Constitutional Lithuanian Court decides that provisions of trade mark law on damages is against the Constitution

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The survey on “Monetary Compensation for Trade Mark Infringement - as applied in the Courts of the European Union” was published in the Spring Gazette 2008. ECTA aims to continue the project and to have a body of case law from the courts of the Member States built upon the principles laid out in Articles 13 and 14 of the Directive 2004/48/EC on the enforcement of intellectual property rights.

The Constitutional Court of the Republic of Lithuania (hereinafter – Constitutional Court) recently announced a very interesting ruling namely dated 27 March 2009, ruling on the conformity of the Law on Trade Marks, Article 51 part 3 with the Constitution of Lithuania which should be included in the research on the guidelines for how the courts should consider the nature and amount of damages payable to the trade mark owner in an action for infringement. The Constitutional Court clearly ruled that the right of the trade mark owner to claim compensation instead of reimbursement for actual losses does not per se contradict general constitutional principles. However, what is contrary to the constitution is for the legislation to prescribe the criteria for calculating the compensation, since this prevents the courts from taking into account other criteria.

The Law on Trade Marks of the Republic of Lithuania (hereinafter – the Law on Trade Marks) provides that instead of reimbursing the proprietor of the trade mark for his actual loss, he may claim compensation, the amount of which shall be determined according to the price of the legal sale of a relevant good or service by increasing it up to 200 per cent or, if the infringer has committed the infringement deliberately, up to 300 per cent. It was not however until this recent decision that there was any guidance on whether or not this provision for compensation was in conflict with the constitution, since this is the first known decision in which a trade mark owner has sought compensation.

In this decision, the Constitutional Court clearly stated that compensation could be claimed instead of damages for actual loss and explained that, due to the specific features of different objects of the property rights, the legislator has the right to establish various possibilities of protection. The Constitutional Court affirmed that there are quite often problems in the determination of exact material loses in IP cases and, hence, there has to be a possibility to use means of protection where compensation is determined following criteria other than actual material damage. The principle of compensation instead of damages for actual loss is important in order to protect trade mark owners' monetary and moral rights.

1 The Constitutional Court of the Republic of Lithuania ensures the supremacy of the Constitution within the legal system as well as constitutional justice by deciding whether the laws and other legal acts adopted by the Seimas (Lithuanian Parliament) are in conformity with the Constitution, and whether the acts adopted by the President or the Government of the Republic are in compliance with the Constitution and laws. The decision of the Constitutional Court is final and binding for all courts.
Thus, the Constitutional Court stated that compensation is not only absolutely legal but also does not contradict any constitutional principle. On the contrary, it is essential in order to ensure real and effective protection of trade mark owners’ rights.

However, although the Constitutional Court said that compensation could be claimed instead of reimbursement for actual loss, the Constitutional Court was not in favor of claiming compensation at the rate set in the legislation of up to 300 times the sale price if the only criteria for doing so was to consider whether or not the infringement had been committed deliberately. The Constitutional Court held that this restricts the possibilities of the courts to follow principles of common sense, justice and proportion when determining the exact amount of the compensation. Moreover, such legal regulation is quite indefinite and leads to legal uncertainty.

Therefore, the Constitutional Court concluded that the provision of the Law on Trade Marks which indicates that the amount due in compensation is the price of legal sale of a relevant good increased “up to 200 per cent or up to 300 per cent if the infringer has committed the infringement deliberately” does contradict Article 109 of the Constitution establishing that in Lithuania justice shall be administered only by the courts, and it also contravenes general principles of justice and rule of law. Consequently, trade mark owners in Lithuania are left, even in the wake of this ruling, in some uncertainty as to how much compensation they can claim.

Furthermore, by the time this decision was issued, the Law on Trade Marks had changed. The change took place mid 2006 and canceled the deleted possibility to have compensation instead of real damages. The statements of the Constitutional Court in this decision may nonetheless serve as an example of how lawyers should interpret similar legal regulations for the protection of intellectual property both in Lithuania and other countries.

As regards comparing the Law on Trade Marks with the Directive 2004/48/EC on the enforcement of intellectual property rights, it has to be pointed out that the provisions of this, mainly Article 12 and Article 13 do not clearly and directly provide for compensation as it is stated in the Law on Trade Marks. Article 12 of the Directive provides for compensation instead of damages for actual loss but not in situations where the infringement has been judged to be intentional. Article 13 of the Directive provides for damages as a lump sum based on 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, which does seems to be similar to concept of “price of the legal sale of a relevant good or service” used in Law on Trade Marks. Consequently, one may think that the wording of the Law on Trade Marks was in some conflict with the Directive 2004/48/EC on the enforcement of intellectual property rights because the Law on Trade Marks allows for an amount which is significantly more than the rate which would have been due as a royalty, whilst the Directive does not. The Directive, however, leave Member States free to apply means of protection that are more favorable for the right holders.
It should also be noted that as a result to the above mentioned decision of the Constitutional Court, Lithuanian courts have now sent to the Constitutional Court questions on conformity of legislation on protection of other intellectual property rights with the Constitution. At the moment the Constitutional Court is sitting on the ruling on provision for compensation in the Law on Copyrights and Related Rights of the Republic of Lithuania which is very similar to the one in the Law of Trade Marks.