringement. Discussions have been ongoing for years and still the rightholder does not consider the injury to being fully compensated. The legislators as well as the courts are restrictive in compensating the rightholder beyond the actual damage and since the actual damage due to the property's intangible character is difficult to prove the compensation level is often low. Currently, there are no established procedures or methods available for calculating or supporting the damage which worsen the situation for the rightholder and the function of the damages is not

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<sup>3</sup> M. Levin/ M. Koktvedgaard *Lärobok i immaterialrätt* page 524.

<sup>4</sup> OECD report 2007 (<http://www.oecd.org/dataoecd/11/38/38704571.pdf>)

fulfilled. The ineffective measures to protect and enforce could therefore risk limiting investments, innovation and creativity.

## The Objective

The purpose of this master thesis is to illustrate the function and effectiveness of today's regulation on, and application of, damages as a result of trademark infringements. In order to attain an understanding of the context in which trademark infringements occur as well as the logic behind the use of the damages sanction, an empirical investigation among trademark rightholders will be carried out. By comparing the current legal situation on trademark damages to the rightholders' needs, and applied enforcement strategies, regarding civil damages, I hope to be able to grasp how, if at all, the rightholders' needs are connected to how the damages system for trademarks is designed and applied. Based on such analysis the intention is to find the core of the problem by concluding where the system, and application of it, fails and the consequences of such failures. The aim is furthermore to guide the rightholders through the different methods for supporting and calculating damages which in turn could constitute a tool for the rightholder. The thesis is written directed to the rightholder. As it has not yet been thoroughly analyzed in the legal literature, this master thesis will further illustrate the intended effects on the revised damages provision based out of the European Enforcement Directive on intellectual property rights. Specially, this paper intends to focus on whether the revision will have any effect on the application and methods for calculating damages in Sweden. Finally, this master thesis will present my thoughts on how to move forward by highlighting the main issues of the system and its application. By attracting attention to the main issues and to possible solutions to them I hope to create an understanding, and awareness, among the rightholders on how to handle the present system and how to argue for it to change.

## The Problems

Based on the purpose of this master thesis, my main questions to answer are:

- Does the prevailing system of trademark infringement damages fulfill its functions and are the rightholders' needs fulfilled through such functions?
- Which methods exist to calculate and support damages?

In order to provide the reader of this master thesis a comprehensive and sophisticated answer to the main questions, the following questions will be answered along the way:

- What is meant by infringement and why does it cause significant problems to trademark holders?
- What is the fundamental function(s) of damages?
- Which sanctions are available for trademark infringements?
- How has the current trademark system formed its damages provision and why?
- How do rightholders calculate and support their damages claims?
- How do courts support their decisions on damages?
- Does the Swedish damages provision for trademarks fulfill the Directive?
- Which enforcement strategies are trademark rightholders using and why?
- Does the current system on damages fulfill the trademark rightholders' needs?
- Which are the consequences of an ineffective damages system for trademark infringements?
- What is required from the system in order to fulfill its function, the needs of the rightholders and to function efficiently?

### The Delimitations

Due to limitations in time and space and in order to provide the reader a comprehensive analysis of the specific questions, the following delimitations have been made.

1. Even though the similarities what regards the damages regulation are extensive between the different intellectual property rights, the focus of this paper will be put on trademarks.
2. This master thesis will merely handle the Swedish regulation on damages with all its influences from the European directives.
3. As I am writing this thesis a proposal of a new 'Trademark Act'<sup>5</sup> has been handed in to the Council of Legislation for review. To my knowledge – after studying the proposal – the proposal will not in its present shape affect the situation on damages. Thus, the proposal will not be handled further in the thesis.
4. Despite its great importance this paper will merely touch lightly upon the remaining types of sanctions available for trademark infringements. The intention is for the reader to gain a more comprehensive understanding of the sanction system and to put damages in its context of other sanctions.

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<sup>5</sup> Published 29 January 2010 (<http://www.sweden.gov.se/sb/d/12658/a/138745>)

5. Even though damages could be issued followed from contractual relations, this master thesis will merely handle damages following from non-contractual claims.

6. An issue that could affect the damages level claimed by the rightholder, is the litigation expenses. Even though it could be valuable for the reader to keep in mind – when reading this paper as well as when taking future actions – the issue does not influence the subject for this thesis and will therefore not be handled further.

7. A rightholder is entitled reasonable compensation even though the infringer has been in good faith when infringing the trademark. As infringers seldom are in good faith, I have chosen not to include an analysis of infringements made in good faith and instead merely focusing on actions made intentionally or negligently.

## Method and Material

When analyzing the current legal situation I have initially been using a *legal dogmatic method*. As a basis for this analysis I will *inter alia* be using legal text and comments, preparatory works, statements, doctrine, case law, articles, international agreements and directives and to the directives related proposals. In order to collect information from relevant trademark owners and legal representatives I have carried out interviews. The responses have been analyzed based on the knowledge I have collected from the legal dogmatic analysis. In order to make the paper accessible I have chosen to include analyses continuously where it is appropriate and not merely as a final feature of the thesis.

## The Disposition

This master thesis will initially give the reader a comprehensive understanding on the prevailing legal situation on damages in the trademark system by analyzing the current legal provision on damages and how it has been applied in court. Thereafter the master thesis will present how relevant trademark holders use the system and enforce their trademark rights towards infringers. Subsequently, the master thesis will boil down to a discussion and final analysis where the prevailing legal situation is set in relation to the opinions held by and strategies used by the trademark holders. Ultimately, conclusions on how to move forward and for the system to correspond to the rightholders' needs and requirements will be presented.

## THE TRADEMARK PROTECTION

### The Connecting link

The trademark serves as the connecting link between the company and its customers. The trademark protection covers the connecting link but not the clientele *per se*. A trademark is reliant on the environment in which it exists and first after it has been placed in an environment could it have any value. Through the use of marketing and promotion the trademark often earns its reputation and becomes the connecting link to the clientele. Having a trademark implies having an exclusive right to a certain mark, a connecting link. Thus, others are without the holder's permission not allowed to use the trademark for similar goods.<sup>6</sup> However, the exclusivity only applies for business activity. In order to determine whether two marks are confusingly similar an overall judgment is made. All factors – such as distinctiveness, establishment, exploitation, similarity in writing and pronouncing, type of products and clientele – are included in making the overall judgment. The two most important factors are however the similarity of marks and the similarity of goods. Even though marks in general merely are considered confusingly similar if there is a similarity of goods,<sup>7</sup> some well known trademarks could have a wider protection.<sup>8</sup> The reason is that the disloyal use of such trademarks is often more tempting. Irrespective of whether the public actually is deceived by the confusingly similar trademark, a trademark infringement is at hand if the criteria now regarded are fulfilled.<sup>9</sup>

The trademark infringements could take different forms. In this master thesis infringements are divided into two different types: counterfeiting and other infringements. In a situation of *counterfeiting* the infringer is putting unauthorized copies of the rightholder's products using an identical reproduction of the certain trademark up for sale. Sales could be accomplished by either market salesmen or organized through larger companies. In a situation of *other infringements* the infringer is using a similar but not identical trademark.

### The Trademark Sanctions

A trademark infringement could bring different sanctions to the fore. The accessible sanctions today are: penalty; damages; prohibition; and security measures such as e.g. seizure or forfeiture of infringing goods. As a member state of the European Union Sweden undertakes to provide necessary measures and sanctions to ensure the rightholders' rights to their intellectual property.

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<sup>6</sup> Trademark Act (SFS 1960:644) Article 4.

<sup>7</sup> Trademark Act Article 6.

<sup>8</sup> Trademark Act Article 6 paragraph 2.

<sup>9</sup> RH 1990:68 where it is stated that the public must not be deceived in order for an infringement to have occurred.

The sanctions should be fair and reasonable, not unnecessarily complicated or expensive.<sup>10</sup> The sanctions and measures for fighting infringements should furthermore be effective, proportional and act deterrent without causing obstacles on the Internal Market.<sup>11</sup> As the intellectual property legislations belong to the civil laws, damages<sup>12</sup> have become the most common sanction for infringements.<sup>13</sup>

### The Recent Revision of Sanctions

The sanction system in the Trademark Act has during the past recurrently been exposed to revisions.<sup>14</sup> In 2009 it was once again revised.<sup>15</sup> The reformation followed from the European Directive on Enforcement of Intellectual Property Rights 2004/48/EC<sup>16</sup>. The Directive – which emerged as a consequence to the several works made by the Commission<sup>17</sup> but which ultimately was based on the Commission’s proposal of 2003<sup>18</sup> - was accepted by the European Parliament and Council in 2004.<sup>19</sup> The Directive concerns mainly the measures, procedures and remedies necessary to ensure the enforcement of intellectual property rights.<sup>20</sup> The Directive’s fundamental purpose is to harmonize the member states’ intellectual property sanction systems.

The Directive has the character of a so called *minimum directive* which means that the member states could apply rules even more beneficial to the rightholder.<sup>21</sup> Regarding damages the recent reformation has mainly imposed the Swedish legislator to clarify which circumstances to consider when determining the level of damages.<sup>22</sup> Apart from the clarification, the Directive did not require any additional revision of the Swedish Trademark Act.<sup>23</sup> Despite its well intended purpose the initial proposal behind the Directive was not received positively by all parties. The Directive therefore came out as a compromise.

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<sup>10</sup> Directive 2004/48/EC Article 3.1.

<sup>11</sup> Directive 2004/48/EC Article 3.2.

<sup>12</sup> Trademark Act Article 38.

<sup>13</sup> P J. Nordell NIR 1994 page 311.

<sup>14</sup> The first damages provision was implemented into the Trademark Act in 1884. The current Trademark Act came into force after the reformation in 1960 which gave rise to Article 38. The most recent revision before 2009’s revision was made in 1994 where the aim mainly was to strengthen the intellectual property laws.

<sup>15</sup> Prop. 2008/09:67.

<sup>16</sup> Directive 2004/48/EC.

<sup>17</sup> COM (1998) 569.

<sup>18</sup> The Commission’s Proposal to the Directive on enforcement and protection for intellectual property, COM (2003) 46 Final.

<sup>19</sup> Directive 2004/48/EC Preamble

<sup>20</sup> Directive 2004/48/EC Article 1.

<sup>21</sup> M. Norrgård NIR 2004 page 444.

<sup>22</sup> Directive 2004/48/EC, Article 13.

<sup>23</sup> Prop. 2008/09:67 page 227.

## Damages based on Non-Contractual Relations

The function of damages is two folded. It aims to serve both a preventive and a reparative function.<sup>24</sup> The damages' preventive function is to restrain a person from injuring someone else. The reparative function is about economically restoring the injured party in the same situation as before the damage or loss occurred caused by the specific action.<sup>25</sup> In order to fulfill the reparative function of the damages the injured party is entitled full compensation for the caused damage or loss. However, the level of compensation should normally not exceed the injured party's actual damage.

The Swedish Law on Damages<sup>26</sup> divides the damages into three categories: personal injury; property damage; and pure economic loss. Looking at the legal regulations the person who – willfully or negligently – has caused a personal injury or property damage is obliged to compensate the injured party through damages.<sup>27</sup> Injuries of economical nature could merely be compensated as a *pure economical loss*.<sup>28</sup> An action must be criminal in order to trigger a pure economical loss.<sup>29</sup> . If no crime has been committed the injured party must find support in a legal provision.<sup>30</sup> According to the principle rule, the injured party holds the burden of proof related to the loss.

Trademark infringement could cause a liability to pay damages. The injury caused is economical why it could merely trigger a pure economical loss for which the Trademark Act finds its support in Article 38.

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<sup>24</sup> J. Hellner *Skadeståndsrätt* page 37 ff.

<sup>25</sup> J. Hellner *Skadeståndsrätt* page 37 ff.

<sup>26</sup> SFS 1972:207

<sup>27</sup> Law on damages Chapter 2 Article 1.

<sup>28</sup> J. Hellner *Skadeståndsrätt* page 66 ff.

<sup>29</sup> Law on Damages Chapter 2 Article 2.

<sup>30</sup> Law on Damages Chapter 1 Article 1 (states the non-peremptory character of law) and Chapter 2 Article 2.

## IN DEPTH OF ARTICLE 38

### Section Disposition

The following section is introduced by an analysis of the burden of proof which includes the subjective prerequisites, the proximate cause and the existence and scope of the loss caused by the infringement. Subsequently, there will be an analysis of the reasonable compensation which will be followed by a presentation of possible methods for calculating and supporting compensation for the unauthorized use of the trademark. Thereafter, focus will be put on damages for the additional injury and which methods there are for calculating and supporting such loss. The section will be finished off by looking into the so called help-rule.

### In Absence of an Adequate Practice

A trademark is intangible and consequently impossible to touch upon. Its value is not included in the balance sheet<sup>31</sup> and difficulties prevail on how to prove any prejudice caused to such asset. Consequently, the rightholder is rarely awarded adequate damages for his or her injury caused by an infringement. Due to the costs and time required for a legal trial, cases seldom end up in court. Instead the parties settle through a business agreement. The consequence is that no practice is shaped and the uncertainty remains.<sup>32</sup> Guidance must instead be found in the preparatory works, in the legal literature, in other intellectual property case law and in the claims made by parties before the court in trademark cases. As there is no established principle for calculating damages and the courts rarely ever motivate their estimations, I have found it crucial to look at arguments and methods that have been presented by the parties in a court process, by writers in the legal literature and by legislators and legal investigators.

The purpose of the following section is therefore not merely to go in depth to the damages provision to understand its content, meaning and purpose it is also to create a tool which guides the rightholder through the jungle of calculation methods and support arguments that have been used when claiming compensation for trademark infringements. The intention behind creating this tool is for the rightholder to being able to distinguish which method and support that would be most appropriate for his or her situation.

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<sup>31</sup> Note however that goodwill is reported in the balance sheet when a company is purchased. The goodwill (or the trademark) is however not accounted for in the balance sheet if it is created internally and stays within the company.

<sup>32</sup> H. Borgenhäll *Festskrift till Marianne Levin* page 157.

## Designing a Damages Provision for an Intangible Asset

As a member of the European Union, Sweden undertakes to have its competent judicial authorities, on the application of the suffering party, to award an infringer who *knowingly, or with reasonable grounds to know*, committed an infringement to pay reasonable damages.<sup>33</sup> The level of damages should compensate for the *actual injury* that the rightholder has suffered from the infringement and all relevant circumstances should be regarded.<sup>34</sup> The Directive explicitly states a number of circumstances that should be considered.<sup>35</sup> The list has been implemented as a *non-exhaustive* enumeration in Article 38 of the Trademark Act. The Article's current wording is:

**38 §** *Anyone who willfully or with negligence commits a trademark infringement shall pay an equitable compensation for the use of the trademark and compensation for the further damage caused by the infringement. When determining the amount of the compensation consideration should in particular be taken to:*

1. *loss of profits,*
2. *unfair profit made by the infringer based on the infringement,*
3. *damage on the trademark's goodwill*
4. *moral prejudice, and*
5. *the rightholder's interest of avoiding to being exposed to infringement.*

*Anyone who without intention or negligence commits a trademark infringement shall pay a compensation for the use of the trademark, if and to the extent that this is considered reasonable. Law (2009:110).*<sup>36</sup>

## The Burden of Proof

Generally in trademark cases the burden of proof lies with the rightholder.<sup>37</sup> Normally the rightholder is required to prove:

1. The infringer's willfulness or negligence,
2. The proximate cause between the infringing action and the loss or injury,
3. The existence and scope of the prejudice caused by the infringement.

In cases of infringements the *dogmatic theory*<sup>38</sup> has had the greatest impact on the burden of proof. The theory is based on the principle that the plaintiff shall prove his or her claims to the court while the defendant shall prove any objections.<sup>39</sup> Even though such theory does not apply in all

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<sup>33</sup> Directive 2004/48/EC, Preamble Cause 26 and Article 13.1.

<sup>34</sup> Directive 2004/48/EC, Preamble Cause 26 and Article 13.1.

<sup>35</sup> Directive 2004/48/EC, Article 13.1 a-b.

<sup>36</sup> Own translation of article 38 in the Trademark Act inspired by the English version of the former wording of Article 38.

<sup>37</sup> H. Borgenhäll *Festskrift till Marianne Levin* page 149.

<sup>38</sup> A a, page 149 f.

<sup>39</sup> A a, page 149 f.

Supreme Court cases the theory seems to have a large influence on damages cases in the sphere of intellectual property.<sup>40</sup> In a copyright case from 1994<sup>41</sup> a so called *probability theory*<sup>42</sup> was applied. The theory concerns the original likelihood where the person claiming something that contradicts the original likelihood is required to support such claim. The theory has been considered to being applicable in trademark cases when it comes to goodwill damage.<sup>43</sup> The application would suit since the goodwill loss is typically caused by a trademark infringement.<sup>44</sup> As the Directive is not explicitly regulating the burden of proof such issues must be handled nationally.<sup>45</sup>

### *Culpa*

An unconditional obligation to pay damages occurs if the infringer has committed the act of infringement willfully or, at least, negligently.<sup>46</sup> The Swedish provision therefore corresponds to the requirements in the Directive.<sup>47</sup> It is impossible to on an abstract level on beforehand determine what someone should or should not have known regarding the trademark and its scope of protection.<sup>48</sup> In general an action is however considered negligent if a registered intellectual property is not respected.<sup>49</sup> Therefore the infringer could not abstain from responsibility by claiming insufficient knowledge about the certain right or the trademark's scope of protection.<sup>50</sup> The same would probably be more difficult to apply on trademarks that have acquired protection through establishment.<sup>51</sup>

Even though it is sufficient for the rightholder to prove negligence, proving that an infringement was made intentionally could possibly allow for higher damages.<sup>52</sup>

### *The Proximate Cause*

In order for damages to be awarded there must be a proximate cause between the action of infringement and the loss caused by the certain action. The rightholder is according to general

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<sup>40</sup> A a, page 150.

<sup>41</sup> NJA 1994 s 74.

<sup>42</sup> H. Borgenhäll *Festskrift till Marianne Levin* page, page 149 f.

<sup>43</sup> A a, page 150 f

<sup>44</sup> A a, page 150 f.

<sup>45</sup> Prop. 2008/09:67 page 234 f.

<sup>46</sup> Trademark Act Article 38 and Prop. 1993/94:122, page 70 and Prop. 2008/09:67 page 227.

<sup>47</sup> Prop. 2008/09:67 page 227 f.

<sup>48</sup> M. Norrgård NIR 2004 page 449 f.

<sup>49</sup> J. Alin/ H. Larson *Skadestånd vid varumärkesintrång* page 24.

<sup>50</sup> Prop. 1993/94:122 page 71.

<sup>51</sup> Prop. 2008/09:67 page 227.

<sup>52</sup> J. Alin/ H. Larson *Skadestånd vid varumärkesintrång* page 25, The rightholder was awarded damages for willful infringement by the court in Stockholms Tingsrätt Case T 7-405-93 Cartier International ./ . Kaplans

rules obliged to prove such causality.<sup>53</sup> The causality has been investigated in detail in the Design investigation<sup>54</sup>. The investigation proposes that the required proof for supporting the proximate cause should be lightened.<sup>55</sup> E.g. it should be sufficient for the rightholder to prove *probable cause* between the infringement and the decreased sales in order for the rightholder to be entitled compensation.<sup>56</sup>

### *The Existence and Scope of the Injury*

The level of proof required in an infringement situation depends on the type of damage caused by the infringement.<sup>57</sup> The burden of proving injuries that could only be supported by the rightholder – e.g. internal expenses – also lies with the rightholder and the level of proof required is normally high. When proving the rightholder’s loss of profits the level of proof required is generally lower.<sup>58</sup> The reason is the difficulty of finding sufficient proof to support such loss.<sup>59</sup> In a case from 2005<sup>60</sup> the court concluded that the rightholder had *not made it probable* that a decrease in sales had occurred. To make something only probable could indicate that merely a low level of proof is required to support such injury or loss.

### Reasonable Compensation for the Unauthorized Use

*“Anyone who willfully or with negligence commits a trademark infringement shall pay an equitable compensation for the use of the trademark / .../”*.<sup>61</sup> The introductory wording of Article 38 in the Trademark Act contains an unconditional obligation for the infringer to compensate the rightholder for his or her unauthorized use of the trademark.<sup>62</sup>

In the Directive the reasonable compensation is expressed as an *alternative ground* for compensation to what is expressed in Article 13.1 a). It furthermore has the character of an objective criterion for accounting compensation.<sup>63</sup> If the circumstances make it difficult, or impossible, to settle the actual level of loss an objective criterion could be applied.<sup>64</sup> Damages awarded based on the objective criterion should be settled based on elements such as royalties or

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<sup>53</sup> H. Borgenhäll *Festskrift till Marianne Levin* page 151 f.

<sup>54</sup> SOU 2001:68.

<sup>55</sup> SOU 2001:68 s 129 ff

<sup>56</sup> SOU 2001:68 page 135 ff.

<sup>57</sup> H. Borgenhäll *Festskrift till Marianne Levin* page 153 f.

<sup>58</sup> A a, page 153 f.

<sup>59</sup> A a, page 153 f.

<sup>60</sup> NJA 2005 page 180 (FORMSPRUTARNA).

<sup>61</sup> Trademark Act Article 38. Own translation inspired by the article’s former wording.

<sup>62</sup> NJA 2005 s 180 and NIR 2005 s 539 (FORMSPRUTARNA). In the case the court settles the principle of reasonable compensation as a minimum compensation.

<sup>63</sup> Directive 2004/48/EC Preamble Cause 26 and Article 13.1 b).

<sup>64</sup> Directive 2004/48/EC Preamble Cause 26.

other fees. The estimated royalties should correspond to royalties for an authorized use of the trademark.<sup>65</sup> In addition, the rightholder should be entitled compensation for the expenses related to the investigation and identification of the infringement.<sup>66</sup>

In contrast to the Directive, the Swedish legislation considers the reasonable compensation to be a *minimum compensation*.<sup>67</sup> Compensation for an unauthorized use of a trademark should be paid irrespective of if the rightholder has suffered any loss from the infringement or not.<sup>68</sup> Due to the Directive's character of a minimum directive, a minimum compensation instead of an alternative compensation could be preserved.<sup>69</sup> The legislator considers the Swedish provision on reasonable compensation to be in accordance with the Directive. Thus, no adjustments are objectively required.<sup>70</sup> In contrast to the Directive, the Swedish provision does not seem to include remuneration for the expenses related to the rightholder's investigation and identification of the infringement in the reasonable compensation.<sup>71</sup> Whether this has been made intentionally is uncertain, but it has not been considered explicitly in the preparatory works.

Critics have been directed towards the Swedish authorities based on their interpretation and implementation of the Directive. The Swedish Anti-Piracy Association<sup>72</sup> claims that the wording "at least" in Article 13.1 b)<sup>73</sup> of the Directive implies that the envisioned royalty base could be used merely as a coefficient. Accordingly the royalty base could for instance be doubled or trebled.<sup>74</sup> The Swedish Government does however not agree to such interpretation of the Directive.<sup>75</sup>

## Methods for Calculating and Supporting Reasonable Compensation

Even though the rightholder is liberated from providing any proof of injury in order to be entitled reasonable compensation, the rightholder is obliged to support what could constitute a reasonable compensation. If the rightholder fails doing so he or she might not be awarded any reasonable compensation at all. The following analysis intends to provide the rightholders a tool

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<sup>65</sup> Directive 2004/48/EC Preamble Cause 26 and Prop. 2008/09:67 page 233.

<sup>66</sup> Directive 2004/48/EC Preamble Cause 26.

<sup>67</sup> Directive 2004/48/EC Article 13.1 a –b) where 13.1 b) is put as an alternative to 13.1 a). See also Prop. 2008/09:67 page 233 and Prop. 1993/94:122 page 50 and Prop 1960:17 page 290 f.

<sup>68</sup> Prop. 1993/94:122 page 50 f. and SOU 2001:26 page 344.

<sup>69</sup> Directive 2004/48/EC, Article 2.1.

<sup>70</sup> Prop 2008/09:122 page 233 f.

<sup>71</sup> Directive 2004/48/EC, Preamble Cause 26 and Prop. 2008/09:122 page 233.

<sup>72</sup> Svenska Föreningen mot Piratkopiering.

<sup>73</sup> "as an alternative to (a), they may, in appropriate cases, set the damages as a lump sum on the basis of elements such as **at least** (own mark) the amount of royalties or fees which would have been due if the infringer had requested authorization to use the intellectual property right in question." Excerpt from the Directive Article 13.1 b).

<sup>74</sup> Prop. 2008/09:122, page 233.

<sup>75</sup> Prop. 2008/09:122, page 233.

that demonstrates which methods there are and hopefully it could help the rightholder to choose the most appropriate one for his or her specific situation.

### *Royalty based Compensation*

Using royalties based on a hypothetical license relation between the infringer and the rightholder is the most common method for calculating a reasonable compensation. The method is also what is described in the preparatory works to the Trademark Act.<sup>76</sup> If there is an *established license market* for the actual trademark a hypothetical royalty is normally easy to settle.<sup>77</sup> Using royalties as a base for calculating compensation implies that circumstances in the specific situation and business where the trademark is active would affect the level of damages. If there has already been an *existing licensing deal* between the rightholder and the infringer such royalty could be used for accounting compensation.<sup>78</sup> In the absence of such previous relation the court could use information from a potential *established license practice* in the business in order to construct a fictitious license relation.<sup>79</sup> As license relations yet are fairly uncommon for trademarks a hypothetical license relation is normally shaped. However, as merchandising and franchising relations enhance, the practice for accounting royalties increases and eventually the use of the method could be facilitated.<sup>80</sup> When arguing his or her case the rightholder should preferably emphasize the difference between a voluntary license agreement and a hypothetical one. In the first, conditions are set based on negotiations and the purpose of the license. In the latter – where an illegal use has occurred – there are no negotiations that could affect the outcome of the deal.

### Calculation base

In order to be able to settle a reasonable royalty, the rightholder is required to present a calculation base on which the royalty (percentage) could be calculated. The following bases for calculation have been found in case law and literature:<sup>81</sup>

1. The infringer's gross sales<sup>82</sup>
2. The rightholder's (average) price on the actual item that has been infringed<sup>83</sup>
3. The infringer's net sales<sup>84</sup>

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<sup>76</sup> Prop. 2008/09:67 page 233 f. and the Directive 2004/48/EC Preamble Cause 26 and Article 13.1 b).

<sup>77</sup> Prop. 1993/94:122 page 50 f. and NJA II 1994 page 154.

<sup>78</sup> Prop. 1993/94:122 page 50 f. and 70 and NJA II 1994 page 154.

<sup>79</sup> M. Levin/ M. Koktvedgaard, *Lärobok i immaterialrätt* page 528 f.

<sup>80</sup> M. Levin *Noveller i immaterialrätt* page 187 ff.

<sup>81</sup> The list is non-exhaustive.

<sup>82</sup> NIR 1995 page 322 ff.(SLASKSKRAPAN).

<sup>83</sup> P. Von Heidenstam NIR 2000 page 133 f. Also argued by the rightholder in NIR 1995 page 322 ff (SLASKSKRAPAN).

4. The infringer's annual turnover<sup>85</sup> and turnover volume<sup>86</sup>
5. The rightholder's annual turnover<sup>87</sup>
6. The rightholder's tariffs<sup>88</sup>

1. The infringer's gross sales is normally settled based on the number of sold infringing item and the infringer's price on the products before making any cost deductions. The calculation base was used in a design case from 1995<sup>89</sup>. The rightholder was awarded fairly low damages. Not only is the rightholder requested to prove the infringer's sales price on the actual products, but he or she must also prove the number of products that have been sold. Since the infringer's price on the infringing products in the actual case was low it affected the awarded damages. The court furthermore decided to settle the number of sold items as well as the percentage at what the infringer had agreed to which also affected the damages to come out low. Since the infringer's sales and, foremost, prices normally are far lower than the rightholder's this calculation base could be considered defective and not as providing the rightholder sufficient compensation for the use of his or her trademark. In the case from 1995 the calculation base applied by the court is further not fully clear. I believe it is uncertain whether the calculation is based on the rightholder's price or on the infringer's price on the actual product. The rightholder claims compensation based on his own sales price (SEK 6 per item), while the court settles the price at what the infringer has agreed to (SEK 3 per item). The latter corresponds to number that the infringer calculated for his own price. Thus, the judgment is confusing. Possibly, it could be interpreted in both ways. In the legal literature the case has been interpreted as if the court based its calculation on the infringer's sales.<sup>90</sup>

2. In contrast to the low compensation that risks being awarded based on the infringer's gross sales, some argue that the *rightholder's price* on the genuine items instead should be used as the calculation base for the royalty.<sup>91</sup> In patent cases where there has been a significant difference between the patent holder's and the infringer's prices, the court regarded the patent holder's price as the most reasonable base for calculating the damages.<sup>92</sup> In the case from 1995<sup>93</sup> the rightholder

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<sup>84</sup> Stockholm Tingsrätt case T 178-02; H. Borgenhäll *Festskrift till Marianne Levin* and P. von Heidenstam NIR 2000 page 133 ff.

<sup>85</sup> P. Von Heidenstam NIR 2000 page 133 f. and Svea Hovrätt DT 32 case no T 78-97 (ABSOLUT RENT)

<sup>86</sup> Stockholms Tingsrätt T 7477-99 (BUD) and Stockholms Tingsrätt case T 1171-21 (TRIPP TRAPP III)

<sup>87</sup> J. Alin/ H. Larsson *Skadestånd vid varumärkesintrång* page 30.

<sup>88</sup> NJA 2003 page 465 (HOTEL DU NORD) and M. Levin/ M. Koktvedgaard *Lärobok i immaterialrätt* page 531.

<sup>89</sup> NIR 1995 s 322 (SLASKASKRAPAN) and P. von Heidenstam NIR 2000 page 132.

<sup>90</sup> P. von Heidenstam NIR 2000 page 133 f.

<sup>91</sup> P. Von Heidenstam, NIR 2000 page 133.

<sup>92</sup> Stockholms Tingsrätt case DT 126, T 7 23-83 and Svea HovR dom DT 39 T 1253/89 (Bromma Comquip AB ./ Ctab AB (Lyftknaster))

– as mentioned in the foregoing – claimed a reasonable royalty based on the average price of the rightholder’s own products before the infringement. The rightholder also claimed the number of products to be settled at what he was expected to sell. Which calculation base the court applied is uncertain.

3. In contrast to using the infringer’s gross sales price, the infringer’s net sales value has been used in a case from 2002<sup>94</sup> for calculating a reasonable royalty.

4. In voluntary trademark license relations, the most usual method for settling an appropriate royalty is to use the licensee’s annual turnover.<sup>95</sup> Thus, a possible base for calculating the reasonable compensation could be to use the infringer’s total annual turnover. In a case from 1997<sup>96</sup> the rightholder claimed compensation based on the infringer’s average annual turnover. During the six years when the infringement was ongoing the infringer had a turnover on SEK 30 million. The turnover was supported by annual reports from the infringing company. As an alternative ground the rightholder used the annual turnover from the year before the actual lawsuit as support to the calculation. In a case from 2003<sup>97</sup> the rightholder was entitled compensation based on a percentage of the infringer’s turnover volume. The same base was used in a case from 2004<sup>98</sup> where the rightholder was entitled a percentage on a volume of SEK 72 million.

5. If the rightholder is unable to access information on the infringer’s annual turnover (4), another useful base for calculating the royalties could be the rightholder’s own annual turnover.<sup>99</sup> To my knowledge, such base for calculation has not yet been tried out in court.

6. In a copyright case from 2003<sup>100</sup> the royalty base was settled based on tariffs. In the case there was no agreement between the rightholder and the infringer. The Supreme Court stated that the tariffs set up by the trade associations in the business were presumed to be reasonable. Otherwise the infringer would have to prove the opposite. Whether the same could apply in a trademark

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<sup>93</sup> NIR 1995 s 322 (SLASKSKRAPAN)

<sup>94</sup> Stockholms Tingsrätt case T 178-02.

<sup>95</sup> U. Bernitz NIR 1988 page 519.

<sup>96</sup> Stockholm Tingsrätt T7-478-96 (NETCOM HB).

<sup>97</sup> Stockholms Tingsrätt T 7477-99 (BUD).

<sup>98</sup> Stockholms tingsrätt case T 1171-21 (TRIPP TRAPP III)

<sup>99</sup> J. Alin/ H. Larsson *Skadestånd vid varumärkesintrång* page 30.

<sup>100</sup> NJA 2003 s 465 and NIR 2004 s 184 (HOTEL DU NORD). M. Levin/ M. Kockvedgaard *Lärobok i immaterialrätt* page 531 f.

case is uncertain but it could be valuable for the rightholder to keep in mind as the license market enhances.

#### Percentage for calculating royalties

To settle a hypothetical, reasonable, royalty is normally problematic. In a real license situation the rightholder might never agree to a royalty under 7 percent whilst a licensee might never agree to pay more than 3 percent. The hypothetical license relation is not preceded by any negotiations.

Until 1990 the royalties in design- and patent cases were normally settled at 5-10 percent.<sup>101</sup> During the last twenty years the levels have increased. In a case from 2006<sup>102</sup> a percentage of 12 percent was applied. Until 1998 there were no decisions made in Swedish courts where reasonable royalties were settled, at least not explicitly.<sup>103</sup> Instead, one had to look into the claims made by the parties in order to gain a perception of possible royalty rates for trademark cases. During the 20<sup>th</sup> and 21<sup>st</sup> centuries the court has however in a few cases awarded reasonable compensation followed from an unauthorized use of a trademark.<sup>104</sup> In general royalties are lower for trademarks than for patents.<sup>105</sup> Looking at older case law the percentages normally span from 2-10 percent.<sup>106</sup> However, it is uncommon that the infringer agrees to a royalty exceeding 3 percent for a trademark infringement.<sup>107</sup>

A trend towards enhanced damages for trademark infringements could be indicated if looking at the case law beginning from the 21<sup>st</sup> century. The percentages are however still kept fairly low. In a case from 2003<sup>108</sup> the rightholder was entitled compensation based on 2 percent of the turnover volume. In a case from 2004<sup>109</sup> the rightholder was also entitled 2 percent of a volume of SEK 72 million. In another case from 2001<sup>110</sup> a percentage on 10 percent was awarded as compensation for the use of a number of different trademarks, i.e. Cartier, Peak Performance and Timberland. The rightholders claimed that 10 percent corresponded to a royalty that would have been paid if the infringer would have been authorized to use the trademark. The percentage was based on the probable price on the product that would have been offered the consumer.

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<sup>101</sup> E. Karlsson NIR 1990 s 369 ff.

<sup>102</sup> Varbergs Tingsrätt T 109-04 (ELFLUGAN).

<sup>103</sup> J. Alin/ H. Larsson *Skadestånd vid varumärkesintrång* page 28

<sup>104</sup> For instance: Svea HovR T 78-97 (ABSOLUT RENT), Stockholms Tingsrätt T 7477-99 (BUD), Stockholms tingsrätt case T 1171-21 (TRIPP TRAPP III), Stockholms TR T 18896-99-02 and 18801-02 (MOBILTELEFONSKAL), Stockholms TR B 6236-0 (LOUIS VUITTON).

<sup>105</sup> U. Bernitz NIR 1988 page 519.

<sup>106</sup> Stockholms Tingsrätt T 7 297-95 (ABSOLUT LÖRDAG) and T 7 478-96.

<sup>107</sup> Stockholms Tingsrätt T 7 430-94, T 7 847-95 and T 1147/94 (ABSOLUT RENT)

<sup>108</sup> Stockholms Tingsrätt T 7477-99 (BUD).

<sup>109</sup> Stockholms Tingsrätt T 1171-21 (TRIPP TRAPP III).

<sup>110</sup> Stockholms TR B 3910-99.

One of the rightholders (Oakley Inc) did not support the estimated number of sold property and was therefore only awarded compensation according to what the defendant had agreed to.

To settle a reasonable percentage is of course substantially facilitated if there is an established license market to glance at. However, royalties have been settled even though there has not been any *established license market* for a specific trademark. In a case from 2005<sup>111</sup> a royalty rate on 10 percent was awarded even though no established license market existed. Since the rightholder, (Louis Vuitton) in the referred case normally never provided licenses a hypothetical royalty was claimed at a high level, namely 15 percent of the sales value. The court considered a royalty rate on 15 percent being too high, and therefore reduced it to 10 percent. The referred cases from 2005 and 2001 could indicate that the court is becoming more generous when awarding reasonable compensation.

#### Minimum royalty

In a case from 2003<sup>112</sup> concerning reproduced mobile phone shells the three rightholders were entitled compensation of SEK 45 000 each even though the infringement only concerned a few number of reproductions. The amount was based on the rightholders' minimum royalty for a license to the actual trademark. To succeed with arguing for a minimum royalty the rightholder must likely be able to prove that a license is never provided unless a minimum royalty is paid. Previous license deals with minimum royalty are preferably presented as evidence. If sufficient support could be presented the method would reflect a realistic voluntary license deal. The method has however not been applied that frequently in court – at least from what could be distinguished in the court decisions – which could make it more difficult to apply.

#### Lump sum compensation

Sometimes rightholders are requiring an initial lump sum for the license which then often is followed by continuous fees (royalties).<sup>113</sup> Thus, an alternative method for calculating the reasonable compensation could be to use a method of *lump sum* payment. The lump sum could be the only remuneration or added in addition to the royalties. The method could be useful for enhancing the rightholder chances of having a sufficient compensation for the infringement. In a court case from 1997<sup>114</sup> the rightholder claimed compensation based on a lump sum of, at least, 10 000 SEK. The rightholder claimed that the infringer had been using the trademark for two years and that the usage had been of substantial value to the infringer in his business.

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<sup>111</sup> Stockholms TR B 6236-0 (LOUIS VUITTON).

<sup>112</sup> Stockholms Tingsrätt T 18896-99-02 and 18801-02 (MOBILTELEFONSKAL)

<sup>113</sup> U. Bernitz NIR 1988 page 119.

<sup>114</sup> Stockholms Tingsrätt T7 455-97.

### Other circumstances affecting the royalties

Apart from calculating the royalties based on a percentage and calculation base or minimum fee or lump sum, the royalty could be affected by additional circumstances. For instance:

1. A trademark's substantial goodwill value and large investments in marketing<sup>115</sup>
2. A trademark's exclusivity on the market<sup>116</sup>

If the infringement concerns a well-known and recognized trademark which holds a significant goodwill value and invests considerably in marketing, the rightholder could possibly claim higher compensation.<sup>117</sup> Appropriate would be to let the circumstance of high goodwill value affect the percentage used as a base for calculating the royalty.<sup>118</sup> The rightholder could further argue that the trademark's value would have been more significant if the trademark had retained its exclusivity on the market and the infringement never had occurred.<sup>119</sup>

### Internal Expenses

The Directive gives the impression that internal expenses should be included in the reasonable compensation.<sup>120</sup> Neither the legislator nor the court seems however to have taken a stand regarding the internal costs and whether it should be included in the reasonable compensation, and consequently require no proof for the loss. Until then, it could at least be argued – to the advantage of the rightholder – that such costs should be compensated irrespective of any loss. In order to support the internal expenses the rightholder could present the following to the court:<sup>121</sup>

1. Costs for purchasing the infringer's reproduced products using the trademark<sup>122</sup>
2. Costs for hiring consultants/ detectives to investigate whether an infringement has occurred or to make market research<sup>123</sup>
3. Laboratory investigations<sup>124</sup>
4. Costs for informing the public about the infringement (before the judgment)<sup>125</sup>
5. Lost working hours for the rightholder (or its employees) which instead have been invested in delving into the infringement<sup>126</sup>

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<sup>115</sup> Svea HovR case T7 78/97 (ABSOLUT RENT).

<sup>116</sup> J. Alin/ H. Larsson *Skadestånd vid varumärkesintrång* page 31 f.

<sup>117</sup> As an example see; Svea HovR case T7 78/97 (ABSOLUT RENT).

<sup>118</sup> J. Alin/ H. Larsson *Skadestånd vid varumärkesintrång* page 32.

<sup>119</sup> M. Levin *Noveller i varumärkesrätt* page 208 f.

<sup>120</sup> Directive 2004/48/EC last sentence of Preamble Cause 26.

<sup>121</sup> The arguments could be used even though the expenses would be compensated as an additional damage.

<sup>122</sup> J. Alin/ H. Larsson *Skadestånd vid varumärkesintrång* page 41.

<sup>123</sup> A a, page 41.

<sup>124</sup> M. Levin/ M. Koktvedgaard *Lärobok i immaterialrätt* page 533.

<sup>125</sup> J. Alin/ H. Larsson *Skadestånd vid varumärkesintrång* page 41.

<sup>126</sup> A a, page 41 and 55.

6. Other extra costs or inconveniences related to the infringement (e.g. phone calls or talks to the press)

Rarely the rightholders claim compensation for internal expenses related to the infringement. However, it is evident from the Directive that compensation should include the rightholder's expenses related to the infringement investigation. In a case from 1992<sup>127</sup> the rightholder had taken reparative measures to limit the loss, *inter alia*, by making phone calls and sending letters to customers. The rightholder was denied compensation for such expenses. It is uncommon that the rightholder is awarded compensation for the costs related to the rightholder's own work, at least if it does not corresponds to any certain expenses.<sup>128</sup>

### Damages for the Additional Injury

*“/.../ and compensation for the further damage caused by the infringement. When determining the amount of the compensation consideration should in particular be taken to:*

1. *loss of profits,*
2. *unfair profit made by the infringer based on the infringement,*
3. *damage on the trademark's goodwill*
4. *moral prejudice, and*
5. *the rightholder's interest of avoiding to being exposed to infringement. /.../”*<sup>129</sup>

According to the latter part of the introductory sentence in Article 38 the infringer shall compensate the rightholder for the additional loss caused by the infringement.<sup>130</sup> According to the Directive the courts should consider the *negative economical consequences* – such as the rightholder's loss of earnings or improper profits made by the infringer – as well as *other than economical* elements – such as moral prejudice – caused by the infringer.<sup>131</sup> The intention is to compensate for what has not already been covered by the reasonable compensation for the unauthorized use of the trademark.<sup>132</sup> The provision should facilitate for the rightholder to obtain full compensation for the actual loss caused by the infringement.<sup>133</sup> The enumeration of circumstances in the provision is merely examples of what the court should consider when awarding damages.<sup>134</sup> In favor of the rightholder the Swedish legislator has chosen to add a few circumstances to the enumeration made in the Directive that could trigger liability to pay

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<sup>127</sup> Svea HovR case DT 12 1992 (REGNBÄGEN) and NIR 1990 page 369.

<sup>128</sup> M. Levin/ M. Koktvedgaard *Lärobok i immaterialrätt* page 533.

<sup>129</sup> Trademark Act Article 38. Own translation inspired by the article's former wording.

<sup>130</sup> Trademark Act Article 38.

<sup>131</sup> Directive Preamble Cause 26 and Article 13.1 a)

<sup>132</sup> Zeteo comment to Trademark Act Article 38 and Prop 2009 page 228 (“därutöver”).

<sup>133</sup> Prop. 2008/09:67 page 330 compared to Prop 1993/94:122 page 52.

<sup>134</sup> Prop. 2008/09:67 page 230.

damages.<sup>135</sup> For the rightholder to obtain additional compensation he or she must – in contrast to for reasonable compensation – be able to *prove* the suffered injury and that it has been caused by the infringement.<sup>136</sup>

Normally the rightholder claims compensation for loss of profits and goodwill (or market) damage caused by the infringement.<sup>137</sup> Patent rightholders are normally awarded compensation based on loss of profits while the trademark holders are normally not.<sup>138</sup> The outcome possibly depends on that the trademark holder and the infringer – in contrast to patent cases – are normally not competitors. If a consumer that purchases a reproduction never would have bought the genuine product it is difficult to estimate, and accordingly prove, the loss of profits caused by the infringement. Instead the trademark holder normally claims compensation based on the goodwill damage.<sup>139</sup>

#### Loss of profits

The rightholder is entitled damages for his or her loss of profits caused by the trademark infringement.<sup>140</sup> Included in the loss are the *diminished sales* and the *defaulted increase of sales*. Furthermore *defaulted orders* and – due to unused means for production – lost *cost of capital* are included in the calculation.<sup>141</sup> Since it is not obvious what the sales would have been if there was no infringement the loss is difficult to prove. A loss of sales could depend on several factors such as new alternatives on the market, that the rightholder is handling his business badly or fails in his or her promotion and, not least, the current financial crisis. Even though the rightholder's loss of earnings to some extent evidently derive from an infringement it is difficult to prove the exact part of the loss that derives from such incident.

#### *Non-competing products*

Many of today's infringement incidents do not involve products of the same kind, i.e. the products are not exchangeable. If a mark protected for tooth brushes for instance is used on tooth pastes the infringing activity might not *directly* cause any loss for the rightholder of the tooth brush trademark. The person purchasing the tooth paste does likely not exchange it for a

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<sup>135</sup> Prop. 2008/09:67 page 230.

<sup>136</sup> More on burden of proof, see above. Prop. 2008/09:67 page 227 ff. and M. Levin/ M. Koktvedgaard *Lärobok i immaterialrätt* page 526 ff.

<sup>137</sup> M. Levin/ M. Koktvedgaard *Lärobok i immaterialrätt* page 532 ff.

<sup>138</sup> P. von Heidenstam NIR 2000 page 134 f. See however the judgment (T 3364-99) from Stockholm's District Court on Poloco SA ./ Boutique Long John AB where compensation for defaulted earnings were imposed.

<sup>139</sup> E. Karlsson NIR 1990 page 379 and P. von Heidenstam NIR 2000 page 135 and Swedish Trademark Act Article 38 bullet 2 through 5.

<sup>140</sup> Trademark Act Article 38.

<sup>141</sup> J. Alin/ H. Larsson *Skadestånd vid varumärkesintrång* page 37 and Prop. 1993/94:122 page 70 and Prop. 2008/09:67 page 227 ff.

tooth brush. The situation is similar when a fashionable handbag trademark is infringed and used on low quality handbags. The normal purchaser of a genuine handbag would not exchange it for a cheap reproduction. Instead the purchaser would turn to another fashionable handbag trademark for his or her next purchase. As the effect emerges not until later it is indirect and turns into a goodwill damage.

#### *Competing products*

If the infringer promotes products identical to the rightholder's and the products have been promoted and sold at the same, or similar, place it could possibly be assumed that the infringer's number of sold products would have been sold by the rightholder if the infringement would not have occurred.<sup>142</sup>

#### *The infringer's unfair profits*

It could not in all cases be assumed that the infringer's sales – caused by the infringement – correspond to the rightholder's loss of profits. However, to present information on the infringer's sales to the court is often easier than for the rightholder to support his or her own loss of profits caused by the infringement. The latter is also the reason for including the infringer's unfair profit as a criterion in the Directive and subsequently in the Swedish provision.<sup>143</sup> Thus, the information on the infringer's sales could serve as a helping tool to support the rightholder's loss of earnings.<sup>144</sup> The intention is however not for the compensation to cover both aspects, i.e. both the rightholder's loss of profits and the infringer's unfair profits. If that was the case the injured party could be compensated beyond his or her actual loss. The purpose is furthermore not to allow for punitive damages.<sup>145</sup>

#### *Goodwill damage*

The most commonly claimed base for damages in cases of trademark infringements is the goodwill loss, which also most often implies the largest injury to the rightholder.<sup>146</sup> The trademark is characterized by its distinctiveness and its reputation which also is what constructs the trademark's goodwill.<sup>147</sup> The goodwill damage implies that the trademark's *distinctiveness* has been deteriorated or even destroyed. Furthermore, the infringement could imply that the consumer's *positive associations* to the trademark are changed and the trademark's *guarantee function* is

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<sup>142</sup> J. Alin/ H. Larsson *Skadestånd vid varumärkesintrång* page 37.

<sup>143</sup> Prop. 2008/09:67 page 230 and Directive 2004/48/EC Preamble Cause 26 and Article 13.1 a).

<sup>144</sup> Prop. 2008/09:67 page 229 f.

<sup>145</sup> Directive 2004/48/EC Preamble Cause 26 and M. Norrgård NIR 2004 page 450.

<sup>146</sup> M. Levin/ M. Koktvedgaard *Lärobok i immaterialrätt* page 532 f.

<sup>147</sup> H. Borgenhäll NIR 2000 page 153.

injured.<sup>148</sup> Goodwill damage could for instance occur when an infringer is offering inferior products for sale or when the reproductions are offered for sale in an unfavorable environment. Infringements could cause significant goodwill damage to a trademark.<sup>149</sup> An assumption could therefore be made that any trademark exposed to an infringement must be considered to possess a certain goodwill value. If not, the infringement would not have occurred.<sup>150</sup> To notoriously known trademarks the goodwill damage is often even more significant.<sup>151</sup>

#### Moral prejudice

In the Directive it is explicitly requested that the member states provide rightholders an opportunity to obtain damages for the moral prejudice suffered from the infringement.<sup>152</sup> Already from the former wording of Article 38 the court was requested to consider other than pure economical circumstances when settling the damages.<sup>153</sup> The wording was however not considered to correspond to the Directive's request on compensation for moral prejudices.<sup>154</sup> The former wording was therefore abolished and replaced by "moral prejudice" as well as by "goodwill damage" in the provision's enumeration. The moral prejudices should merely be considered when it is appropriate.<sup>155</sup> Even though the former expression is no longer applicable, guidance for applying the rule could possibly (partly) be found here.<sup>156</sup> As the former wording referred to the Patent Act<sup>157</sup> guidance could possibly also be found in the preparatory works to such provisions (more on this below).<sup>158</sup>

What regards the moral prejudices the Directive does not separate the different intellectual properties. Instead it should be included as a base for compensation in all intellectual property laws.<sup>159</sup> Since moral prejudice previously has not been used as a criterion within the scope of the industrial protection the definition could possibly conform to the definition made of *suffering and detriment* in the Copyright Act<sup>160, 161</sup>. Hence the Trademark Act's definition of moral prejudice would be personal inconvenience and discomfort caused by the act of infringement in the

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<sup>148</sup> H. Borgenhäll NIR 2000 page 154.

<sup>149</sup> SOU 2001:26 page 350.

<sup>150</sup> Prop. 1993/94:122 page 70.

<sup>151</sup> Prop. 2008/09:67 page 230.

<sup>152</sup> Directive 2004/48/EC Article 13.1 a) and Prop. 2008/09:67 page 232.

<sup>153</sup> Prop. 1993/94:122 page 52 f. with reference to Prop. 1985/86:86 page 44.

<sup>154</sup> Prop. 2008/09:67 page 231 f. and Ds 2007:19 page 282.

<sup>155</sup> Prop. 2008/09:67 page 231 f.

<sup>156</sup> Ds 2007:19 page 283.

<sup>157</sup> SFS 1967:837

<sup>158</sup> Prop. 2008/09:67 page 231.

<sup>159</sup> Prop. 2008/09:67 page 232.

<sup>160</sup> SFS 1960:729.

<sup>161</sup> Prop. 2008/09:67 page 232.

specific situation.<sup>162</sup> The final definition of the moral prejudice arrives however at the Court of Justice of the European Communities to settle.

#### The rightholder's interest of avoiding infringements

In line with the ambition of providing the rightholder sufficient compensation, the legislator included in 1994's revision of the Trademark Act a component requesting the court to consider the rightholder's interest of not being exposed to infringements.<sup>163</sup> The intention is to strengthen both the preventive and reparative function of the damages.<sup>164</sup> The component is after the revision in 2009 included in the enumeration<sup>165</sup> of aspects to consider when calculating the damages.<sup>166</sup> As the damage caused by an infringement normally is difficult to prove the component should function as a form of *help rule* to settle the level of damages and allow the court to being more generous.<sup>167</sup> The infringer should never economically benefit from infringing someone else's rights instead of lawfully acquiring access to such right.<sup>168</sup> The component constitutes therefore no separate base for damages. As the provision should have no punitive character the intention is neither to provide the rightholder compensation exceeding the actual loss.<sup>169</sup> Even though the component in practice could lighten the rightholder's burden of proof the opinions on the component's character varies in the literature.<sup>170</sup> The preparatory works however state that the rule is not intended to lighten the burden of proof.<sup>171</sup> Even though it was not required in the Directive the Swedish legislator chose since it is advantageous to the rightholder to retain the component in Article 38.<sup>172</sup>

#### Methods for Calculating and Supporting the Additional Injury

*"The compensation awarded may not be so low that it would be more economically beneficial to unauthorized exploit someone else's design than to acquire a legal right to such use".*<sup>173</sup>

The statement is an important one made by the Supreme Court in the design case called "Formsprutarmålet"<sup>174</sup>. The case was the first to be put to trial after the revision in 1994 of the

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<sup>162</sup> Ds 2007:19 page 282 f. and Prop. 2008/09:67 page 232.

<sup>163</sup> Prop. 1993/94:122 page 52 f.

<sup>164</sup> Prop. 1985/86:86 page 44.

<sup>165</sup> Trademark Act Article 38 bullet 5.

<sup>166</sup> Prop. 2008/09:67 page 230 and Prop. 1993/94:122 page 70.

<sup>167</sup> Prop. 2008/09:67 page 230 and H. Borgenhäll *Festskrift till Marianne Levin* page 148 f.

<sup>168</sup> Prop. 2008/09:67 page 230 with reference to Prop. 1985/86:86 page 31.

<sup>169</sup> Prop. 2008/09:67 page 230.

<sup>170</sup> H. Borgenhäll *Festskrift till Marianne Levin* page 148 f and P. von Heidenstam NIR 2000 page 135.

<sup>171</sup> Prop. 1985/86:86 page 44.

<sup>172</sup> Ds 2007:19 page 281ff. and Prop 2008/09:67 page 230.

<sup>173</sup> Own translation from NJA 2005 page 180 (FORMSPRUTARNA).

<sup>174</sup> NJA 2005 page 180 (FORMSPRUTARNA).

provisions on damages in the intellectual property legislations.<sup>175</sup> As emphasized in the foregoing the role of the damages is partly to *repair* the rightholder's loss and partly to *prevent* a potential infringer from actually infringing. By providing proof to the court of components such as *loss of profits, goodwill damage, moral prejudices* and of the *rightholder's interest of avoiding infringements* the rightholder should be able to have his or her loss covered. Even though it is the intention which should lead the provision to fulfill its function, the injury is rarely fully covered by the damages. Below the components for additional compensation will – one by one – be analyzed and methods for supporting and calculating such loss will be presented.

### *Loss of Profits*

Loss of earnings could concern diminished profits as well as defaulted increase of the profits. What would simplify supporting the loss would be if the rightholder could prove:

1. That products similar to the rightholder's have been put up for sale by the infringer; and
2. That the infringing products have been offered for sale on the same – or on a similar – place.

Theoretically, the rightholder should prove the loss of profits by calculating his or her defaulted profit related to the infringement and multiply this number with the contribution margin of the rightholder's products.<sup>176</sup> The reality is however not that simple. Even though the method could be possible to apply if the infringer's products are exchangeable to the rightholder's genuine products it is not certain that it would succeed in court. In situations of counterfeiting the method would be even more difficult to apply as the infringer's sales would not correspond to the rightholder's decrease in sales.

When the rightholder should prove his or her loss of profits the following components (1-9) could be valuable to present. The information could be used and combined in different manners which will be presented below.<sup>177</sup>

1. The rightholder's earlier sales (or profit) numbers for the years prior to the infringement,
2. The rightholder's sales numbers after the infringement started (decrease in sales)
3. The rightholder's budget sales for a few years ahead in time,
4. The imposed decrease in price per product<sup>178</sup>
5. The rightholder's marketing expenses
6. The rightholder's market share before and after the infringement

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<sup>175</sup> Prop. 1993/94:122 regarding Article 38 of the Trademark Act.

<sup>176</sup> J. Alin/ H. Larson *Skadestånd vid varumärkesintrång* page 38.

<sup>177</sup> A a, page 38 f.

<sup>178</sup> NIR 1995 page 323 (SLASKSKRAPAN).

7. Price information
8. Other expenses
9. Information on the infringer's sales- and profit numbers, prices, expenses and marketing measures

**1-3.** In order for the rightholder to prove his or her loss of earnings caused by the infringement it is crucial to relate the earlier and budgeted sales to the actual outcome of sales. The comparison could indicate that the rightholder's sales have been affected by the infringement. A more long-lasting decrease in sales would however be considered as a goodwill damage.

**4.** If the rightholder has been forced – in order for instance to remain a position on the market – to reduce the prices on the genuine products such fact could be used as proof.<sup>179</sup> The rightholder should then support not only the reduced price but also the price before the reduction.<sup>180</sup> If the rightholder has been forced to reduce the prices it would automatically imply reduced profits.

**5-8.** The more information that the rightholder could present to the court, the more likely is it that the claims will succeed. Being able to present information such as market share or prices could therefore facilitate proving the level of the damage caused by the infringement.<sup>181</sup>

**9.** The information on the rightholder's sales, prices etcetera could be even more valuable after putting it in relation to the infringer's. Providing such information could facilitate for the rightholder to prove the proximate cause between the infringement and the loss of earnings.

#### Calculation of loss of profits

The rightholder's loss of earnings has in the past been calculated and supported in a wide range of manners. The most common methods are however:

- 1.** To multiply the rightholder's non-sold products to his or her *contribution margin*.<sup>182</sup>

The method is theoretically the most ultimate one, but it is difficult to apply. Looking at the enumeration of support above this method would require application of mainly bullet one through three. The remaining components could however also be useful for proving that a loss

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<sup>179</sup> So was made in the case NIR 1995 page 322 (SLASKSKRAPAN).

<sup>180</sup> NIR 1995 page 322 (SLASKSKRAPAN).

<sup>181</sup> J. Alin /H. Larson *Skadestånd vid varumärkesintrång* page 37 f.

<sup>182</sup> Stockholms Tingsrätt case T7-988-90 (SCHMACKOS) and J. Alin /H. Larson *Skadestånd vid varumärkesintrång* page 38 f.

actually has occurred. The contribution margin is calculated by subtracting the variable costs from the sales price. The contribution margin is most often reported in a percentage of the turnover. The calculation method was used in a case from 1990<sup>183</sup> where the rightholder presented his sales numbers from a few years back and the budget sales for the coming year. Until the year when the infringement occurred, the sales were increasing steadily but suddenly there was a decrease in sales. Through the use of the now mentioned method the rightholder was able to make it probable that the decrease in sales was caused by the infringement. The court did however not apply the method instead they looked at the defendant's sales (see below).

Since it is impossible to be certain that the decrease in sales really is caused by the infringement alone it could be difficult to support the rightholder's non-sold items. Due to the complexity in finding sufficient support for the rightholder's loss of earnings, the following method for calculation is normally used:

2. The infringer's number of sold items multiplied with (either):
  - a. The infringer's price on the reproduced products; or
  - b. The rightholders price on the genuine products<sup>184</sup>
  - c. The rightholder's diminished contribution margin

In order to apply the method the rightholder is required to support both the infringer's number of sold infringing items and the infringer's or the rightholder's prices on the products in question. In comparison to the method above (1) this method requires not an estimation of what has *not been sold*, instead it focuses on what actually *has been sold*. Thus, it is easier to apply. From the enumeration of support above the rightholder would benefit from presenting the information in component one through three and nine (on the infringer's sales and prices). Normally, the contribution margin is used also for this calculation.

**2a.** In general it is impossible to equalize the infringer's sold items by the rightholder's non-sold items. The infringer's sales could of different reasons be either higher or lower. In the absence of appropriate methods for calculating lost profits, the infringer's sales have however become a frequently used base for calculating the loss of earnings.<sup>185</sup> When applying this method it is important to keep in mind that it is the rightholder's loss that should be compensated and not what the infringer has sold or earned. In the case from 1988<sup>186</sup> the rightholder was awarded damages based on the infringer's number of sold items (carbon dioxide refills) which was

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<sup>183</sup> Stockholms Tingsrätt case T7-988-90 (SCHMACKOS).

<sup>184</sup> NIR 1995 page 322 (SLASKSKRAPAN).

<sup>185</sup> See e.g. NJA 1988 page 183 (SODASTREAM), in particular the reasoning of the Court of Appeals.

<sup>186</sup> NJA 1988 page 183 (SODASTREAM).

multiplied by the infringer's contribution margin on such sales (SEK 2). The court motivated its use of the infringer's price and sales information by considering the rightholder's calculations as being too uncertain to function as a base for calculation. The rightholder's claimed calculation was based on the infringer's number of sold items in relation to the rightholder's contribution margin (SEK 7). It is uncertain why the court declined the rightholder's price information. Since the court concludes that the rightholder's loss of sales depends on the infringement, I believe their reasoning is illogical. If the rightholder's loss of sales is referred to the infringer's sales, the injury caused could, of course, be larger than what the infringer actually earned while doing the infringement. Perhaps the court overlooked that the intention behind damages is to repair the rightholder's injury and not to have the infringer to pay back what he or she has earned.

In a case from 1991<sup>187</sup> the rightholder uses the infringer's profit as a secondary argument to support his loss of profits caused by the infringement. The infringer had sold 225 items with a profit of SEK 140: 80 per item. Using this calculation as a base the rightholder claimed compensation of SEK 31 600.<sup>188</sup> Instead of applying the method the court chose to estimate the total loss according to the help-rule but provided no ground for such estimation.

In two other cases<sup>189</sup> the court uses the method as support to its calculation of damages. In contrast to the case from 1994<sup>190</sup> where the court presumes that the rightholder's lost sales corresponds to the infringer's sales, the court concludes in the case from 1990<sup>191</sup> that the two amounts could not be equated. Instead the court made an estimation based on the competition situation on the market and that the infringer's products were sold at a lower price.<sup>192</sup>

**2b.** In a case from 1995<sup>193</sup> the rightholder (Callaway Golf) claimed damages based on the *rightholder's price* on the genuine products. The District Court awarded the rightholder damages calculated on the infringer's number of sales multiplied by the rightholder's price (contribution margin). The Court of Appeal reduced the level of damages without referring the reduction to the method for calculation, which could imply that the method was approved by the court.<sup>194</sup> Similar argumentation has been presented in a few other cases<sup>195</sup>. In the case from 1991<sup>196</sup> the rightholder claimed as a primary argument (in contrast to the secondary, see above) that items for

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<sup>187</sup> RH 1991:31 (DIOR).

<sup>188</sup> J. Alin 7 H. Larson *Skadestånd vid varumärkesintrång* page 39.

<sup>189</sup> NIR 1995 page 322 (SLASKSKRAPAN) and Stockholms Tingsrätt case T7-988-90 (SCHMACKOS).

<sup>190</sup> NIR 1995 page 322 (SLASKSKRAPAN).

<sup>191</sup> Stockholms Tingsrätt case T7-988-90 (SCHMACKOS).

<sup>192</sup> Stockholms Tingsrätt case T7-988-90 (SCHMACKOS).

<sup>193</sup> Södertälje Tingsrätt case DT 56 T124/ 94 (CALLAWAY GOLF)

<sup>194</sup> The decision from the Court of appeal: DT 46 T 416/95.

<sup>195</sup> RH 1991:31 (DIOR); claims in T7-546-97 (FILA).

<sup>196</sup> RH 1991:31 (DIOR).

totally SEK 35 775 were sold by the infringer. The price on the original item was five times higher. The rightholder supported thereby his loss of profits by multiplying the infringer's sales by five which ended up at SEK 178 000. With a profit margin of 30 percent the rightholders loss of profits was estimated to SEK 53 000.<sup>197</sup> In its judgment the court concludes that the rightholder's support of its loss of earnings could not be used when calculating the damages. The court instead chose to estimate the total injury which they mainly refer to the goodwill damage. Whether some part of the damages could be referred back to the loss of earnings is uncertain, but possible.

In a case from 1997<sup>198</sup> concerning the sales of reproduced shoes the rightholder (Fila) claimed that the loss of profits should be estimated to the *rightholder's net profit* if he would have sold the shoes that were now sold by the infringer. Inter alia, the rightholder claimed that the infringer's number of sold items was to be multiplied by the rightholder's price on a genuine product (reduced with a profit margin).

In a case from 1988<sup>199</sup> the Court of Appeal – who settled the compensation level – awarded the rightholder damages for the loss of earnings. Even though the rightholder (Levi's) was not able to prove neither the sales nor its own contribution margin, the court estimated the damages to SEK 10 000. The court's reasoning indicates that the rightholder's contribution margin affected the damages. The Supreme Court states that it could be presumed that an injury has been suffered from the infringement as long as the sales have been made unauthorized. The court furthermore states that the injury is difficult to settle, why an estimation must be made. Also the Supreme Court's reasoning indicates that compensation for loss of earnings is included in the awarded damages.

**2c.** In the case from 1995<sup>200</sup> the Court of Appeals chooses to calculate the damages based the rightholder's reduced contribution margin which was caused by the infringement. The court constructed a fictitious contribution margin which was put in relation to the number of goods sold by the rightholder under the reduced price. The court settled the original product price at SEK 5 (the rightholder had argued SEK 6) which the rightholder had been forced to reduce to SEK 3 due to the infringement. Thus, the court awarded the rightholder compensation based on the price reduction (SEK 2) that he had been forced to make (*inter alia* SEK 2 times 50 000 products that was subject to price reduction). The District court judgment – which was appealed – was based on a method where the infringer's sales numbers was multiplied by a fictitious

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<sup>197</sup> RH 1991:31 (DIOR).

<sup>198</sup> Stockholms Tingsrätt case T7-546-97 (FILA).

<sup>199</sup> NJA 1988 page 543 (LEVI STRAUSS).

<sup>200</sup> NIR 1995 page 322 (SLASKSKRAPAN), note that this is a design case.

contribution margin. The fictitious contribution margin was based on the infringer's agreed sales price which was reduced by the rightholder's variable costs.<sup>201</sup> The calculation seems completely unreasonable and it could be questioned where from the District court got the idea of calculating it like this. I have found no other case where a similar method has been used.

### *Goodwill Damage*

There are no settled principles on how to calculate the rightholder's goodwill damage caused by a trademark infringement. A number of methods for calculating the damage have however been presented in case law and in legal doctrine.<sup>202</sup> Since the court normally chooses to estimate the injury and only provide limited, or no, support to such estimation, no practice has yet been settled. The methods presented below have been either claimed by the rightholder or the infringer or settled by the court. The methods are not intended to be used separately instead factors such as type and degree of infringement should be weighed in.<sup>203</sup> For instance an infringement that has been going on for a long time could have injured the rightholder less than an infringement that has only been ongoing for a short period. The latter could have had a larger dispersion than the earlier which could affect the caused injury. The goodwill damage could e.g. be set in relation to:

1. The trademark's value
2. The rightholder's falling sales
3. The rightholder's marketing expenses for rebuilding the goodwill
4. The infringer's unauthorized profits (or turnover)
5. The infringer's advertising and marketing expenses

And also be affected by:

6. Concrete situations of confusion between the marks
7. The infringer's economically superior position
8. Other non economical circumstances

1. Unlike other assets such as stocks, commodities, bonds and real estate there is no active existing market – in economical terms – for trademarks. Further it is normally difficult to settle an objective value<sup>204</sup> for a trademark.<sup>205</sup> Instead the trademark's *exploitation value* could be more

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<sup>201</sup> NIR 1995 page 322 (SLASKSKRAPAN).

<sup>202</sup> The methods are stated in H. Borgenhäll NIR 2000 page 153.

<sup>203</sup> H. Borgenhäll NIR 2000 page 157 f.

<sup>204</sup> The objective value is the marketable price that the trademark would have on the market.

appropriate to use instead of its market value.<sup>206</sup> The exploitation value could be settled through the use of the *cash flow methods* through which the rightholder could calculate the future *qualification capacity*. The latter is affected negatively if a goodwill damage is caused.<sup>207</sup>

In order to settle the qualification capacity, the method of “*the role of branding index*” (RBI) could be used. The method estimates the company’s ability to earn money. Interbrand<sup>208</sup> who coined the method concludes that the average industrial company could refer 36 percent of its income to the brand. In cases of luxury items the percentage would rise to 70 percent.<sup>209</sup> The strength of the trademark steers the level of the discounting interest. The discounting interest is settled based on the risk assessment made of the trademark. The stronger trademark the lower risk and discounting interest should be used for calculation.<sup>210</sup> The discounting interest affects the qualification capacity which in turn affects the exploitation value of the trademark. An infringement normally affects the strength of the trademark negatively. By comparing the value before and after the infringement the goodwill value could be extracted.<sup>211</sup> A higher discounting interest must be applied before the infringement occurred.

Another method for estimating the value of a trademark is coined by David A. Aaker.<sup>212</sup> Aaker is advocating the use of the *brand capital* to support the valuation of the trademark in case of an infringement. He illustrates the brand capital by dividing it into five parameters: *Trademark loyalty; Trademark recognition; Quality; Associations; Other benefits tied to the trademark*. The parameters could be settled through market research.<sup>213</sup> By the two first parameters Aaker refers to that the customers come back to the trademark and the chances of attracting additional customers increase due to the recognition. The quality of a product carrying a certain trademark could be crucial as well as the associations that the customers have to the trademark. The latter could relate to the customers identity. The last parameter concerns the legal protection of the mark, i.e. that it has a trademark protection.<sup>214</sup>

By investigating Aaker’s five parameters the rightholder will not be able to conclude a monetary value of the trademark but instead a perception of the public’s experiences from the trademark could be concluded.

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<sup>205</sup> H. Borgenhäll *Festskrift till Marianne Levin* page 155 f.

<sup>206</sup> A a, page 155 f.

<sup>207</sup> A a, page 156.

<sup>208</sup> An internationally recognized company that accomplishes trademark analyses and that has been valuing trademarks for decades

<sup>209</sup> H. Borgenhäll *Festskrift till Marianne Levin* page 156

<sup>210</sup> A a, page 156.

<sup>211</sup> H. Borgenhäll, *Festskrift till Marianne Levin* page 156.

<sup>212</sup> H. Borgenhäll NIR 2000 page 155 ff. with reference to D.A Aaker, *Managing Brand Equity* page 17.

<sup>213</sup> H. Borgenhäll NIR 2000 page 156 and D.A Aaker, *Managing Brand Equity* page 17.

<sup>214</sup> H. Borgenhäll NIR 2000 s 155 ff. with reference to D.A Aaker, *Managing Brand Equity* page 17.

The number of methods found in the literature for settling a trademark's value is comprehensive and this analysis does not intent to handle them all. There are some methods where the value is claimed to be settled in relation to the historical costs spent while creating and establishing the trademark. Further, other methods imply that the value of the trademark should be related to the future return that could be referred to the trademark.<sup>215</sup>

2. The method for the rightholder to calculate his or her falling sales related to the goodwill damage would be by multiply the infringer's sales with a percentage. The method was claimed by the rightholder in a case from 1990<sup>216</sup>. Even though the defendant agreed to the claimed damage, it is uncertain whether the court approved the method for calculating the goodwill damages. I however believe that the method is illogical since the lost profits and goodwill damage are different types of injuries which should not be confused.

3. Marketing is one of the most important – but also one of the most expensive – aspects for building a valuable trademark. The trademark value normally increases in line with large investments in marketing. Thus, using the rightholder's required marketing investments as a consequence of the infringement as a base for compensation could be appropriate. The rightholder will be forced to re-build what has been torn down by the infringer. It could however be difficult to support the required marketing investments to re-build the trademark, since it is not obvious. The rightholder's required marketing costs should however never be below the costs for causing the injury (i.e. the infringer's marketing expenses).<sup>217</sup> The trademark is further not solely built up by marketing. Most likely the company uses different strategic ground rules before launching the trademark and consultants and experts are engaged which implies that the costs likely exceed the pure costs of a promotion campaign. Even though the compensation corresponding to the marketing expenses would not cover all loss related to the infringement it could at least constitute a satisfying base. The method is advocated by Borgenhäll<sup>218</sup> who claims that the trademark after an infringement is rebuilt using corresponding methods to the ones used to build up the trademark initially. The initial marketing costs could then be used to provide the court a sufficient picture of the costs required for marketing. The method is furthermore advocated by Levin who argues that a certain percentage of the infringer's marketing expenses, or the total expense, could function as measure for the loss caused by the infringement.<sup>219</sup> Levin's

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<sup>215</sup> H. Borgenhäll NIR 2000 page 153. with reference to D.A Aaker, *Managing Brand Equity* page 17.

<sup>216</sup> Stockholms Tingsrätt case T7-988-90 (SCHMACKOS).

<sup>217</sup> M. Levin *Noveller i varumärkesrätt* page 216.

<sup>218</sup> H. Borgenhäll NIR 2000 page 159 f.

<sup>219</sup> M. Levin *Noveller i varumärkesrätt* page 216.

reasoning is based on that the rightholder's costs for rebuilding the trademark somehow are related to the infringer's costs for marketing the infringing products. As mentioned above Levin believes that the costs for rebuilding should never be below the costs for causing the actual injury.<sup>220</sup>

The plaintiff's marketing expenses for rebuilding the goodwill was used as the primary claim in the above mentioned case from 2001<sup>221</sup>. During the last years the plaintiff (Hästens beds) had been investing nearly SEK 80 million in marketing and the costs for a single campaign was calculated to SEK 9, 9 million. The court did however not agree with the plaintiff's arguments. Instead the court concluded that since the plaintiff had not taken any marketing actions directly after detecting the infringement to repair the goodwill, the loss was considered to being limited in scope. The reasoning behind such conclusion is uncertain and foremost illogical. Until now, no court decision has – to my knowledge – ever pointed out that the rightholder is required to – before turning to the infringer or the court – take marketing actions to limit the goodwill damage, or to even be entitled full compensation later. The damage caused was further considered to being limited due to the defendant's limited use of the mark (e.g. furniture exhibition and national magazines). Instead of applying the method – which in the case was being fully supported – the court chose to make a reasonable estimation according to the help-rule<sup>222</sup> and accordingly settle the damages at SEK 300 000. It should also be mentioned that the defendant before this court process had a prohibition under penalty of fine which the defendant had breached. The actions taken thereafter were therefore most likely intentional.

Also in a case from 1995<sup>223</sup> the rightholder based its compensation claims on its marketing expenses for rebuilding the trademark. The rightholder claimed compensation for neutralizing the infringer's use of the trademark. Since the plaintiff was not allowed to market his products in Sweden, the rightholder claimed a compensation amounted to twice as much as the infringer had invested in marketing the trademark for its own products (SEK 200 000).

4. To relate the goodwill damage to the infringer's profit made due to the infringement could be problematic. The application of the parameter tends to favor the infringer on the rightholder's expense and therefore the damages' preventive function is ignored. If the infringer only risks to be paying damages based on the profit made, the infringer could actually benefit from the unlawful act. For instance the time for the infringer to establish on the market would diminish. Instead of being a fundamental parameter for calculation, it should function merely as a helping

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<sup>220</sup> A a, page 216.

<sup>221</sup> MD 2001:16.

<sup>222</sup> The Code of Judicial Procedure Chapter 35 section 5.

<sup>223</sup> Stockholms Tingsrätt case T7-297-95 (ABSOLUT LÖRDAG).

fact to support the injury or loss.<sup>224</sup> In lack of other methods this method could possibly function as an alternative or at least as a complement.<sup>225</sup> The parameter was used by the rightholder in a case from 1996<sup>226</sup>. The rightholder argued that the infringer's profit due to the infringement amounted to SEK 6 million of which the goodwill damage was appreciated to SEK 4 million. The rightholder was by the Court of Appeal awarded SEK 2 million of which 1 million was compensation for the goodwill damage.<sup>227</sup> The court did however not further motivate the decision. In a case from 1990<sup>228</sup> the rightholder used information on the infringer's turnover to support the goodwill damage. The argument was however used by the court to the rightholder's disadvantage and a far lower compensation was finally awarded.

5. The infringer's marketing expenses has been presented as a possible standard solution for calculating goodwill damages.<sup>229</sup> The rightholder's required marketing efforts to rebuild the goodwill after an infringement has occurred would, at least, amount to the infringer's expenses for marketing the infringing goods. So was argued by the plaintiff (Hästens beds) in the case from 2001<sup>230</sup>. As a secondary argument the plaintiff claimed that the goodwill loss at least amounted to the infringer's marketing expenses for the infringing goods. The court did however not apply the claim since it believed that the injury was more limited than so (see above). In a case from 1980<sup>231</sup> the rightholder was awarded damages mainly based on the infringer's marketing expenses. The damages were also settled at the level argued by the rightholder which is uncommon. The reason was not that the rightholder succeeded to fully prove the goodwill damage instead it was likely that the court found the amount reasonable. The court wrote that there was a risk for the trademark to lose its distinctiveness and turn into a generic term for luxurious cars.

For calculating the infringer's marketing expenses, a percentage of or the marketing expenses in total could be used.<sup>232</sup> I however believe that the method is doubtful. Part of the reason for actually committing an infringement is for the infringer to avoid marketing the trademark and therefore the method would hardly correspond to the actual goodwill damage. Like Borgenhäll I believe that the method possibly could be used to settle a minimum level of

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<sup>224</sup> H. Borgenhäll NIR 2000 page 153.

<sup>225</sup> M. Levin *Noveller i varumärkesrätt* page 210.

<sup>226</sup> Stockholms Tingsrätt case T 1147/94 (ABSOLUT RENT)

<sup>227</sup> The case was not sustained in the district court and therefore an appeal was made to the court of appeal (Svea HovR DT 32 case no T 78-97) where one million SEK in goodwill damages was awarded the rightholder, V&S Sweden.

<sup>228</sup> RH 1990:68 (LA COPIE).

<sup>229</sup> M. Levin *Noveller i varumärkesrätt* page 216 f.

<sup>230</sup> MD 2001:16.

<sup>231</sup> Uppsala Tingsrätt case T400/79 (ROLLS ROYCE).

<sup>232</sup> M. Levin *Noveller i varumärkesrätt* page 216 f.

compensation, but not for settling the total loss.<sup>233</sup> Even though the parameter would not help generating compensation proportional to the rightholder's required investments for rebuilding the trademark, it could perhaps function as some kind of simplification of proof.

6. Normally, when two trademarks are confused with each other some level of goodwill damage has occurred. If the rightholder is able to support specific occasions where confusion has been made between the trademarks – e.g. through wrongly sent mail or phone calls made to the wrong party – the court normally award the rightholder, at least a smaller amount of, damages.<sup>234</sup>

7. In a case from 1993<sup>235</sup> which concerns a company name infringement, Ericsson was using the previously registered company name “hotline” as a trademark for mobile phones. Even though the court was laconic they found it proven that the plaintiff's company name had lost part of its distinctiveness through Ericsson's use. Thus, a reasonable estimation was made by the court. What separates this case from other similar cases is that the infringer was a multinational powerful company while the plaintiff was a small company. The risk that the small company was going to lose its identity and become confused with the large company was considered substantial. The small company could even be perceived as the one infringing the large company's rights. Even though it was not explicitly expressed by the court, it is likely that the size and power differences between the companies played a crucial role in determining the damages.

8. A circumstance that could affect the rightholder's goodwill damage could be where the infringement, territorially, has occurred. In a case from 1993<sup>236</sup> such support was partly used. Apart from using the rightholder's marketing expenses and turnover as support, the rightholder argued for the court to consider the place where the items had been sold. The case concerned reproduced Cartier watches which were sold on an attractive street in Stockholm where many other stores offering genuine products were located. Due to the location of the sales, the exposure of the items was argued to have caused a more significant damage than if it would have been sold elsewhere. The District Court approved the argumentation and estimated the damage to SEK 40 000. The court further emphasized the importance of not awarding merely symbolic damages since it would diminish the damages' preventive function. Other factors that potentially could affect the level of goodwill damage caused by the infringement could be if the infringer's

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<sup>233</sup> H. Borgenhäll NIR 2000 page 158 f.

<sup>234</sup> E. Karlsson NIR 1990 page 369 with reference to Stockholms Tingsrätt case DT 88, 391/85 and T 124/86 (TELEINVEST) and Stockholms Tingsrätt DT 150, case T 7-250/88 (DIN RESEBYRÅ).

<sup>235</sup> Stockholms Tingsrätt DT 375:27/5.

<sup>236</sup> Stockholms Tingsrätt FT 1431/90 (CARTIER).

violating goods have a substantially worse quality, if the goods are distributed through similar, or the same, channels, if the rightholder has lost commercial opportunities or if the infringer is well aware of the infringement. Even though such factors alone would likely not invoke damages responsibility, it could possibly affect its level. The three first mentioned factors are even fairly easy to support.

#### Compensation despite insufficient evidence

Throughout its judgments the court emphasizes the importance of providing sufficient evidence for the loss caused by the infringement.<sup>237</sup> No matter if it concerns reasonable compensation for the use or damages for the additional injury. In three of the analyzed cases examples could be found where the court contradicts such statement. In a recent judgment from 2008<sup>238</sup> the Supreme Court awards the rightholder compensation even though merely general arguments have been presented. In the case from 2005<sup>239</sup> the court concludes that the evidence provided by the rightholder is insufficient, even for applying the help rule<sup>240</sup>. Despite such conclusion, the court awards the rightholder damages (SEK 10 000) based on the rightholder's interest of not being exposed to infringements.<sup>241</sup> In the case from 1998<sup>242</sup> the rightholder is awarded SEK 2 million in compensation even though the court explicitly states that the presented evidence is insufficient. From this it could be concluded that the court is far from consistent in its judgments when awarding damages caused by trademark infringements.

#### *Moral Prejudice*

Up until now no case has – according to my findings – been settled where the court has taken the rightholder's moral prejudice caused by an infringement into account. Therefore, no practice has been established on how to calculate it. The moral prejudice could possibly – as mentioned above – conform to the definition made of *suffering* and *detriment* in the Copyright Act. The moral prejudice would then be calculated based on the rightholder's:

1. Personal inconvenience; and
2. Personal discomfort caused by the infringement.

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<sup>237</sup> See e.g. NJA 1990 page 469 and NIR 1992 page 140 (SILVA) and NJA 2005 page 180 (FORMSPRUTARNA).

<sup>238</sup> NJA 2008 page 1082, case number T 4998-06 (THE NORTH FACE).

<sup>239</sup> NJA 2005 page 180 (FORMSPRUTARNA)

<sup>240</sup> The Code of Judicial Procedure Chapter 35 Article 5.

<sup>241</sup> Trademark Act Article 38 bullet 5 (in the current wording of the Act).

<sup>242</sup> Svea Hovrätt T 78/97 (ABOLSUT RENT).

When settling the moral prejudice circumstances in the *specific situation* should be taken into consideration.<sup>243</sup> It is not explicitly stated in the preparatory works<sup>244</sup> to the Copyright Act what is intended by personal inconvenience and discomfort and neither is further guidance found in case law.<sup>245</sup> In general the court estimates the prejudice according to the help rule.<sup>246</sup> A moral prejudice does not trigger responsibility in all situations.<sup>247</sup> If the rightholder's prejudice is counterbalanced by benefits from the illegal action the rightholder is not entitled remuneration. However, the rightholder is entitled compensation for the unauthorized use, irrespective of injury.<sup>248</sup>

Furthermore the moral prejudice could partly be determined based on what was previously referred to as "other than economical damage". Consideration should then be taken to:

1. The infringer's superior position,
2. The type and degree of infringement.

The rule has its source of inspiration in the Patent Act.<sup>249</sup> Therefore the criteria are taken from there and the rule could be applicable if:<sup>250</sup>

1. The infringement was made intentionally
2. The inventor is also the rightholder
3. The infringer is economically superior to the rightholder
4. The infringement has been ongoing for a longer period
5. The infringement has occurred at an inappropriate time
6. The infringer has by using the intellectual property made a greater profit

For the court to take the now mentioned criteria into consideration the rightholder must claim for such consideration to be made. From the enumeration above it could be concluded that the rightholder would benefit from not being a company.<sup>251</sup> In the preparatory works to the Patent Act – which also refers to the definition made in the Copyright Act – it is stated that compensation based on moral prejudice is facilitated if the patent holder and the inventor is the same person.<sup>252</sup> The personal offence caused to the rightholder of a patent could then be comparable to the offence that a writer is exposed to due to plagiarism. A similar analogy to trademarks would not be possible since the trademark only exists in a business setting and is

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<sup>243</sup> Ds 2007:19 page 282 f. and Prop 2008/09:67 page 232 (where reference to Ds 2007:19 is made).

<sup>244</sup> I have looked into Prop. 1960:17 page 289 ff.; Prop. 1993/94:122 and Prop. 2008/09:67.

<sup>245</sup> NJA 1995 page 164 (STICKAD TUNIKA), RH 2002:69 (DATASPEL) and NJA 1984 page 34.

<sup>246</sup> Code of Judicial Procedure Chapter 35 Article 5.

<sup>247</sup> Prop. 1960:17 page 290 f.

<sup>248</sup> Prop. 1960:17 page 290 f.

<sup>249</sup> P. von Heidenstam NIR 2000 page 135 ff. and Prop. 2008/98:67 page 231 f.

<sup>250</sup> For trademarks see Trademark Act section 38 bullet 4.

<sup>251</sup> Ds 2007:19 page 282 f.

<sup>252</sup> Prop. 1985/86:86 s 30 f and 44 ff.

normally created by e.g. advertising agencies. No judgment has been found where the court takes the moral prejudice into consideration why it is impossible to predict how it would be applied in practice.

Even though infringements could never occur at a *favorable time*, there are more or less unfavorable times. For instance when the rightholder recently invested heavily in exploitation of the intellectual property (in this case trademark) the time would be less favorable.<sup>253</sup> The rightholder could be in an *inferior position* if the infringer is a large powerful company while the rightholder is a smaller rightholder with limited economical resources.<sup>254</sup>

### *The Rightholder's Interest of Avoiding Infringements*

The intention of the help-rule in Article 38 of the Trademark Act is to allow the courts to raise the compensation levels. The rule is all about assuring that the infringer would not benefit from the infringement and about facilitating for the rightholder to obtain full compensation for his or her loss. Since the help rule is non-compulsory, the rightholder is required to *demand for it to apply*.<sup>255</sup> Whether the rule could help awarding the rightholder a compensation that exceeds the actual economical damage is uncertain.<sup>256</sup> Based on the limited information that could be found on the rule, the rightholder should focus on explaining the following to the court:

1. That the infringer would benefit from the infringement if the compensation is not increased by a certain amount.<sup>257</sup>
2. The aim of the new Directive is to put the rightholder in a better position which could be made by applying the rule.

By pointing out the following the application of the rule could possibly be facilitated:<sup>258</sup>

1. That the infringement was made intentionally
2. That the infringer is economically superior to the rightholder
3. That the infringement has been ongoing for a longer period
4. That the infringement has occurred at an inappropriate time
5. That the infringer has by using the intellectual property made a greater profit.

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<sup>253</sup> Prop. 1985/86:86 page 45 and J. Alin/ H. Larson *Skadestånd vid varumärkesintrång* page 22-23.

<sup>254</sup> See e.g. Stockholms Tingsrätt DT 375:27/5 where Ericsson was infringing a small actor.

<sup>255</sup> P. von Heidenstam NIR 2000 page 136.

<sup>256</sup> A a, page 135 f.

<sup>257</sup> See e.g. Prop. 2008/09:67 page 230 and Prop. 1985/86:86 page 30 f.

<sup>258</sup> Prop. 1985/86:86 page 30 f. and M. Levin/ M. Koktvedgaard *Lärobok i immaterialrätt* page 534.

The enumeration is identical to the one made under the moral prejudice. The reason is that when it is handled in the former preparatory works, as well as in the literature, the two are handled in pair.<sup>259</sup> To my knowledge, the rule has yet not explicitly been applied in any trademark case. The rule was however applied in a design case from 2005<sup>260</sup>. Even though the rightholder did not present any specific evidence to the injury the rightholder was awarded an estimated compensation with reference to the help-rule in Article 38. It would have been interesting to know how the court was reasoning before making the decision, especially since the rule should not constitute a separate ground for compensation. The judgment from 2005 could indicate a more generous attitude towards damages and that the burden of proof is being lightened. It would align with the Directive's intentions to put the rightholders in a better position.

### The Help-rule

According to the general rules on evidence the rightholder is required to support any claims of compensation presented. Normally, the compensation is however settled by the court through a discretionary estimation based on Chapter 35 Article 5 in the Code of Judicial Procedure. The reason is that the injury normally is difficult to prove. The intention of the provision is to prevent the court from overrule the claims for damages even though it finds that an infringement has occurred. The court usually states something like "the damages are estimated to SEK". As the court normally does not explicitly state that the help-rule has been applied, such statement indicates that the court has estimated the damages in accordance with the rule. The provision does however not fully deliberate the rightholder from presenting evidence to the court.<sup>261</sup> The rightholder is still obliged to present:

1. Sufficient evidence<sup>262</sup>

As the court's task when applying the help rule merely is to estimate the scope of the prejudice<sup>263</sup>, the rightholder must in order to have his or her case tried in court show:

1. A proximate cause between the injury and the infringement<sup>264</sup> and
2. That it is difficult, or impossible, to present evidence<sup>265</sup> or

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<sup>259</sup> Prop. 1993/94:122 page 52 and Prop. 1985/86:86 page 30 f.

<sup>260</sup> NJA 2005 page 180 (FORMSPRUTARNA).

<sup>261</sup> NJA 2005 page 180 (FORMSPRUTARNA) The court concluded that there must be some kind of preponderance of likelihood indicating that the compensation is reasonable.

<sup>262</sup> P. Fitger, *Rättegångsbalken II*, s 60 b, P O. Ekelöf *Rättegång IV*, page 108-109.

<sup>263</sup> P O. Ekelöf, *Rättegång IV*, s. 108-109.

<sup>264</sup> The lightened burden of proof does not include the proximate cause, see e.g. P O. Ekelöf *Rättegång IV* page 109.

<sup>265</sup> Code of Judicial Procedure Chapter 35 Article 5 Sentence one.

3. That the costs or inconvenience for presenting the evidence is disproportionately large in relation to what the rightholder possibly could gain in compensation<sup>266</sup>

If insufficient evidence is presented, the court could decide not to apply the rule. In order for the court to settle the compensation at a certain level there must be some kind of predominance of likelihood for the compensation not to exceed the damage.<sup>267</sup> The rightholder must be able to make the scope of the injury *probable* to the court.<sup>268</sup> The court is merely allowed to apply the help rule in order to estimate the *scope* of the injury and not for estimating the proximate cause.<sup>269</sup>

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<sup>266</sup> Code of Judicial Procedure Chapter 35 Article 5 Sentence two.

<sup>267</sup> NJA 2005 page 180 (FORMSPRUTARNA).

<sup>268</sup> P. O. Ekelöf, *Rättegång IV* page 108.

<sup>269</sup> R. Nordh SvJT 1994 page 81 ff. and P. O. Ekelöf, *Rättegång IV*, page 108-109.

## AN EMPIRICAL INVESTIGATION

The following empirical investigation is based on conversations with persons active in companies possessing highly valuable trademarks. The persons have been working as either legal councils, chief executives or have had any other position at the company's department for intellectual property. All participants have been asked the same questions.<sup>270</sup> As one of the participants prefers not to be mentioned by name I will be using an invented name for this company. The other two companies are mentioned by their company names. The investigation also contains the results from an interview with a legal representative.<sup>271</sup> The results will be followed by an empirical analysis.

### Short Information on the Companies Partaking in the Empirical Investigation

The trademark holders with whom I have been discussing the following questions (presented in the heading of each section) are SCA, J.A Sundqvist and Exclusive Fashion Company<sup>272</sup>. SCA<sup>273</sup> is a producer of hygiene and personal care products, packaging and solid-wood products and publication paper. The company is active in 90 countries. Even though Europe is the main market, the company has strong positions in North America, Latin America, Asia and Australia.

The Exclusive Fashion Company<sup>274</sup> is a producer of exclusive fashion items, such as clothing and accessories. The company's trademarks are some of the world's most famous exclusive brands and generated in 2008 circa € 2.2 billion. The company holds about 278 directly operated stores worldwide. J.A Sundqvist<sup>275</sup> (Sundqvist) is the exclusive distributor in Sweden of the high-quality knives called Global.

### Type of Trademark Infringements most often Exercised

The question was asked in order to have an understanding of which kind of infringements the rightholders most often are exposed to. The intention is to grasp whether the enforcement strategies (see below) vary in accordance with the differences in type of infringements.

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<sup>270</sup> The questionnaire is found in Appendix 1.

<sup>271</sup> The questionnaire is found in Appendix 2.

<sup>272</sup> Remark: Invented name.

<sup>273</sup> The interview was held with Malin Odjik Legal Council at the Trademark Department SCA (03.02.2010)

<sup>274</sup> Interview was held over telephone with a person at the IP department (22.01.2010).

<sup>275</sup> The interview was held with Björn Sundqvist, owner of J.A Sundqvist (29.01.2010).

SCA

SCA is a company not frequently exposed to trademark infringements. SCA mainly suffers from infringements where the infringer has used similar – but not identical – characteristics to SCA's protected trademarks. Counterfeiting therefore is rare. There are some cases where the infringement is made in total delusion and the characteristics just happen to become too similar.

Exclusive Fashion Company

The Exclusive Fashion Company is most often exposed to counterfeiting. Counterfeiting is by the company divided into two different kinds of counterfeiting: *alteration* and *identical reproduction*. By alteration the company refers to a reproduction that is not identical to the genuine trademark but where the similarities are so significant that consumers are deceived. The identical reproduction is a reproduction which only could be distinguished from the original by an expert.

J.A Sundqvist

Sundqvist is primarily exposed to counterfeiting. Infringing activity is a significant problem to the company and today 50 percent of all knives sold through advertisement in Sweden are illegal reproductions. Mainly, the Global knives are being identically reproduced but the quality is considerably worse. The reproduction has the exact look of the genuine product with e.g. black dots on the handle and the trademark "Global" on the blade. The consumer is therefore easily deceived. The salesman normally explains the reduced price by the knives being of second sorting or bought out of a large stock.

### The Enforcement Strategies for Protection of the Trademark

The question was asked in order to find out *why* such strategies are used. By enforcement strategies I refer to strategies both for detecting a potential infringement and for acting after an infringement has been detected.

SCA

SCA has no established strategy for detecting infringements. Instead the company uses *inter alia* its employees, distributors, representatives in different countries and their consumers to detect infringements. The company also intends to use the customs as a means to detect potential infringements. When the customs detects an infringement SCA is informed and could take actions. Infringements are also detected through the registration process of other trademarks. When suspecting an infringement SCA chooses to collect material and information in order to find out whom to act against. The suspected infringing good is purchased and the business is

being watched by SCA's detectives. The detectives are often synonymous to the representatives in the different countries. The intention of these activities is to find the production source of the infringing products.

#### Exclusive Fashion Company

Due to the company's large selection of trademarks and, subsequently of, infringement situations the company sets up their enforcement strategies on a case by case basis. In general the company however uses *inter alia* their national legal representatives as well as the custom and the police to help detecting infringing activities. After detecting an infringement the company considers which the most appropriate course of action is; to take a criminal or a civil action against the infringer. The actions taken vary according to the infringing activity, the characteristics of the infringer and which trademark that is being exposed to the infringement. Thus, the company finds it impossible to generalize which strategies are used. Before moving forward with any action – criminal or civil – the company gathers comprehensive information about the infringer. In addition, all relevant internal information on the actual trademark exposed to the infringement is collected.

Proof of use of the trademark is crucial in order to initiate a civil action or engage in negotiations with the infringer. In order to prove the injury suffered from the infringement the court is provided information on sales, invoices and advertising-, marketing- and investment data that could be relevant to analyze the infringement situation. The data also facilitates for the court to gain an idea of the trademark's value. Occasionally, the company is requested to present price information on single products.

#### J.A Sundqvist

Sundqvist has an established strategy for detecting infringements. Advertisements are continuously monitored to discover and cease infringements. The company's legal representative manages the monitoring activities which are efficient. In order to reveal sales of fake reproductions it requires quick and effective actions. Of such reason, Sundqvist normally chooses to take civil actions against trademark infringements. Sundqvist has furthermore registered an open trade route with the customs in order to detect infringements before it crosses the borders. The measure was efficient until the infringers adapted their product declaration to avoid it.

After detecting an infringement Sundqvist sends the suspected infringer a cease and desist letter. The letter informs the infringer on the potential liabilities that the infringement could invoke. Since Sundqvist realizes that it is impossible to fully eliminate infringements, the

company invests heavily in spreading information regarding their products, that counterfeited goods exists and offers consumers help to detect fake Global knives.

### The Desired Effect of the Enforcement Strategies

The intention of discussing the desired effects of the strategies was to get an idea of what the rightholders aim at when applying their strategies. Not merely was my intention to understand their reasoning it was also for the rightholders to reflect upon how they actually work. I believe these answers are the most interesting to compare to what the trademark damages actually offers the rightholders today.

#### SCA

As infringements could cause significant harm to the company's goodwill and sales the primary desired effect is to have the infringement ceased. SCA would thereafter prefer to get compensation for the expenses that the company has had in relation to the infringement, e.g. for collection of material and information and for engaging a representative. SCA would prefer the damages to function more deterrent. A quick and effective process to handle the matters of infringements is furthermore crucial to SCA.

#### Exclusive Fashion Company

It is of primary interest to the Exclusive Fashion Company that the infringing activity immediately ceases. It is also important that compensation is obtained for the loss caused by the infringement. The reason for using civil actions is normally that the company wishes to settle the issue. The company considers the damages to normally being insufficient in relation to the injury inflicted to the company by the infringement. Damages are an important sanction since it partly functions as a reminder of that infringements do not pay off and partly as a compensation for the company's expenses related to the infringement. Today, damages cover nearly twenty percent of the company's actions taken on intellectual property matters. The ultimate solution would have been if the damages could cover all loss caused by the infringement including the costs related to the actions taken to fight it. The company strives to blend settlements with judgments in infringement situations. The company considers judgments to being important since it helps creating new practice.

#### J.A Sundqvist

The primary effect of Sundqvist's strategies is to immediately end the infringing activities. In some cases the cease and desist letters merely lead the infringer to change name on his or her advertisement but at least it obstructs the business. Monetary compensation is of secondary

importance to the company. Not only do the continuous activities to detect infringements include significant costs, the infringements often harm the genuine products' goodwill and reputation. The company furthermore believes that the damages should act deterrent in order to restrain the infringer from further infringements. The level of damages should be possible to multiply; if sales for SEK 1000 has been carried out the infringer should e.g. be imposed to pay SEK 10 000 in damages. In some cases it could be enough that the products are forfeited since it could imply significant costs.

Another desired effect is to find the principal or the middleman who is making the orders of, or further distributes, the infringing goods. Today merely the last actor in the line of infringers, i.e. the salesman, is held responsible.

### From the View of a Legal Representative

Even though the view of the rightholders is what this master thesis focuses on, I believe that the view of a legal representative – who is well familiar with the legal regulations and has a strategic and practical view – could be valuable to learn from. MAQS Law Firm<sup>276</sup> (MAQS) is a full service firm within business law and has a well developed IP department.

### Enforcement strategies in practice

The enforcement strategies used by the firm are circumstantial and vary depending on the client. The firm is normally approached by a client who presents a suspected infringement case. The firm also carries out market scanning through the internet and makes test purchases by order of the client. If there is a registered trade route the firm normally receives notions from the customs about infringing goods detected at the borders.

The actions taken after an infringement has been detected depend on several factors. The decision made by the client, in consultation with the firm, is commercial and based on *inter alia* the scope of the infringement; who the infringer is; what kind of infringement that is at hand; if it concerns a question that the rightholder prefers to have tried in court etcetera. Before making the decision the client must consider whether it is worth taking action against the infringer or not. Thus, due to the decision's character of a business decision, it is not possible to generalize which actions a client normally chooses to take in a specific infringement situation. One example of factors that could influence the decision is if the infringer is an *organized company*. The ability to compensate would then likely rise. Another influential factor could be if the rightholder prefer to

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<sup>276</sup> The interview has been held with Maria Winckler (Jur. Kand) and Carin Wiberg, both working with the IP department.

have a certain *question tried in court*. The reason why the client, in consultation with the firm, considers the type of infringement before making a decision is that the *burden of proof* could become more or less heavy. In cases of counterfeiting the infringement is in general easier to prove than if it concerns other infringements.

#### The role of damages

Even though damages are important it is not the most important sanction. Primarily, clients wish the infringement to cease. However, the damages could also take the role of ceasing the infringement. Damages help indicating that infringing is unlawful and that it would not pay off. When the infringer is a small actor only making small recurrent infringements, it is primary to mark that such deed will have serious consequences. In cases of other infringements – where e.g. a company unintentionally has produced a large stock of products infringing the rightholder's trademark – the most important outcome would be for the sales to cease. A large stock of products with infringing goods could seriously harm the trademark's goodwill and sales.

The consequence of the court awarding low damages is that it could pay off to infringe someone else's trademark instead of creating an own. Such situation is untenable and would put oil on the machinery for the infringers to expand the fake industry even more.

#### Strategic claims

The claims used before the court are normally different from the claims presented in a negotiation before a settlement. The reason is that the parties in the settlement situation are coming to a business settlement outside the frames of a legal trial. In such negotiation the rightholder normally bases its compensation claims on the infringer's profits made due to the infringement, i.e. the number of products sold multiplied with the contribution margin of the products. Such numbers are often easy to access and present. In a court process, the aim is for the infringer to agree to the claimed compensation. This is where the court normally settles the damages. If the argumentation is well founded by the rightholder, the rightholder normally gets the court on his or her side which would facilitate the continuing process. In general, the argumentation before the court is based on compensation corresponding to the infringer's profits or based on a fictive royalty. If the argumentation would result in claims for unreasonably high damages the amount is often reduced before the court. If the damages however appear unreasonably low it is normally mixed with some of the unauthorized profits. The argumentation however varies depending on the trademark that has been infringed, on the counterparty and how much money that is worth investing into the process.

### The ultimate sanction

The damages sanction in its current shape is far from what rightholders would want it to be. Ultimate would be if the rightholder could be reset in the same situation as before the infringement occurred. The infringer should never benefit from infringing someone else's rights. The firm would prefer if further help for fighting trademark infringements could be obtained from the police and the district attorney. The ultimate solution would then be if the compensation could be based either on a fictive royalty, based on the rightholders profits, or calculated by multiplying the infringer's sales with the price on the original product. This solution is most appropriate for luxurious trademarks since that is when the differences between the original and reproduction is the largest.

### Analysis of the Empirical Investigation

From the empirical investigation, the following conclusions could be drawn: (1) The enforcement strategy is affected by rightholders' business activity; (2) Damages merely play a secondary role to the rightholders; (3) Rightholders wish the damages to cover all costs related to the infringement; (4) Damages should act more deterrent.

### The strategy is affected by business activity

The respondents are active in different industries. The industry differences and the differences in business activity seem undeniably to affect which kind of infringement that normally occurs. Accordingly it also affects which enforcement strategies that are used. The more frequently a company is exposed to infringements the more developed is the strategy to fight it. The two companies offering expensive and more exclusive products – the Exclusive Fashion Company and Sundqvist – are more frequently exposed to infringements, which supports my hypothesis that the stronger a trademarks is the more attractive is it to infringe. Further, I believe the territorial scope of the rightholder's business activity could affect the enforcement strategies. Unlike the others, Sundqvist is only active in Sweden. The company faces all types of infringers, from the smallest to the biggest. The drawback of Sundqvist's limited territory is that it could only influence its own territory. If similar actions are not taken by other distributors in other countries it could eventually affect the brand and consequently Sundqvist sales here in Sweden.

The enforcement strategies applied *after detecting an infringement* obviously vary according to business segment, scope and the infringer. It could also be affected by the rightholder's wish to have a certain issue tried in court.

### The damages' secondary role

Before initiating this master thesis work I had the perception that damages played a primary role for a trademark owner after being exposed to an infringement. My view was mainly based on the fact that the level of damages was subject to heavy critics and was under frequent discussion. The results from the empirical investigation, indicates that damages play an important, but secondary, role in an infringement situation. It is primary to have the infringement to cease, and to some it is not crucial to have any compensation at all. In some cases it could perhaps even help ceasing an infringement. Thus the damages could constitute a tool not merely for compensating but also for ceasing infringements.

### Damages adequate to the infringement

The respondents are making large investments in preventing infringements and to detect infringing actions at an early stage. These investments are normally never covered by the damages. The rightholder should be entitled compensation for its "actual damage" caused by the infringement. Due to the complicity in providing sufficient evidence and to the court's unwillingness to awarding significant damages, the respondents consider the damages being too low in Sweden. The legal representative made an important statement about the importance of presenting comprehensive information and supporting the claims made before the court. Strategically, that could help putting the rightholder in a better situation. Even though the court will not adjust its application of damages and attitude towards the levels immediately, I believe it could change over time as the court realizes that the damages are unreasonable in relation to the claims and evidence presented. The empirical investigation further indicates that the rightholders are unaware of the two-folded damages provision, which is divided into reasonable compensation and damages. Such division would structure the arguments and could be an example on what possibly could facilitate the argumentation before the court. Furthermore compensation for internal costs related to the infringement seems seldom to being requested. I believe – as it is simple to prove and relate to an infringement – that the rightholder in many cases could succeed using such arguments. Thus, I find the absence of such claims unfortunate.

### Damages acting deterrent

All respondents agreed on making the damages into a more deterrent sanction. Through a more deterrent effect, the damages would better fill its function of preventing further infringements. An infringer today is normally not restrained from committing a similar action again. And normally the rightholders are under-compensated for their loss. This of course agitates the rightholders who have invested significant capital in building its trademarks. A more deterrent

damages sanction must not necessarily imply that the rightholder is over-compensated. This is not what the respondents request. Rather what is requested is for the courts to become more generous when awarding damages and to realize the complexity in proving an injury caused on a trademark. The rightholders seek to prevent infringements from happening and if they still do it must be possible to obstruct and prevent it from happening again. A more deterrent character of the damages would therefore strengthen the damages' preventive effect as well as facilitate for the courts to become more generous. Accordingly the damages would turn into a more useful and important tool. Some compared infringements to theft and I believe it is fully possible since the infringer actually steals part of the rightholder's goodwill and reputation to build an own business.

## FINAL ANALYSIS AND DISCUSSION

### The Function of Damages and its Impact on the Trademark system

Not merely is Sweden – as a member state of the European Union – obliged to provide necessary measures and sanctions to secure the rights to intellectual properties, the sanctions should also be effective, proportional and act deterrent as well as not being unnecessary complicated or expensive. The two fundamental principles behind damages in general are for the damages to function preventive as well as reparative. The damages under the provision in the Trademark Act shall not merely ensure the rightholder compensation for the actual loss (reparative) but also ensure that the infringer never benefits from infringing (preventive). Even though the functions could sound straightforward the impact and application of the functions are not.

Does the prevailing damages system for trademark infringements fulfill the needs of the rightholders?

Unfortunately, I believe the answer is no. To infringe someone else's trademark rights in Sweden today is cheap. It is even possible to benefit from doing so. In order to enforce its rights towards the infringer the rightholder must be assured compensation not merely for the direct loss but also for the investments made in investigating and preventing infringements. Currently the Swedish damages sanction in the trademark system does not offer such security to the rightholders. The trademark is therefore an asset that carries significant values but that lacks sufficient protection. As the values rise around intellectual properties the infringements enhances. Infringers have come to establish organized multinational businesses around the infringement activity. Nevertheless it often supports other criminality, such as terrorism and child labor. Criminal actors – not at all interested in the trademark as such – switch their criminal business from trading with drugs and weapons into trading with fake goods. While the consequences of dealing with drugs and weapons are serious, the consequences of dealing with counterfeiting are lenient. Thus, measures must be taken. We waited with excitement for the new Directive to come into force and change the prevailing unsustainable situation. Finally the legislator and court was going to realize the actual values of innovation, creativity and intellectual property. But nothing changed.

Proven in the critics in literature and among active rightholders is that focus is normally put on the insignificant levels of damages. The critic is however neither constructive nor fully legitimate. The issue is based far back in the legal and business culture. Intangible assets are yet not fully recognized as property. This is where it has to start. The world is not changed overnight and neither is the provision on trademark infringement damages. From the foregoing you have

been able to grasp the legal situation on damages in cases of trademark infringements. The system is far from clear and is mainly shaped by case law. Further the empirical investigation and analysis has provided you an insight of the rightholder's aims and needs. The prevailing function of the damages does however not correspond to the needs of the rightholders and to the prevailing situation on the market.

### In Absence of an Ultimate Calculation Method

The intention of this paper was not merely to investigate whether – and how – the needs of the rightholders are fulfilled by the prevailing function of the trademark damages, it has also been to create a tool for calculating damages. Even though, the intentions could seem separated from each other they are not. Being aware of different methods on how to calculate the compensation could affect the rightholders' strategies. If the rightholder is unaware of how to support the injury to the court, he or she could prefer a settlement outside the court room. A settlement could be good, but sometimes court trials are more valuable, especially in the long run as it could help creating legal practice. As a settlement is a business agreement, the rightholder is not required to present as comprehensive support as if it was a court process. Thus, the strategy affects the method for calculation or at least how much support that must be presented.

Even though several methods are possible to distinguish from case law, from the legal literature and from the practitioners, it could not be settled which one is the most ultimate calculation method. The methods vary not only according to the strategy but also to factors such as the infringer, the scope of infringement and the trademark. In absence of an ultimate calculation method the rightholder is therefore required to adapt his or her choice of method in accordance with the strategy and what it wishes to gain from the strategy.

### The Consequence of a Compromise

In 1998 the first green book on actions against trademark infringements and counterfeiting on the Internal Market was presented by the Commission. The Commission concluded that the infringing activity had enhanced significantly since the 1980's and that the activity was seriously injuring the market. Due to the large request for combating infringements, the Commission suggested that a new directive should be composed. The proposal was presented in January 2003. Even though there was an urge for combating infringements, the proposal was not welcomed by all parties. Thus, the Directive ended up as a compromise. The resulting damages provision ended up very different from the proposed provision. The proposal suggested that the infringer should pay reasonable damages which could be settled either based on (a) a double royalty or (b)

the injury, including the loss of earnings.<sup>277</sup> Also, other than economical circumstances was possible to consider when settling the damages.<sup>278</sup> Comparing such wording to the current wording of the Directive proves its character of a compromise. The rightholder is put in a worse situation, e.g. from replacing the double royalty with just a single royalty as reasonable compensation.

#### It does not cost more than it tastes

As seen above, damages shall have both a reparative and a preventive function. Not merely should it repair the loss that has been suffered, it should also prevent the infringer from infringing again. Furthermore, the damages should be effective, proportional and act deterrent. Unfortunately, the current damages hardly fulfill such functions. The rightholder is normally not fully compensated and the infringer does normally not hesitate to commit the same action over and over again. From the accomplished analysis I have been able to identify a number of problems. In order to make this final analysis constructive I will propose solutions in relation to each identified problem.

#### Problem: An unreasonable minimum compensation

The reasonable compensation is currently based on reasonable royalties which is awarded the rightholder irrespective of any injury. At a first glance the compensation could seem reasonable and acting both reparative as well as preventive, but suppose that the rightholder normally does not offer licenses, or that the rightholder only offers licenses above a certain royalty. In reality a deal would likely not come in place if the parties could not agree. By infringing the infringer would however be able to access a license even though he or she would never have obtained one in real life. The reasonable compensation is therefore in its current shape merely composing a *compulsory license*. The construction of a compulsory license is prohibited according to the TRIPS agreement<sup>279</sup> and fully lacks a preventive function. As it could be difficult to prove what would be a reasonable royalty the compensation is neither effective nor proportional. While the rightholder must prove a reasonable royalty the infringer would merely need to pay for what it would have cost in reality. The construction, and its underlying principle, suddenly seems fairly unreasonable.

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<sup>277</sup> Directive Proposal COM (2003) 46 final Article 17.1 second paragraph.

<sup>278</sup> Directive Proposal COM (2003) 46 final Article 17.1 third paragraph.

<sup>279</sup> TRIPS Agreement Article 21.

Solution: A reasonable minimum compensation based on unauthorized profits

Since the reasonable compensation does not fulfill its functions – and is even prohibited according to our international commitments – it requires immediate change. A solution would be to replace it with the *infringer's unfair profits* as the minimum compensation. The infringer's profits made due to the infringement would not merely be easy to calculate and prove, i.e. being effective, it would also fill a preventive function, and consequently act deterrent, as the infringer realizes that he or she would at least not benefit from infringing. The compensation would furthermore be reasonable and proportional since it corresponds to what the infringer has earned from infringing; a profit that the infringer would not have acquired if it was not for the infringement and which the rightholder could have chosen to make if it was not for the infringement. Currently, the provision's shape of a minimum compensation disregards whether the rightholder has suffered any injury from the infringement. That would imply that the rightholder would be entitled a minimum compensation corresponding to the infringer's profits irrespective of if there was an injury. As the Directive further allows for the infringer's profits to be regarded when settling damages the now proposed solution seems to be accomplishable.<sup>280</sup> Furthermore, the solution would not imply an over-compensation as the compensation could never exceed what the rightholder possibly could have earned (and indirectly now has lost). The rightholder could have chosen to distribute the trademark as the infringer has done and thus acquire a corresponding profit. Therefore, there is nothing in the legislation preventing the solution from being applied. Instead I believe it is in line with the legislator's intentions of improving the rightholder's situation and of preventing the infringer from benefitting from an infringement. The proposed solution would furthermore be facilitated by the provision in Article 37 c) of the Trademark Act as it provides the rightholder a right to access information on *inter alia* production and prices of the infringing product.

A disadvantage of the proposed solution could however be if the infringer's profits are low or non-existing. The minimum compensation would accordingly be low and not fill a reparative function. To avoid the unsatisfying situation, the reasonable royalty could be used as a compliment to the infringer's profits. In practice such solution would imply that if the rightholder is able to prove a higher reasonable royalty it could be used as a complimentary base for calculating the reasonable minimum compensation. Using this complimentary solution would however require some additional work for the rightholder.

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<sup>280</sup> Directive 2004/48/EC Preamble Cause 26.

Problem: Modest motivations leading to legal insecurity

The recurrent application of the help rule in the Code of Judicial Procedure<sup>281</sup> hides the court's reasoning and on what it bases its judgments. The examples are several where the court has applied the rule. Consequently, no practice is created which in turn leads to a situation of legal insecurity. Not merely is it uncertain how the court will reason, it is furthermore usual that the court – instead of relying on the rightholder's proof and arguments – chooses to base the compensation on what the infringer has agreed to.

Solution: Present the reasoning behind and motivate the judgment

In order to overcome the problem and to prevent the legal insecurity from becoming even more significant, the courts must not merely put more faith in the rightholders' arguments it must also support its reasoning and judgments. The support should be concrete and realistic for the rightholders to being able to make use of it. Thus, the support would create a practice for the rightholders on how to apply the rule and support its arguments. As long as the courts avoid presenting sufficient grounds for their judgments, the rightholders will never know what is expected of them in order to succeed in court. One consequence is that the rightholders risks avoiding court trials. The court could manage its responsibility as a law creator in different manners. One could be through establishing pre-calculated damages for certain situations or by adjusting the burden of proof (more on this below).

Problem: An unreasonable burden

In general, an infringement causes substantial damage to a trademark. Among the judiciary there is a prevailing insecurity on what the natural consequences related to an infringement are. The scope of the goodwill injury is difficult, or even impossible, to prove and so is the loss of earnings and its causality to the infringement. The reason is that we are dealing with intangible assets, which have yet not been fully accepted by the courts. At least they have a hard time adapting to it. The consequence is that low damages are awarded.

Solution one: A modified burden of proof

All trademarks which are subject to infringement are considered to having a certain goodwill. Otherwise the infringement would not have occurred.<sup>282</sup> The goodwill damage could be considered as a typical consequence of an infringement.<sup>283</sup> By establishing a *presumption* the rightholder's position would improve in line with the Directive. The presumption would imply

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<sup>281</sup> Chapter 35 Article 5.

<sup>282</sup> Section on additional injury above, page 24 f. and Prop 1993/94:122 page 70.

<sup>283</sup> H. Borgenhäll *Festskrift till Marianne Levin* page 150.

that a goodwill damage is presumed as a consequence of an infringement. Currently, the difficulties mainly lay in proving the scope of the goodwill damage. Thus I suggest that the burden of proof is reduced for the rightholder. After making the goodwill injury – in relation to the reasonably accessible evidence – *reasonably probable* the burden of proving the opposite is passed to the infringer. The reasoning behind the suggestion is firstly that a goodwill damage in almost all cases arises and that the scope of the injury normally is impossible for the rightholder to prove. In order not to make the burden on the infringer too extensive, the rightholder is required to make the scope of the injury *reasonably probable*. The proposal will not merely position the rightholder in a better situation it will also provide the courts a simple tool and consequently strengthen the legal security in infringement cases. In addition – and foremost – the proposal could help affecting the potential infringers to avoid infringing, i.e. to act preventive. Together with the previously proposed tool for determining the reasonable compensation this tool would function as a compliment.

The reversed – or lightened – burden of proof is furthermore in line with the development on non-contractual damages in general. There have been a few cases where the court has chosen to ease the burden of proof, both what concerns the loss or injury but also regarding the proximate cause.<sup>284</sup> In a design case from 2005<sup>285</sup>, the court rejected the rightholder's arguments since he or she had not been able to make it *probable* that the decrease in sales had occurred as a consequence to the infringement. The judgment indicates that the burden of proof also for intellectual property rights is turning into a lighter burden.

Similar to the goodwill damage, the burden of proof could also be reversed for the loss of earnings caused by an infringement. Currently, and as a consequence to the new Directive the rightholder could base his or her loss of earnings on the infringer's profits made due to the infringement. The component should help overcome the difficulties in appreciating the rightholder's loss of earnings. Including such possible calculation is to move in the right direction in order to improve the situation. Furthermore, it gives proof to that the principle of not over-compensating the rightholder is not carved out in stone. Even though the component is an improvement, I believe it is insufficient. Normally the infringer's prices are substantially lower which means that the profit turns out low. Due to the complicity in proving, I suggest that the rightholder should merely be requested to make it *reasonably probable* that the rightholder's decrease in profits originates from the infringement. Subsequently, the burden of proving the opposite lies with the infringer. The method could possibly even be applied to the calculation

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<sup>284</sup> See for example NJA 1977 page 176 (traffic accident), NJA 1981 page 622 (environmental protection) and NJA 1982 page 421 (pharmaceuticals).

<sup>285</sup> NJA 2005 page 180 and NIR 2005 page 539 (FORMSPRUTARNA).

based on the infringer's profits. A problem could likely rise where the infringer claims that the profits he or she has made is lower than what the rightholder argues. Then it would be up to the infringer to prove such claim. Currently, the courts seem to settle the damages at what the infringer has counter-argued without providing any specific evidence for such arguments. In agreement with the Design investigation from 2001<sup>286</sup> I believe for the presumption to apply it requires that the rightholder has used the trademark for some time before the infringement. From the previous analysis of calculation methods the rightholder could find an appropriate model for calculating the loss and make it reasonably probable.

### Adapting to the Prevailing Legal Situation

Problem: The rightholder normally presents insufficient evidence

Due to the adversity in finding comprehensive evidence the rightholder normally presents insufficient support to his or her arguments in court. The costs are considered to being disproportionally high in relation to what the rightholder could expect to gain in damages. Above I have presented a number of solutions that could improve the situation of the rightholder, but yet we are not there. Until then, we have to adapt to the current situation.

Solution: Rightholder changes tactics in court

In order to adapt to the current situation and gain as much compensation as possible the rightholders are required to change tactics in court. My conclusion from the analyzed case law is that the chances of obtaining higher damages are enhanced by providing comprehensive evidence to the court. In the analysis of calculation methods above I present a comprehensive number of methods for calculating damages which could be used. It is furthermore crucial for the rightholder to support the proximate cause between the injury and the infringement. In claims before the court, the rightholder should preferably divide its arguments into *reasonable compensation* for the use and *damages* for the additional injury. Presenting a structured argumentation, supported by concrete and strategic evidence would possibly improve the rightholder's outcome. It is furthermore important for the rightholder to explain to the court how the market looks as well as the meaning and value of the trademark. The court knows the law but have very little knowledge of the market and trademark as such.

As the argumentation and appropriate calculation method is depending on the specific situation, I find it impossible to provide any nearer recommendations on how to argue. From the analysis, I would however in general recommend the rightholder – if possible – to support the

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<sup>286</sup> SOU 2001:68.

goodwill damage through an estimation of the trademark's value and the costs of a normal marketing campaign. I believe this is one of most appropriate methods to support goodwill damages to the courts.

## EPILOGUE

Due to the limitations in time and foremost in space I have been forced to make certain delimitations in my study. During my work I have however come to realize another significant problem related to the damages provision in the Trademark Act and to its application. In civil cases the courts are under the obligation merely to judge based on what has been claimed before the court. This is nothing new but in the setting of trademark infringements the system gives rise to fatal effects. If a rightholder would sue an infringer on SEK 50 million and the court – as it usually does – estimates the damage to a far lower amount, say SEK 50 000, the outcome would be that the rightholder is awarded merely one per mill of the claimed damages. If the litigation expenses then mainly consist of time for proving the injury or loss – which has been estimated to a far lower amount – the rightholder will most likely be imposed to pay the main part of those costs. The problem is serious and amplifies the issue of the courts' restrictiveness against estimating the injury high and consequently award higher damages. This is an additional fact that affects not merely the outcomes in the court room but also the rightholders' claims as such. The rightholders become afraid of claiming too significant damages as they could lose a whole lot more. The issue is interesting and definitely current. Thus it is important to bring along for further discussion among rightholders.

*To be continued.*

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## ENCLOSURES

### APPENDIX 1 – Questionnaire Rightholders

1. What kind of trademark infringements are you most usually exposed to?
2. Strategies to detect. Tell me about your strategies for protecting and enforcing your trademarks.
  - a. How are you working / which methods are you using to detect infringements?
  - b. Why are you using these strategies?
  - c. What is the intention behind this use? (What would you like to get out of it)
3. Strategies after detecting. After detecting an infringement, how do you proceed?
  - a. What could affect which strategy that you choose?
4. In which country is the risk for infringements the largest?
  - a. Do your enforcement strategies vary between the countries that you are active in?
  - b. Why do the strategies vary?
5. Sanctions. Do you consider the available legal sanctions for trademark infringements being effective enough?
  - a. Why/ why not?
  - b. Have the ineffective sanctions to do with why you often choose to come to a settlement with the infringer instead of going to court?
  - c. What would you prefer to get out from a sanction against an infringer of your trademark (primary/ secondary outcomes)?
  - d. How would you like the sanctions to look (what is presently missing)?
6. Damages. Are you normally claiming damages against an infringer?
  - a. Why is it important to get damages?
  - b. What factors are taken into account when determining what level of damages to claim?
  - c. Do you consider the damages levels being too low? Why?
  - d. In what way would rightholders benefit from higher damages?
  - e. From Swedish case law it could be found that it is crucial to carefully prove the e.g. a goodwill damage in order to be awarded damages. Could you give me an example of how you usually support such loss of goodwill?
  - f. How do you work to overcome the difficulty in proving a goodwill loss or loss of earnings?
  - g. Why do you think is it so complicated to estimate the goodwill loss in monetary means?
  - h. Are you normally (as support) presenting a valuation of your trademark? How is this made?
7. In which countries to you prefer to file a law suit? Why?

*Strategies to detect infringements*

1. How do the strategies (used by you and your clients) normally look for detecting infringements?
  - a. What do you normally recommend your clients and why?

*Strategies after detecting an infringement*

1. Which factors determine how to proceed with an infringement situation (e.g. law suit)? Why?
2. What do you – on the behalf of you clients – want to bring out of the certain strategy? Why?
3. What role do the damages play in cases of trademark infringements?
4. Could you describe how the argumentation against an infringer generally look?
5. Are you normally dividing the damages claims into reasonable compensation for the use and damages for the additional injury?
6. How do you generally support a royalty/ goodwill loss / loss of earnings/ moral prejudice?
7. Do the damages have a preventive function today?
8. Should the damages be allowed to exceed the actual prejudice?
9. Where do you see problem; is it in the legislation or in the application of the law? Does the law provide a satisfying regulation?
10. How would you motivate if you would want the loss profits to be based on the rightholder price on his or her products?
11. Which consequences are there of low damages levels?
12. What would be the ultimate damages provision?