

Getting the Most of Your Brand In Litigation - A Swiss Perspective

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1. Introduction

Companies constantly strive to increase their brand's value through protection and exploitation. Without enforcement of intellectual property rights, the strategy would however not be complete. When it comes to litigation, in-house counsels and executives have to weigh the pros and the cons and make a business decision that comes down to one question: is it worth it? To answer that question, one will have to of course determine the chances of success but also if it is the right battle and if so, if stopping the infringement is worth investing significant resources in legal proceedings. More and more executives and in-house counsels will also consider how much funds they can recover out of the litigation. The conditions and amount of awarded damages vary significantly from one jurisdiction to another but in all cases the brand value is a key factor.

This presentation will highlight the available legal grounds to claim damages for trademark infringement under Swiss law, with a focus on the hurdles to overcome.

2. Overview

Under Swiss law, there is no tailored regime for claiming damages based on intellectual property rights infringement. Compensation for damages is governed exclusively by the general provisions of the Swiss Code of Obligations ("SCO")¹. Article 55 par. 2 of the Swiss Trademark Act reads indeed:

"Actions brought under the Code of Obligations for damages, satisfaction and handing over of profits in accordance with the provisions concerning agency without authority remain reserved."

Three different legal grounds are available:

- tort (Art. 41 ff. SCO);
- unjust enrichment (Art. 62 ff. SCO); and
- handing over of profits (Art. 423 ff. SCO).

These actions each rely on different conditions, which can sometimes significantly impact the amount of damages allocated.

3. Damages based on tort

This action allows the Claimant to claim compensation for a loss or damage caused by another person unlawfully, whether wilfully or negligently. The Claimant has to prove four conditions:

- an unlawful act (*i.e.* trademark infringement);
- a fault;
- a damage; and
- a causal link between the damage and the unlawful act.

Whereas the first two requirements are usually met, the damage and the causal link are often difficult to prove in practice.

3.1 Damage

The Swiss Supreme Court has adopted a restrictive approach and considers that only the actual damage suffered can be claimed. That is the difference between (i) the amount of the Claimant's current assets and (ii) the amount of the Claimant's assets, should the infringement not have occurred. Therefore, recoverable damages are the loss incurred and/or the lost profit.

¹ ATF 132 III 379, c. 3.

3.1.1 Loss

The loss consists either in a decrease of assets or an increase of liabilities. In trademark infringement cases, a loss can result from the disturbance of the market, the decline of the goodwill associated with the trademark or the expenses incurred to stop the infringement².

Expenses incurred to stop the infringement before litigation starts, such as costs invested for an amicable settlement, evidence collection, experts, surveys, etc., are part of the damage and will be reimbursed provided that they were necessary.

A disturbance of the market stems from the uncertainty about the origin of the products infringed and their quality. The effective expenses incurred to dispel this disturbance (such as publication of corrective notice, increase of advertising expenses, etc.) can be indemnified provided that they were necessary and actually disbursed.

The decline of goodwill can be defined as the depreciation of the company or the trademark subsisting after corrective measures have been taken. This will usually be the case when the infringing products are of poor quality. Such loss can however only be taken into account if it has an impact on the potential or lost profits of the trademark owner.

3.1.2 Lost profits

According to the Swiss Supreme Court, an indemnity for lost profits can only be awarded, first if profits are made with that trademark and if the prospect of profits with that particular trademark is usual or certain³. Hence, this condition is not fulfilled if the trademark has not yet been used on the market.

Proving the certainty of prospected profits reveals however quite difficult. The related damage can however be determined "*in light of the normal course of events*"⁴. In other terms, what seems to be reasonably possible based on experience. The Claimant must still bring forward circumstantial elements showing that a damage has occurred, such as:

- a decrease of turnover during or immediately after the infringement;
- a non-increase of the turnover (provided that the Claimant can show that his turnover has increased constantly since many years and stopped increasing in relation with the infringement);
- an increase of profits made by the Infringer and corresponding to the decrease of the Claimant's turnover (correlation).

In any case, the Claimant must prove that he would have been able to make the lost profits⁵. To this effect, the Claimant has to show not only that he was exploiting the trademarked product with sufficient trade capacity, but also that he was in a competitive relationship with the Infringer. The Swiss Supreme Court denied for instance the existence of a damage in a trademark infringement case where the trademark was not available on the relevant market before its use by the Infringer as in such case the clients purchased the products marketed under the trademark because of their quality and technical features, and not because of the trademark⁶.

In his attempt to demonstrate the damage "*in light of the normal course of events*", one can also ask for an equitable royalty if it can be shown that a license agreement could have been entered into with the Infringer⁷.

The requirement of a competitive relationship means that the products must be substitutable to each other. This condition is particularly difficult in cases of trademark infringements, since it excludes all cases where the parties are not competitors, whether because the counterfeiting product is a lower quality imitation of the original product, sold under a lower price, or because the parties are in a

² Decision 4C.52/2007 of 14 May 2007, *in sic!* 2007 p. 754, c. 4.3.

³ ATF 132 III 379, c. 3.3.3.

⁴ Article 42 (2) SCO.

⁵ Decision 4C.52/2007 of 14 May 2007, *in sic!* 2007 p. 754, c. 3.1, 3.3.

⁶ Decision 4C.52/2007 of 14 May 2007, *in sic!* 2007 p. 754, c. 4.4.

⁷ ATF 132 III 379, c. 3.3.3.

vertical relationship (for example where the Claimant is the inventor/creator, whereas the Infringer is the producer/distributor of the products)⁸.

3.2 Causal link

If the Claimant overcomes the hurdle of proving a damage, he still has to show that this damage was caused by the infringement. Under Swiss law, the causal link between the damage and the infringement must be both natural and adequate, which means that only the damage effectively arising from the infringement will be indemnified. One must therefore assess the impact of the infringement on the damage and identify possible factors which might have disrupted this impact (such as economic situation, new competitors, lack of advertising, etc.)⁹.

As a general rule, trademarks affect only partially the customer's decision. For example, the customer can decide to buy a trademarked item not only because of the trademark, but also for its quality, price, shape, functionalities, or even because of an advertising campaign. Hence, a loss of profits is not always caused entirely by the infringement.

For luxury products, clothes and tobacco, brands have a decisive influence on the customer's decision, so that the causality link will be admitted more easily than for other products.

4. Damages based on unjust enrichment

Although the Swiss Supreme Court has never ruled on a trademark infringement case based on unjust enrichment, this legal ground is available to trademark owners. This action requires three conditions, the last one being controversial:

- an absence of cause;
- an enrichment of the Infringer; and
- a decrease of the Claimant's assets.

4.1 Absence of cause

In trademark matters, there is an absence of cause when the Infringer does not have any legal or contractual authorisation (such as a license) to use the trademark. Hence, this condition is usually given.

4.2 Enrichment of the Infringer

In intellectual property matters, the Infringer is enriched through the savings of expenses. The extent of these expenses is controversial and there are two different approaches on how to assess them.

The first approach, called "effective" approach, considers that the enrichment encompasses only the expenses "effectively saved" by the Infringer, *i.e.* the expenses the Infringer would have incurred normally if he had not infringed the trademark. If followed, this approach proves to be challenging in cases where the Infringer is of bad faith and decides to infringe a trademark precisely in order to avoid paying royalties. Indeed, in such case the expenses related to the royalties are not "effectively saved", because the Infringer would not have requested the authorisation to use the trademark anyway.

The second approach, qualified as "objective" approach, considers that the enrichment corresponds to the expenses "objectively saved", which includes any financial advantage, without having to inquire whether the Infringer would have requested the authorisation to use the trademark or not.

The objective approach appears clearly easier to prove.

4.3 Impoverishment of the trademark owner

A minority of scholars are of the opinion that the enrichment of the Infringer must coincide with an impoverishment of the trademark owner (so-called "assets movement"). The majority on the other hand is of the opinion that such condition is not required if the others (absence of cause, enrichment

⁸ BENHAMOU Y., Dommages-intérêts suite à la violation de droits de propriété intellectuelle - Etude la méthode des redevances en droit suisse et comparé, n° 467.

⁹ BENHAMOU Y., Dommages-intérêts suite à la violation de droits de propriété intellectuelle - Etude la méthode des redevances en droit suisse et comparé, n° 488.

of the Infringer) are fulfilled. The Swiss Supreme Court has not yet ruled on that issue which is of course favourable to the trademark owner.

4.4 Extent of the restitution

Again, there are currently two approaches as to the amount the Infringer should be ordered to retribute. According to the first "objective" approach, the Infringer should remit the objective value of use. Thus, the amount to be returned to the Claimant corresponds to an equitable royalty and cannot be higher than the decrease of the Claimant's assets.

The second "subjective" approach requires the Infringer to remit any concrete advantage received, which includes not only the objective value of use but also any illicit profits obtained by using the trademark.

Although there is no clear precedent on this issue, it seems that the Swiss Supreme Court would tend to apply the subjective approach¹⁰.

5. Handing over of profits

The Claimant may also decide to bring a claim for handing over of profits¹¹, provided that the three following conditions are fulfilled:

- an unauthorised intrusion in the Claimant's business affairs;
- the Infringer acted in bad faith;
- illicit profit obtained in relation to the intrusion.

5.1 Unauthorised intrusion in the Claimant's business affairs

There must be an infringement of the Claimant's rights, which will be the case in the event of trademark infringement.

5.2 Bad faith

Both case law and legal literature consider that the claim for handing over of profits requires that the Infringer acted in bad faith¹². The Infringer will be considered of bad faith if he knew or should have known that he was intruding in the Claimant's affairs without right.

5.3 Illicit profit obtained in relation to the intrusion

The Infringer has to remit any financial advantage resulting from the intrusion, which equals to the difference between (i) the current assets of the Infringer and (ii) the assets the Infringer would have had without the intrusion. It is however important to note that the Infringer must remit only the part of the profit attributable to the infringement, to the exclusion of the part of the profit attributable to other factors. In trademark infringement matters, the following factors can potentially influence the profit made by the Infringer and reduce the profit to be remitted by the Infringer:

- the copy is not entirely a slavish imitation: in this case, the damage could be reduced if the consumer's choice to purchase is not based on the trademark but on the differences between the two products;
- the consumer's decision was driven by the low price of the counterfeiting product;
- the Infringer has used its own resources (distribution structure, network, commercial relationships, etc.).

¹⁰ ATF 129 III 646.

¹¹ Article 55 (2) of the Swiss Trademark Protection Act in connection with Article 423 (2) SCO.

¹² Sic! 2004 p. 90 c. 2a *Logotype*.