

World Trademark Review Daily

Supreme Court applies 'entire market value' rule to calculate damages
Israel - Gilat, Bareket & Co, Reinhold Cohn Group

Design

July 25 2013

In *Ronit Flags of the World Ltd v Shatan* (CA 3853/11, May 13 2013), the Supreme Court has overturned a decision of the Tel Aviv District Court, finding that the damages awarded to the appellant - the owner of designs for car flag holders and the authorised manufacturer of the flag holders - were to be calculated on the basis of the appellant's lost profits with respect to the entire product (entire market value rule), provided that such loss was reasonably foreseeable. Liquidated damages, as prescribed by the Commercial Torts Law, may also be applicable in design infringement cases.

The plaintiff (the appellant on appeal) holds two registered designs in Israel for car flag holders (miniature national flags that attach to the car's windshield). The defendant, a manufacturer of plastic products, was contracted by the plaintiff in 1997 to manufacture flag holders using its templates; in 2000 the defendant started selling products that it had manufactured using the plaintiff's templates, without the plaintiff's consent.

The plaintiff brought an action for design infringement. The [District Court of Tel Aviv](#) ruled that, although the defendant had infringed the plaintiff's registered designs, the plaintiff would not be awarded damages for lost profits from the sale of the complete product (which included a flag holder and a flag), but instead would be awarded damages based on the defendant's gains, which stemmed from the sale of the flag holders alone. The flag holders are characterised by a significantly lower profit margin than the complete product. The plaintiff appealed to the Supreme Court.

The Supreme Court overturned the district court's ruling on the manner in which damages should be calculated, noting that the case law in this respect was rather scarce and did not provide much guidance. The Supreme Court turned to comparative law, concluding that the owner of an infringed registered design may be entitled to damages for loss of profits, provided that it was shown that there was a causality between the infringement and the loss of profits - namely, the following four cumulative elements must be established:

1. there is demand on the market for the product incorporating the protected design;
2. there are no alternative products in the relevant market;
3. the design owner is able to respond to the market demand; and
4. the amount of the design owner's potential profit that was lost due to the infringement.

The court further held that the damages would be calculated based on the full price of the product only when the product was protected in its entirety. However, it noted that the owner of an infringed design could still seek damages for lost profits, even if the product was not protected in its entirety, if the market demand was attributed to the component protected by the design (a principle adopted from US case law, known as 'entire market value' rule). Therefore, if the component protected by the design is sold together with other components or services in "one package", these "convoyed goods" may be taken into account when calculating the amount of lost profits, provided that the loss of profits was foreseeable (the 'reasonable, objective foreseeability' test).

The court also considered the possibility of granting the appellant statutory damages without proof of damage. The court stated that Section 13 of the Commercial Torts Law (under which damages may be awarded by the court without proof of damages up to a maximum of IS100,000 for each type of infringement) could be applicable in this case, even though design infringement does not expressly fall within the wording of Section 13. In this connection, it was held that the existence of infringement constitutes damage *per se* and, therefore, such infringement should be compensated. However, as damages for lost profits were significantly higher than statutory damages (which were only an alternative), the court did not grant statutory damages.

As the owner of the designs successfully proved that the market demand for the product in its entirety (ie, both the flag holder and the flag) could be attributed to the protected flag holder, it was granted IS916,006 in damages (which was significantly higher than the IS200,000 granted by the district court), along with IS 150,000 in costs.

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World Trademark Review *Daily*

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