

Monetary Recovery for “Infringement” of EU trademarks *in statu nascendi*.

On In the European Union, the owner of a protected trademark is entitled to seek damages from an infringer – that is commonplace.¹ Those who do not have a protected trademark cannot recover damages for infringement - that seems to be commonplace, too. But is there something in between – a claim for monetary recovery following from the use of a trademark that is something other than protected, in particular not yet protected (*in statu nascendi*)? Yes, there is such a claim – it is not commonplace, but available under EU law.

In the *Nikolajeva v. Multi Protect*² decision of 22 June 2016, the Court of Justice of the European Union (CJEU) ruled that the trademark proprietor has a valid claim for the recovery of the unfair profits earned by third parties in connection with acts committed during the period after publication of a EU trademark *application*, but before publication of its *registration*, where those acts would be trademark infringement after publication of the registration of the trademark. The recovery could, however, not include compensation for the wider harm which the proprietor of the mark may have suffered, including moral prejudice.³

1. Statutory provision supporting monetary recovery

This claim is not just another blossom of judicial creativity derived from case law. It is based in statutory law. According to Art. 9b(1) EUTMR,⁴

the rights conferred by an EU trade mark shall prevail against third parties from the date of publication of the registration of the trade mark.

It follows, as the CJEU points out, that the exclusive right which the EU trademark confers on its proprietor, enabling it to prevent third parties from using the mark concerned, can relate only to acts of third parties occurring after publication of registration of that mark. While this is a general principle in EU trademark law, Art. 9b(2) EUTMR further provides, to the benefit of the trademark applicant, that

reasonable compensation may be claimed in respect of acts occurring after the date of publication of an EU trade mark application, where those acts would, after publication of the registration of the trade mark, be prohibited by virtue of that publication.

Of course, the compensation can be claimed only if the trademark registers as, according to Art. 9b(3) EUTMR, a court seized of a case shall not decide upon the merits of that case until the registration has been published.

¹ See, e.g., Sec. 14(6) German TMAct.

² Case C-280/15.

³ In the case in question, the trademark proprietor sought compensation for non-material harm (mental pain and the impact on her health).

⁴ Art. 9(3) sentence 2 EUTMR in the version prior to March 23, 2016.

Still, the compensation is awarded for the use of a “right” of a conditional nature since prior to registration it is not yet certain that the trademark will in fact be registered. Absolute or relative grounds for refusal of registration may still prevent the registration in whole or in part.⁵

This provision in the EUTMR differs from the trademark national law of most of the EU Member States, which only provide for claims for damage compensation in case of trademark infringement, that is, for acts occurring after the registration. This lack of a remedy for the owner of a trademark application is what the EU legislators found to be unsatisfactory and addressed with the statutory regulation quoted above.

2. Justification / Background

Art. 9b(2) EUTMR has its background in the body of economic rights which the EUMTR attaches to an application for registration of an EU trade mark.

(a) Trademark applications as expectancy rights, not just opportunities

Trademark applications are more than a business opportunity, more than an expectance, but a vested right.

Under Art. 39 EUTMR, the publication of an application for registration of a EU trademark requires that all the formalities provided for by the EUTMR have been fulfilled and the examination found no absolute grounds for refusal of registration of that trademark. Under Art. 45 EUTMR, as the Advocate General (AG) of the CJEU pointed out, following the publication of an application for registration, an EU trade mark *will necessarily be registered* and the registration published unless, upon opposition, there are relative grounds for refusal of registration within the meaning of Article 8 of the regulation.⁶

Upon publication of the application, from the EUIPO perspective, all questions arising from the public interest have been answered and the examination is, in principle, finished. Private interest, i.e. the possible conflict with a senior trademark, is not considered by EUIPO and is addressed only upon private initiative, i.e., an opposition. In the absence of such private initiative, the trademark applicant has a claim under public law for the registration of the trademark.

In a similar way, the national trademark law, for example, of Germany provides under Sec. 33(2) sentence 1 TMAct that the application for a trademark whose date of application has been established shall give a rise to a *right to a registration* unless the requirements for registration are not met.

Therefore, trademark applications as trademarks *in statu nascendi* establish expectancy *rights* and not only business opportunities. Of course, these expectancy rights do not yet have the nature of *exclusive* rights but they establish legal positions which are rights nonetheless. The nature of an application as a right is also established by the fact that EU trademark applications can be the subject of certain legal acts, such as a transfer, the creation of rights *in rem*, or licences, and they create a right of priority over applications filed subsequently.

As a consequence, the European Court of Human Rights held that such an application was capable of constituting property under the fundamental right to property laid down in Article 1 of Protocol No 1 to the European Convention for the Protection of Human Rights and Fundamental Freedoms.⁷

⁵ See Art. 40 EUTMR (allowing third party observations leading to the refusal on absolute grounds), Art. 41 EUTMR (providing for opposition based on relative grounds).

⁶ AG, opinion of 21 April 2016, case C-280/15 § 45 - *Nikolajeva v. Multi Protect*. This is not a completely accurate statement, since a third party can also raise absolute grounds after publication. Art. 40 EUTMR.

⁷ See ECHR, dec. of 11 January 2007, case no. 73049/01, - *Anheuser-Busch Inc. v. Portugal* [Budweiser], CE:ECHR:2007:0111JUD007304901, §§ 73 to 78.

(b) Comparable expectancy rights in patents and plant variety rights

This protection of an application as an “expectancy right” is not unique to trademark law.

The possibility of claiming ‘reasonable compensation’ following the publication of an application for registration also exists in the field of patents. Art. 67(2) of the European Patent Convention (EPC) provides that

[E]ach State shall ensure at least that, from the date of publication of a European patent application, the applicant can claim *compensation reasonable* in the circumstances from any person who has used the invention in that State in circumstances where that person would be liable under national law for infringement of a national patent.

The words ‘compensation reasonable’ are not defined in that Convention either.

In addition, Art. 95 of Council Regulation (EC) No 2100/94 of 27 July 1994 on Community plant variety rights provides that

‘[t]he holder [of Community plant variety rights] may require *reasonable compensation* from any person who has, in the time between publication of the application for a Community plant variety right and grant thereof, effected an act that he would be prohibited from performing subsequent thereto’.

The ‘reasonable compensation’ is not defined in that Regulation either.

(c) Protection of trademark expectancy rights

Accordingly, like national trademark applications at least in the European “first to file” system, EU trademark applications are property from the date of the filing of the application as they can be subject to legal acts from the very beginning and are protected against acts of the state, i.e. expropriation. However, this property is only protected against acts of *private third parties*, i.e. unauthorized use, after the examination for absolute grounds of refusal has been completed and the requirements for protection have been confirmed.⁸

3. Autonomous interpretation

While damage claims for trademark infringement are governed by the national law of the EU Member States, the “reasonable compensation” available to the owner of a published EUTM application is governed by EU law, namely the EUTMR.

Unlike Art. 101(2) and 102(2) EUTMR, under which sanctions are applied in accordance with national legislation in the case of acts of infringement or threatened infringement of a trade mark, Art. 9b(2) EUTMR makes no express reference to the law of the Member States for the purpose of determining its meaning and scope. The protection of trademark rights *in statu nascendi* is hardly and inconsistently regulated in the national law of the Member States. While the assertion of damage claims could be left to the national law of the Member States, the EU legislators had to provide for the claim for “reasonable compensation” directly in the EUTMR.

Consequently, follows from the need for uniform application of EU law and from the principle of equality it follows that the words “reasonable compensation” must be given an autonomous and uniform interpretation throughout the European Union.⁹

⁸ National trademark laws that do not provide this interim period between the publication of the application and the publication of the registration, but that instead provide for registration of the trademark immediately after the examination for absolute grounds of refusal and prior to possible opposition proceedings, do not provide a claim for a “reasonable compensation” for use prior to the trademark’s registration since there is no interim period between the end of the examination for absolute grounds of refusal and registration during which the trademark application has already matured to a vested right, as for example the German trademark law.

⁹ Cf. CJEU, dec. of dec. of 14 December 2006, Case C-316/05, § 21 – *Nokia Corp. v Wärdell* (Nokia).

4. Scope of the “reasonable compensation”

To some extent the CJEU's interpretation of “reasonable compensation” refers to the acknowledged methods of calculating damage compensation in trademark infringement cases.

(a) Balance of rights - principle of proportionality

As the Advocate General pointed out, the use of the adjective ‘reasonable’ implies that the compensation claimed must be equitable and proportionate in order to maintain a fair balance between the rights of the proprietor of the EU trademark applications and the rights of the user of the trademark.¹⁰

The ‘reasonable compensation’ must therefore be more limited than the protection enjoyed by the proprietor of a trademark for acts occurring after the date of its registration, since the interest to be protected in respect of a trademark application falls short of the interest to be protected which the mark must possess as a result of its registration.

From this, the CJEU concludes that the ‘reasonable compensation’ ... must be smaller in scope than the damage which the proprietor of an EU trademark may claim in respect of the harm caused by an act of infringement [of the registered mark].¹¹

(b) Recovery of profits as less severe compensation

To further specify the scope of the ‘reasonable compensation’, the CJEU refers¹² to Art. 13 of Directive 2004/48 (“IP Enforcement Directive”, EnfDir) which lays down certain rules for damage claims intended to compensate for the harm caused by acts of infringement, differing according to whether or not the third party must be considered to have knowingly – or with reasonable grounds to know – engaged in an infringing activity.

Article 13(1) EnfDir prescribes compensation which is, in the event of acts of infringement committed knowingly, full compensation for the harm actually suffered, with the option to calculate the compensation on the basis of

- (i) the lost profits, which the proprietor of the injured IP right has suffered,
- (ii) the unfair profits made by the infringer, or
- (iii) the amount of royalties which would have been due if the infringer had requested authorization to use the IP right concerned.

It also covers other kinds of damages which may include ‘moral prejudice.’¹³

Article 13(2) EnfDir permits only the recovery of profits made by the infringer or the payment of damages, which may be pre-established, where the acts of infringement have not been committed knowingly.

As Art. 13(1) EnfDir shows, the recovery of profits is regarded to be a way of damage compensation in the first place, which requires a knowingly committed infringement or negligent unawareness of the infringement. Therefore, Art. 13(2) EnfDir seems to be harsh as it provides for a recovery of profits in cases of an unknowingly committed infringement.

These provisions apply only to acts of infringement and therefore to acts which have occurred after publication of the registration of the trademark concerned. According to the CJEU, it may be inferred from the acts that the sum payable by way of ‘reasonable compensation’ cannot exceed the reduced compensation provided for in Article 13(2) [EnfDir].¹⁴

¹⁰ AG, opinion of 21 April 2016, case C-280/15 § 43 - *Nikolajeva v. Multi Protect*.

¹¹ CJEU, dec. of 22 June 2016, case C-280/15 §§ 50, 56 - *Nikolajeva v. Multi Protect*.

¹² *Id.* at §§ 54-55.

¹³ See, e.g., CJEU, dec. of 17 March 2016, case C-99/15 - *Liffers v. Producciones Mandarina SL* (for the calculation on the basis of royalties).

¹⁴ CJEU, dec. of 22 June 2016, case C-280/15 § 55 - *Nikolajeva v. Multi Protect*.

Nevertheless, the CJEU held it appropriate to utilize the full scope of potential relief available by way of a recovery of profits for infringement of a registered trademark, only excluding redress for any moral prejudice harm that the proprietor of the trademark concerned may have suffered. Thus, the CJEU is equating use of another person's trademark application to an unknowingly committed infringement of a registered trademark even though the use of the mark in the trademark application might have been done knowingly and even though an infringement requires a protected, i.e. registered trademark.

The CJEU followed the Advocate General's opinion, as in most cases. But while the Advocate General refers *inter alia* to Art. 67(2) EPC to explain the existence of Art. 9b(2) EUTMR, the "reasonable compensation" provided for under Art. 67(2) EPC, at least as implemented into German patent law, covers neither the payment of damages nor the recovery of profits.

With the understanding that the 'reasonable compensation' provided for in Art. 9(3) of the EUTMR should be less severe than the compensation imposed in the case of infringement of a registered trademark according to Art. 13(1) EnfDir, the Advocate General relied on the pecuniary compensation under Art. 13(2) EnfDir for unintentional infringements as the only statutory provision providing for an alternative to the full compensation imposed in case of a knowingly committed infringement. Accordingly, the Advocate General considered that, because Art. 13(2) EnfDir is less severe than Art. 13(1) EnfDir yet still provides for a recovery of profits a pecuniary compensation which is commensurate with the unfair profits made by the user in question would therefore be proportionate to the "infringement" of the trade mark *in statu nascendi* committed.¹⁵

(c) Unjustified enrichment, not damage compensation

While it may seem harsh to allow an award of profits for the "infringement" of a not yet protected trademark, the key aspect is that recovery of profits is meant to address a benefit unfairly derived by third parties from use of the trademark concerned. It is therefore a means to recover an unjustified enrichment and not to compensate a harm to the proprietor. As damage compensation in a strict sense requires knowing infringement, recovery of unjustified enrichment can be claimed where there is either no knowledge (the case of Art. 13(2) EnfDir) or – for a lack of a registered trademark – no infringement (Art. 9b(2) EUTMR).

(d) Participation in profits instead of full recovery of profits as an alternative?

The court did not indicate how to identify the relevant profit which is to be recovered. As the claim for "reasonable compensation" is to be handled like a claim for the recovery of unjustified enrichment, it seems to be clear that the profit to be recovered must be an "unfair" profit. This raises the – still unanswered – question whether the recovery should consist of the entire profit derived from the use of the yet-to-be registered trademark or only that part of the profit that appears to be unfairly achieved.

Not allowing a third party to derive any profits from its use of a trademark can be justified only if the profits should have been made exclusively by the trademark proprietor – which requires that the proprietor has already obtained an exclusive right in the trademark which, in turn requires its registration. In the author's view, this suggests that a compensation for profits made by the use of the trademark prior to its registration should therefore consist only of a participation of the trademark proprietor in the profits achieved by the third party, i.e. the payment by the third party of a royalty as the consideration for the use of the trademark.

This would correspond to the "reasonable compensation" according to Art. 67(2) EPC to which the CJEU expressly refers and which does not allow recovery of profits. Instead, this provision only allows the payment of royalties which would have been due if the infringer had requested authorization to use the patent concerned – at least as implemented in Germany in Sec. 33 of the German Patent Act.¹⁶ It has even

¹⁵ AG, opinion of 21 April 2016, case C-280/15 § 54 - *Nikolajeva v. Multi Protect*.

¹⁶ German Federal Supreme Court, dec. of 11 April 1989, case no. X ZR 26/87 – *Offenend-Spinnmaschine* (referring to the legislator's underlying intention and the predominant doctrine).

been held that the “reasonable compensation” in this instance shall be lower than such a royalty.¹⁷ Indeed, calculating the payment according to what the user would have had to pay for the authorization to use the trademark assumes that the trademark owner would have been willing to give the authorization. This would be possible only if compulsory licensing existed in trademark law. Still, this type of royalty relief could apply in other cases in which the trademark proprietor cannot (yet) prohibit the concurring use of the trademark, which is the case as long as the trademark is not yet registered. Of course, as long as the trademark is not yet registered, the user, strictly speaking, would not need to ask for an authorization at all. But one has to accept the fact that the European legislators provided for the claim for “reasonable compensation” for a period during which the trademark did not yet exist.

While the CJEU did not decide how the profit to be recovered as “reasonable compensation” should be calculated, it seems appropriate to consider that it was not the entire profit that was achieved “unfairly” but only a part of it, namely the portion that would have to be paid as a royalty. This “royalty” is the money that the user saved by not asking for an authorization and can be considered the unfair portion of the profit.

This analysis makes sense also for another reason: the recognition that not the entire profit is generated just by the “infringement.” Customers do not purchase a product only for its trademark in most cases. Instead, the profit is derived at least to some extent because of other features of the product, such as its function or design. It is, however, difficult to properly quantify, e.g. by percentage, the extent to which the profit has been caused by the use of the trademark. If the recovery of profit is reduced to the “value” derived from the use of the trademark, this would equate “reasonable compensation” to the amount of money that corresponds to the use of the trademark. This is a royalty.

It would have been helpful if the CJEU had held that, even if the third party was deemed to have had knowledge of the EU trademark application as a result of its publication, the “reasonable compensation” should not exceed a reasonable royalty rate. When the fixation of an appropriate royalty rate is assessed by the court, it could then be considered whether the third party knew about the published trademark application.

5. Prospect

Of course, trademark proprietors may initially believe that a rule allowing a full recovery of profits is preferable. However, nearly every trademark proprietor can be accused of trademark infringement at some point in time. A rule setting a moderate compensation is therefore actually preferable, particularly when it is attached to a use of a trademark that is not (yet) protected.

It remains to be seen how the national courts of the EU member states will apply the decision of the CJEU, whether they will start from the profit made by the third party user and reduce it to a certain extent, or whether they will simply define the profit as the saved royalty and thereby grant a claim for the payment of a royalty dressed up as a recovery of profits. Simply applying their national practice would not be correct as the “reasonable compensation” according to Art. 9b(2) EUTMR is a term in a European statute that needs to be interpreted uniformly and independently from national practice. Still, until there is a respective interpretation by the CJEU it is likely that at least German courts will prefer the royalty option: In a decision that has just been published on the Internet, the German Federal Supreme Court held in relation to a claim for unjustified enrichment under copyright law that the claim refers to the payment of a royalty.¹⁸

¹⁷ Court of Appeal Düsseldorf, dec. of 17 April 1980, case no. 2 U 106/79, – *Absatzhaltehebel* (reduction by 25 %)

¹⁸ German Federal Supreme Court, dec. of 12 May 2016, case no. I ZR 48/15 – *Everytime we touch*

If you have any questions or if you require more detailed information, please do not hesitate to contact us.

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