

## CHINA RELEASES JUDICIAL INTERPRETATION ON PUNITIVE DAMAGES FOR IP INFRINGEMENT

China's Supreme People's Court has issued the Interpretation on the Application of Punitive Damages in the Trial of Civil Intellectual Property Infringement Cases ("**Interpretation**") to provide guidance on how to determine the conditions under which courts may award punitive damages and to clarify the basis for calculating such damages. The Interpretation went into effect on 3 March.

This Client Alert highlights its key points and practical impacts for businesses in China.

### Editorial

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### BACKGROUND

China's legal system has generally operated under a principle of compensatory damages, which aims to indemnify the infringed party for actual losses. However, to prevent rampant trademark infringement, punitive damages were introduced in the PRC Trademark Law in 2013. Under Article 63, for "malicious" infringement of a trademark right that results in "serious consequences", the compensation amount may range from one to three times the amount calculated in accordance with either the actual losses of the trademark right holders, the illegal gains obtained by the infringer, or multipliers of the royalty for licensing the trademark.

In 2019, following the strengthening of judicial protections for intellectual property, Chinese legislators took further approaches regarding punitive damages. The PRC Trademark Law was amended so that punitive damages of up to five times could be granted, and the same was adopted for malicious and serious trade secret infringement under the *PRC Anti-Unfair Competition Law*.

At the beginning of 2020, a general provision on punitive damages was added to the *PRC Civil Code*, under which right holders may claim for punitive damages in case of intentional infringement of their intellectual property that results in serious consequences. Provisions on punitive damages with range between one and five times were subsequently added into the *PRC Patent Law* and *PRC Copyright Law* (both of which come into effect on 1 June), resulting in the same punitive damage rule in all three major intellectual property laws.

As the most recent step, the Interpretation aims to guide the adjudication of punitive damage by providing practical references for the determination of conditions to award punitive damages and clarifying the calculation base and multiplier of the punitive damages.

## HIGHLIGHTS

### Harmonization of terms

Two different legal terms are used to determine punitive damages: The *PRC Civil Code*, *PRC Patent Law* and *PRC Copyright Law* use “intention” as standard for application of punitive damages, while the *PRC Trademark Law* and *PRC Anti-Unfair Competition Law* require “malice”. Thus, there has been controversy as to whether such terms have the same meaning. The Interpretation resolves the dispute by establishing the same meaning for both.

### Criteria for applying punitive damages

Under the current legislative framework for intellectual property, there must exist “intention” and “serious consequences” for punitive damages to apply. However, due to a lack of any unified standard, they have been difficult to prove in practice. In this respect, the Interpretation provides certain factors to take into consideration:

#### (1) Intention

Under the Interpretation, to establish “intention” to infringe, courts must comprehensively consider the type and status of the intellectual property, the popularity of the related products, and the relationship between the defendant and the plaintiff or interested party, among other factors. In particular, courts may preliminarily determine that there is intention when:

- The defendant has continued the infringement after receiving notice or warning from the plaintiff or interested party;
- The defendant or its legal representative or manager is the legal representative, manager or actual controller of the plaintiff or interested party;
- The defendant had access to the infringed intellectual property, and (i) has an employment, service, cooperation, licensing, distribution, agency or representative relationship with the plaintiff or interested party; or (ii) had business contact or negotiations with the plaintiff or interested party to conclude a contract; or
- The defendant has committed piracy or counterfeiting of registered trademarks.

#### (2) Serious consequences

The Interpretation states that courts must take into consideration the manner, frequency, duration, geographical scope, scale and effect of the infringement, as well as the behaviour of the infringer during proceedings when determining the existence of “serious consequences”. It further sets out the following circumstances that may be considered as evidence of “serious consequences”:

- The defendant commits the same or similar infringement after being imposed with an administrative penalty or held liable by court decision;
- The defendant’s business is the infringement of intellectual property;
- The defendant forges, destroys or conceals evidence of infringement;
- The defendant refuses to comply with preservation orders imposed by the court;
- The profits obtained by the defendant or the losses incurred by the plaintiff are substantial; and
- The infringement may endanger national security, public interest, or personal health.

## Calculation of punitive damages

Under current laws, punitive damages may be between one and five times the calculation base provided. Subject to the relevant laws, the calculation base could be the actual losses of the plaintiff, the illegal gains or benefits obtained by the defendant from the infringement, or if neither of these can be calculated, then the multipliers of the royalty for licensing the intellectual property.

The Interpretation upholds these bases but emphasizes that they must not include the expenses of the plaintiff to stop the infringement unless otherwise prescribed in the relevant laws. It also specifies that courts may order defendants to provide their accounting books and materials related to the infringement; if a defendant refuses without justification or provides false information, the court may determine the basis for punitive damages based on the plaintiff's claims and evidence.

The Interpretation further guides courts to comprehensively consider the degree of the defendant's subjective fault and the seriousness of the infringement to determine the punitive damages. In particular, the Interpretation specifies that the courts shall not support the defendant's request to reduce or exempt punitive damages for a same infringement which has already been imposed with administrative or criminal penalties, while it may take it into consideration when determining the multipliers of punitive damages. We therefore understand that administrative and criminal penalties will be a factor of and may have an impact on the punitive damage award in judicial practice.

## PRACTICAL IMPACTS

After punitive damages first appeared in the *PRC Trademark Law* in 2013, most punitive damages were awarded for trademark infringement, with three being the most commonly used multiplier until the law was amended in 2019.

With the implementation of the amended *PRC Anti-Unfair Competition Law* in 2019, there have also been trade secret infringement cases in which punitive damages were awarded. Most noteworthy, in November 2020, the Supreme People's Court made its first punitive damages judgment on a technology secret infringement case where it applied an unprecedented multiplier of five. The award was based on the "serious consequences" resulting from the defendant committing the infringement for a long time, even after facing criminal liabilities and after the judgment of the first instance.

Up to now, punitive damages have been awarded mainly in trademark and trade secret infringement cases. However, once the amended *PRC Patent Law* and *PRC Copyright Law* come into effect in June, it is likely that punitive damages will also begin to be awarded for patent and copyright infringement.

As China strengthens intellectual property protections, the release of the Interpretation, which provides clear guidance for courts to award punitive damages, is a pivotal step in making the punitive damages as effective and strong deterrence against infringers. The Interpretation may also guide intellectual property owners on how to collect evidence and successfully claim punitive damages in intellectual property suits. Gide will continue to monitor the implementation of the Interpretation and future legislative amendments. In the meantime, please don't hesitate to get in touch with any questions you may have on how these changes may impact your business in China.



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