

Argentina

Punitive damages: coming soon to IP rights cases?

Until recently, punitive damages in civil cases were not regulated by statute. However, many scholars and practitioners argued for the inclusion of this penalty in the civil law system. Until April 2008 the general rule in civil cases was to apply Article 1109 of the Civil Code, which provides that damages are to be awarded according to the damage caused, leading to the award of compensatory damages only. This rule applied to IP rights cases. The Argentine legal system follows the principle of compensation for actual damage; many consider that the award of damages beyond the actual damage caused would constitute unjust enrichment. However, this opinion may have to change due to the entry into force in April 2008 of Law 26,361, which modifies the Consumer Law (Law 24,240).

Previous issues

Before the new law came into force, the courts did award extra damages in some exceptional civil cases. The inclusion of punitive damages in a contract between two parties is valid since the will of the signatories always prevails. Another example was the award of interest paid as a penalty (under Article 622 of the Civil Code). In addition, the courts could impose penalties on a party for each day of non-compliance with a court ruling (Article 666*bis* of the Civil Code). Finally, Article 45 of the Code of Civil Procedure establishes that courts can impose a pecuniary penalty on one party if its conduct during proceedings has been malicious or reckless. Such a penalty consists of a fine of between 10 per cent and 50 per cent of the total damages awarded by the court.

However, with the exception of punitive damages included in a contract, these examples do not constitute punitive damages *per se*.

Some legal scholars consider the restitution of unlawful profits obtained by the defendant to be another example of punitive damages. However, this theory

remains within the terrain of the law of damages. In other words, the restitution of unlawful profits obtained by the defendant should not be considered an example of punitive damages, since by applying it to a particular case the courts intend to assess or quantify damages, rather than to punish the defendant.

Changing times

Law 26,361 includes punitive damages in the legal system for the first time and represents a substantial reform of the legal system. The inclusion of civil fines in the legal system has been welcomed, particularly with regard to IP matters and specifically for infringement cases.

Article 52 of Law 26,361 defines ‘punitive damages’ as follows: “If a provider does not comply with its legal or contractual obligations towards the consumer, as per the request of the injured party, the court may apply a civil fine in favour of the consumer, which shall be graduated in view of the gravity of the act and further circumstances of the case, independent of any other penalties that may apply.”

The purpose of punitive damages is to punish a party for offensive conduct and to act as a deterrent against similar conduct in the future. They also help to balance the market.

Punitive damages may be applied against offensive conduct in view of the vicious or malicious motives of the defendant, or because of the defendant’s negligence towards the rights of third parties, taking into account:

- the defendant’s actions;
- the nature and extent of the prejudice or loss which the defendant tried to cause to third parties; and
- the defendant’s fortune.

Punitive damages can also be applied in cases where public or collective interests or rights are harmed by a given action.

When considering the amount of punitive damages to award, the court will consider the following issues:

- the behaviour of the party causing the harm;
- the benefit obtained by the defendant;
- the economic wealth of the defendant;
- the extent of the defendant's intentions to cause harm;
- the social consequences of the defendant's conduct or the harm caused;
- the possibility that the defendant's conduct could be repeated in the future if no penalty were imposed;
- the nature of the relations between the parties;
- the possible existence of further penalties which could turn the punitive damages into an excessive punishment;
- the existence of any other parties which have been harmed and may have rights to claim damages; and
- the defendant's attitude after the harm was caused.

Punitive damages are awarded independent of any other damages or penalties available for the same offence. Furthermore, responsibility for punitive damages is shared between all participants in the harm.

Punitive damages and IP rights cases

Until recently, punitive damages were not awarded by civil courts in matters involving trademarks, copyrights, patents or any other type of IP right. In case of infringement, the plaintiff could obtain only an assessment of damages, the extent of which would be determined in accordance with the facts and circumstances surrounding the specific case. Plaintiffs never obtained awards of punitive damages. Instead, only compensatory damages were awarded if the plaintiff could prove loss or damage.

As mentioned above, Law 26.361 entered into force in April 2008. Although it specifically deals with consumer law, the intentions behind the law could be applied to IP infringement cases if the relevant IP laws were amended by Congress to include provisions dealing with punitive damages.

The introduction of punitive damages into the IP system would serve as a deterrent to infringers. In addition, giving the courts the ability to award punitive damages would prevent infringers from speculating regarding potential profits.

However, in many cases it is not always easy to assess how the damages awarded should equate to the damage caused by an infringer and suffered by a rights holder.

Good faith, bad faith

A distinction must be made between wilful infringement and infringement that was committed in good faith – in

the latter case, punitive damages would constitute an excessive penalty.

The option of an award of punitive damages for wilful infringement would benefit rights holders in cases where it is hard to produce enough evidence to show bad faith on the part of the infringer, or where remaining within the scope of compensatory damages would result in an unfair decision. In the first case, punitive damages would act as a deterrent, while in the second they would provide a tool to allow the court to rule fairly.

Punitive damages should be reserved for those cases in which the infringer has clearly acted in bad faith and this can be shown, or where the infringer has acted wilfully or maliciously. Punitive damages should also be applicable to cases in which the infringer has acted with the knowledge that it will obtain an economic benefit beyond the scope of the damage caused to the rights holder.

Punitive damages should be awarded against those infringers which act in the plain knowledge that they are harming a third party's right with the aim of obtaining a benefit that they would otherwise be unable to obtain through their own means – for example, if the infringer used a third party's distinctive sign to promote its own product at a supermarket in order to increase product sales by associating the third party's sign with its own business. In such cases, compensatory damages are usually awarded. However, arguably since the infringement was committed wilfully, punitive damages should also be granted in order to punish the infringer's illicit conduct.

Punitive damages should be awarded only in situations where the infringer has acted with bad faith and should not be granted on a general basis. The penalty should be applicable to wilful infringements of any type of IP right. The above example of supermarket promotions comes from an actual case where trademarks and copyrights were maliciously infringed and used without authorisation in order to obtain an economic benefit, which was proven to exist. The court awarded compensatory damages but failed to grant punitive damages, since they did not exist for civil cases when the complaint was filed. However, were the case reheard now, the plaintiff would have a good chance of succeeding if it petitioned for punitive damages.

Although in Argentina it is generally the criminal courts which punish illicit conduct and award punitive damages, it would be prudent for the ordinary civil and commercial courts to be able to grant punitive damages in cases of bad faith. The civil courts are usually tasked with ruling on cases of IP rights infringement and it makes no sense to deny them such a powerful tool in the fight against counterfeiting, infringement and piracy. Furthermore, it would also be wise to make this tool

available to the customs administrative courts as a penalty for importers and exporters that violate third-party rights. This would serve as a deterrent to infringing importers and exporters and strengthen the defence against counterfeiting at Argentina's borders.

The only way to allow the courts to award punitive damages in IP rights cases would be for Congress to pass amendments to the relevant IP laws. If the courts were to award punitive damages before the necessary amendments took place, serious constitutional challenges could and almost certainly would be filed against such decisions.

In Argentina, parties are not obliged to seek legal advice to ensure that there is no risk of infringement before beginning any activity. However, it is wise to seek legal counsel before commencing the manufacture of a new product or entering the market with new goods or services in order to avoid the possibility of committing an infringement. By so doing, potential infringement problems are dealt with before they have a chance to arise. If legal counsel advises of possible problems and IP rights violations and the party enters into the market nonetheless, that party is committing infringement in bad faith and may be subject to punitive damages in future.

Many other civil law countries consider punitive damages to be a foreign mechanism and have expressed

their opposition to including such damages in their legal systems. Thus, international harmonisation of the treatment of punitive damages would be difficult to achieve. One alternative would be to include them in Article 45 of the World Trade Organisation Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs). However, it is highly unlikely that such harmonisation will take place in the near future.

Conclusion

The concept of punitive damages is new to Argentine law. Law 26,361 is the first legislative instrument to provide for punitive damages, and at present they are not available in IP cases.

The introduction of punitive damages into the relevant IP laws would be highly effective in punishing wilful infringers that act in bad faith, as well as deterring them from future infringing conduct. However, the only way in which this could be made possible in IP infringement cases would be by legislative amendments to the IP laws or international harmonisation through the TRIPs Agreement. It is hoped that action will be taken soon to allow the use of punitive damages in IP cases, as they would be a valuable weapon in the fight against infringement and piracy.

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