

Punitive Damages for Trademark Infringements in China—Developments and Best Practices

China's punitive damages regime was first introduced under Article 63 of the 2013 *Trademark Law (TM Law) of the People's Republic of China (PRC)*, which provides guidance to the People's Courts on the assessment of damages in cases involving trademark infringement. The fourth amended *2019 TM Law* (effective November 1, 2019) introduced an increase in the amount of punitive damages from treble damages to quintupled damages in cases where the infringement is "malicious" (E Yi/ ??) and where there are "serious circumstances" (Qing Jie Yan Zhong/ ????), and an increase in the amount of statutory damages of up to RMB 5,000,000 (about US\$769,000) in cases where actual damages are difficult to determine.

On May 28, 2020, the PRC National People's Congress adopted the *PRC Civil Code* (effective January 1, 2021) that established a general rule for punitive damages involving intellectual property infringements where infringements are "intentional" (Gu Yi/ ??) and there are "serious circumstances." Article 1185 of the *PRC Civil Code* provides that "[w]here the intellectual property rights of another are intentionally infringed upon, and the circumstances are serious, the infringed party shall have the right to claim corresponding punitive damages." The fourth amended *PRC Patent Law* and the third amended *PRC Copyright Law* were circulated in October and November 2020, respectively, and both of these revised laws include punitive damages language that echoes the "intentional" and "serious circumstances" standard of the *PRC Civil Code*. In addition to recent revisions in foundational laws, a number of judicial interpretations, policy documents, and local regulations were promulgated in the last year to provide some additional guidance on how the People's Courts should apply the new punitive damages rules to cases brought in their respective jurisdictions. These laws, judicial interpretations, policy documents, and regulations now comprise consistent and comprehensive standards for determining when punitive damages are appropriate and how they should be calculated under the facts of a specific case.

The Standardization of Judicial Practice

To address the lack of a consistent standard for the determination of punitive damages before the People's Courts, the courts in a number of first-tier jurisdictions issued judicial guidelines as to how to apply the new punitive damages rules to cases brought in their respective municipalities. The first such effort to standardize the determination of punitive damages was in April 2020 when the Beijing Higher People's Court promulgated the *Guiding Opinions on Damage Determination in IP Infringements and Unfair Competition Cases and the Standards for Determining Statutory Damages (Beijing Higher Court Guiding Opinions)*.^[1]

The *Beijing Higher Court Guiding Opinions* was the first attempt by the People's Courts to provide detailed guidance regarding 1) relevant factors for determining whether punitive damages are appropriate (Articles 1.15 and 1.16), 2) a method for calculating punitive damages in cases where a compensatory damages claim can be established on the facts (Articles 1.18 and 1.19), and 3) the proper procedure and timing for making a punitive damages claim before the Beijing courts (Article 1.14).

Shortly after the issuance of the *Beijing Higher Court Guiding Opinions*, the Tianjin Higher People's Court and Shenzhen Intermediate People's Court circulated similar standards for the determination of punitive damages for cases in their respective jurisdictions.^[2] Until very recently, however, there was no unifying and comprehensive

standard for all PRC courts, but this changed with the issuance of a much-awaited Judicial Interpretation by the Supreme People's Court (SPC) in early March 2021.

The SPC Judicial Interpretation on Punitive Damages

On March 3, 2021, the SPC issued a document titled *Interpretation of the Supreme People's Court on the Application of Punitive Damages in the Trial of Civil Cases Involving Intellectual Property Rights Infringements (Punitive Damages II)* to unify the handling of punitive damages claims brought before all People's Courts.^[3] *The Punitive Damages II* comprises seven articles that address a number of previously open issues, such as when infringements are "intentional," when an infringement entails "serious circumstances," and how to determine a proper base compensation on which compensation multiples can be applied to calculate an appropriate punitive amount. On March 15, 2021, the SPC circulated *Model Cases for Applying Punitive Damages in Civil Cases involving Intellectual Property Rights Infringements* to illustrate the proper handling of punitive damages claims by the People's Courts.^[4]

One of the most noteworthy clarifications in the *Punitive Damages II* is that the term "malicious" referenced in the TM Law, the Anti-Unfair Competition Law, and in supporting administrative regulations should be defined/interpreted to mean "intentional," thus bringing these laws and regulations in line with the language of the new *PRC Civil Code*, *PRC Patent Law*, and *PRC Copyright Law*. Article 3 of the *Punitive Damages II* provides an illustrative and nonexhaustive list of representative circumstances involving "intentional" acts, which would include any of the following:

- The defendant continued to commit the infringing act after being notified or warned by the plaintiff or interested parties.
- The defendant or its legal representative or executive is the legal representative, executive, or actual controller of the plaintiff or interested parties.
- The defendant has an employment, cooperation, licensing, distribution, agency, representative, or other relationship with the plaintiff or interested parties, and the defendant had access to the infringed intellectual property rights.
- The defendant has a business relationship with the plaintiff or interested parties and had access to the infringed intellectual property rights.
- The defendant committed the acts of pirating or counterfeiting registered trademarks.
- Other circumstances in which the acts of the defendant can be considered intentional.

Article 4 of the *Punitive Damages II* provides guidance for assessing "serious circumstances" by considering certain objective criteria, including the means/methods of infringement; the frequency, duration, scope, scale, and the consequences of infringing acts; and the behavior of the infringer during litigation. Article 4 sets forth seven objective factors to consider when determining whether an infringement entails "serious circumstances":

- The defendant repeatedly committed the same or similar infringing acts after the imposition of an administrative penalty or a People's Court judgment finding infringement.
- The defendant made a living mainly from intellectual property rights infringements.
- The defendant forged, destroyed, or concealed evidence of infringements.
- The defendant refused to comply with an evidence or property preservation ruling.
- The profits from the infringement or losses suffered by the right holder are huge.
- The defendant's infringing acts may cause harm to national security, public interests, or personal health.
- There are other circumstances that can be considered as serious.

A Developing Punitive Damages Jurisprudence for Trademark Infringement Cases

The PRC courts have recently issued a number of high-profile judgments that provide additional clarification of the judicial standards applied to determine punitive damages in civil cases involving trademark infringements, including five cases listed among the SPC model cases referenced above. Despite the increasing frequency of punitive damages cases before the People's Courts, IP infringement cases in which punitive damages awards are granted continue to be rare. This is because it is generally difficult to establish a compensatory damages base on which punitive damages are calculated, and thus the damages awarded in the majority of IP cases continue to be based on statutory amounts.[\[5\]](#)

From a review of recent judgements in trademark infringement cases, and with further clarifications in the recently issued *Punitive Damages II*, the factors that are primarily considered by the People's Courts to determine the circumstances in which punitive damages are appropriate include:

Intentional/Malicious Acts

- The acts of infringement continued after receipt of cease and desist letter or other warnings from the right holders.[\[6\]](#)
- The acts of infringement continued after efforts by the rightful brand to remove the defendant's filings for the same or similar marks in bad faith.[\[7\]](#)
- The defendant applied to register the plaintiff's prior trademark or trade name that has obtained a high degree of fame, and engaged in actual commercial use of the name/mark for identical or similar/closely-related goods,[\[8\]](#) and engaged in trademark counterfeiting.[\[9\]](#)
- The prior trademark of the right holder is highly distinctive and has obtained a high degree of fame.[\[10\]](#)
- The plaintiff is an ex-business associate of the defendant, and the defendant was aware of its trademarks.[\[11\]](#)
- The acts of the defendant violated principles of honesty and good faith.[\[12\]](#)

Serious Circumstances

- The defendant marketed infringing products with quality issues that could affect the health and safety of the relevant public.[\[13\]](#)
- The defendant continued the infringing acts after having been imposed administrative fines and punishments by the local Market Supervision Bureaus (MSB).[\[14\]](#)
- The defendant made a living mainly from infringements.[\[15\]](#)
- The defendant refused to cooperate with an effective injunctive order or other preservation measures imposed by a People's Court.[\[16\]](#)
- The scale, extent, and duration of the defendant's infringements are substantial, and the profits from the infringing acts and/or losses suffered by the plaintiff are huge.[\[17\]](#)

Some Lingering Issues and Best Practices

Despite recent clarifications by the SPC and a developing jurisprudence around punitive damages, the People's Courts remain hesitant to consider punitive damages in all but the most egregious of cases. While it is likely that punitive damages will become more frequent in court practice after the issuance of the *Punitive Damages II*, rights holders will continue to face a number of challenges if they wish to avail themselves of the new judicial standards. The amount of damages awarded by the courts in infringement cases is often insufficient to make up for the actual damages suffered by the plaintiff, and assessing a base damages calculation and appropriate

multiples under current judicial practice will continue to be challenging for most brand owners. As it is generally very difficult for brand owners to obtain evidence of infringer profits or actual losses in the market, it is likely that punitive damages will remain out of reach in the majority of trademark infringement cases brought before the People's Courts.

From a review of a representative punitive damages cases over the last four to five years, the amount of punitive damages most commonly applied by the courts is treble damages.^[18] Under the current regime, judges retain significant discretion when making determinations of how to apply multiples in light of the character and degree of subjective maliciousness and the objective circumstances of the defendant's infringements, resulting in inconsistencies in the application of punitive damages from court to court. In addition, the People's Courts continue to lack sufficient guidance on how to award statutory damages (in cases where actual damages cannot be determined) in a way that takes account of the (often competing) goals of appropriately compensating the plaintiff and punishment/deterrence.

Brand owners that wish to take advantage of the availability of punitive damages should structure efforts to gather evidence prior to litigation in ways that clearly support a determination of "maliciousness/intention" and "serious circumstances" in light of the factors discussed above. Brand owners should have an informed and comprehensive China anti-counterfeiting/enforcement strategy that includes 1) the filing of opposition/invalidation challenges to remove pirate marks from the registry, 2) the pursuit of raid actions and punishments before local MSBs against multiple major target infringers (including factories and distributors), and 3) litigation against egregious infringers, as well as infringer affiliates and actual controllers (for joint liability) when appropriate. In short, brand owners should be engaged in the regular monitoring of third-party registrations and use in commerce, and should leverage cease and desist letters (ideally with clearly articulated facts and reasons supporting claims of infringement) and administrative enforcement efforts in the building of an evidential record sufficient to support a petition for punitive damages in litigation against egregious infringers before the People's Courts.

Endnotes

[1] *Guiding Opinions on Damage Determination in IP Infringements and Unfair Competition Cases and the Standards for Determining Statutory Damages* (April 21, 2020).

[2] *Minutes of the Judicial Committee on the Application of Punitive Damages in Intellectual Property Infringements Cases* (Dec. 11, 2020); *Guiding Opinions on Punitive Damages in IP Civil Infringement Disputes (for Trial Implementation)* (Dec. 9, 2020).

[3] *Interpretation of the Supreme People's Court on the Application of Punitive Damages in the Trial of Civil Cases involving Intellectual Property Rights Infringements* (Mar. 3, 2021); See also SPC, *Head of the 3rd Civil Division of the SPC Answered Questions from Reporters on the Interpretation of the Supreme People's Court on Application of Punitive Damages in the Trial of Civil Cases involving Intellectual Property Rights Infringements* (Mar. 3, 2021), <http://www.court.gov.cn/zixun-xiangqing-288871.html>.

[4] See, e.g., SPC, *Model Cases for Applying Punitive Damages in Civil Cases involving Intellectual Property Rights Infringements* (Mar. 15, 2021), <http://www.court.gov.cn/zixun-xiangqing-290651.html>.

[5] See e.g., Zhu Li, *The Judicial Application Policies of the Punitive Damages Regime in Patent Infringement, Intellectual Property*, 2020 (8), 21-33, <https://mp.weixin.qq.com/s/rH7epfiXCfkQOiv2XP8gcg>; See also Ding Wenyan & Zhang Leilei, *Research on Judicial Determination of the Amount of Punitive Damages for Intellectual Property Rights Infringements, Intellectual Property*, 2021 (2), 72-86, <https://mp.weixin.qq.com/s/vOsD308zYS5oVExGKEL8LA>.

[6] *See e.g.*, Guinness World Records Co., Ltd. v. Qirui Automobile Co., Ltd, (2017) Yue 73 Min Chu No. 2239.

[7] *See e.g.*, Xiaomi Technology Co., Ltd. v. Zhongshan Benteng Electric Co., Ltd., (2018) Su 01 Min Chu No. 3207, SPC Model Case #3, Oupu Lighting Co., Ltd. v. Guangzhou Huasheng Plastic Products Co., Ltd., (2019) Yue Min Zai No. 147, SPC Model Case #6, and Fila Sports Co., Ltd. v. Zhejiang Zhongyuan Shoes Co., Ltd., etc., (2017) Jing 0102 Min Chu No. 2431.

[8] *See e.g.*, Wyeth Company v. Guangzhou Huishi Baby Maternal and Infant Products Co., Ltd., (2019) Zhe 01 Min Chu No. 412.

[9] *See e.g.*, Balanced Body Inc. v. Yongkang Yilian Sports Equipment Co., Ltd., (2018) Hu 0115 Min Chu No. 53351.

[10] *See e.g.*, (2018) Su 01 Min Chu No. 3207, SPC Model Case #3.

[11] *See e.g.*, Baroque Timber Industries (Zhongshan) Ltd. v. Zhejiang Shenghuojia Baluohe Floor Co., Ltd., (2016) Su 05 Min Chu No. 41.

[12] *See e.g.*, (2018) Hu 0115 Min Chu No. 53351; Guangzhou Hongri Gas Appliance Co., Ltd. v. Guangdong Zhimei Electric Co., Ltd., (2017) Yue 73 Min Chu No. 2239.

[13] *See e.g.*, 2018) Su 01 Min Chu No. 3207, SPC Model Case #3.

[14] *See e.g.*, Yibin Wuliangye Co., Ltd. v. Xu Zhonghua, etc., (2020) Zhe 01 Min Zhong No. 5872, SPC Model Case #4, Adidas AG v. Ruan Guoqiang, etc., (2020) Zhe 03 Min Zhong No. 161, SPC Model Case #5.

[15] *See e.g.*, (2020) Zhe 01 Min Zhong No. 5872, SPC Model Case #4.

[16] *See e.g.*, (2017) Yue 73 Min Chu No. 2239.

[17] *See e.g.*, (2018) Su 01 Min Chu No. 3207, SPC Model Case #3.

[18] *See e.g.*, (2019) Zhe 01 Min Chu No. 412; (2018) Hu 0115 Min Chu No. 53351; (2018) Su 01 Min Chu No. 3207; (2017) Yue 73 Min Chu No. 2239; (2017) Jing Min Zhong No. 413; (2017) Jing 0102 Min Chu No. 2431; (2016) Su 05 Min Chu No. 41; (2015) Fo Zhong Fa Zhi Min Chu No. 8; (2020) Zhe 01 Min Zhong No. 5872; (2020) Zhe 03 Min Zhong No. 161; (2019) Yue Min Zai No. 147.

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