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## **Updates on Punitive Damages in Chinese Civil IP Cases**

By [Haiyu Li](#) of Chofn IP

**In China, administrative and criminal fines** can be imposed against IP infringement. However, the fines shall be submitted to the National Treasury Administration. If the victims wish to obtain damages, usually they need to file separate lawsuits.

Damages shall be granted on the basis of the victims' actual loss or the infringers' actual profit. Where the loss or profit is difficult to determine, the courts may discreetly grant statutory damages. In many cases low damages and fines did not deter infringers, which gave rise to rampant IP infringement and disappointed local and international right owners alike.

The situation began to change from May 1, 2014, when punitive triple damages were provided against severe bad-faith infringement in China's third amendment of the Trademark Law. In the fourth amendment, effective from November 1, 2019, the maximum punitive damage was lifted to five times the plaintiff's loss/the defendant's profit arising from infringement.

This change made trademark infringement more risky and less profitable, and widespread infringement began to shrink. China has extended the punitive damages against severe infringement to other IP laws, namely the Seed Law, which prescribes triple damages; the Anti-Unfair Competition Law, which prescribes five-fold damages; the Civil Code, which permits punitive damages against severe wilful infringement of IP; and the Patent Law and the Copyright Law, which prescribe five-fold damages.

Although the laws share the principles of punitive damages in common, the terminology and connotations are inconsistent. In order to better implement the laws, the Supreme People's Court (SPC) released its Judicial Interpretation on Punitive Damages in Intellectual Property Infringement Cases, effective from March 3, 2021, to prevail over other judicial interpretations in case of discrepancy. This interpretation addresses particularly the important issues below to regulate punitive damages.

### **Wilful or bad-faith infringement (rules 1 and 3)**

All courts are required to accept the petitions for punitive damages against severe infringement of IP rights, without exception for refusal. At the same time, the SPC has unified the definitions of “wilful” and “bad-faith” and confirmed that the former includes the latter to prevent ambiguity.

The factors for the courts to comprehensively determine wilful infringement include, but are not limited to, the types of rights, the status, the fame of relevant products, the relationship between the defendants and plaintiffs or interested parties.

The interpretation lists several typical scenarios of wilful infringement:

1. Continuous infringement after warning;
2. Sharing the same executive(s) between the defendant and plaintiff or its interested party;
3. Prior contact with others’ rights through working or business relations; or
4. The defendants’ earlier piracy or trademark passing off.

The list does not preclude the courts from adding possible other scenarios. As time goes on, we can expect that the list will expand through new cases.

### **Limitation on plaintiffs (rule 2)**

The interpretation provides the plaintiffs with responsibilities: 1) to clarify the amount of damage, ways of calculation, and the facts and reasons at the time of suing; and 2) not to petition for increasing punitive damages after the first-instance court debate, or to file separate lawsuits.

This is designed to prevent plaintiffs abusing the rights to increase damages and will force the plaintiffs to do their homework more carefully.

### **Severe scenarios (rule 4)**

The courts, when determining severe scenarios of infringement, are supposed to consider comprehensively factors including, but not limited to, the method of infringement, times, duration, geographical area, scale, consequences, and infringers’ behaviour during trials. The factors are not all-inclusive but will help the courts check.

The SPC has listed several typical circumstances of severity as follows:

1. Repeating infringement after the same or similar infringement was once legally recognised;
2. Habitual infringement;
3. Forging, destroying, or hiding evidence of infringement;
4. Refusing to follow the preservation decision;

5. Infringers' huge profit from infringement or the right owners' huge loss;  
or
6. Possibility to harm national security, public interests or human health.

### **Amounts of punitive damages (rule 5)**

Punitive damages shall be based on the plaintiff's actual loss, the defendant's illicit revenue, the benefit obtained from infringement, or the multiples of royalty, which means that it can be based on one-times royalty, or two or more times the royalty. The plaintiff's reasonable expenses for stopping the infringement shall not be included as the basis of punitive damages, although it is a part of the total damages.

As China does not have a discovery procedure, it is always difficult to collect evidence in the infringers' control. In this event, the courts may order the infringers to submit the account books or materials relating to the infringement in their control. If the infringers refuse to submit without justifiable reason or submit fake account books or materials, the courts are empowered to refer to the plaintiff's one-sided claims and evidence only. In this way, the infringers might be forced to submit the relevant evidence.

Otherwise, an uncooperative attitude may have negative influence on the courts' rulings or lead to fines, detention or even criminal liability, in addition to higher damages.

### **Multiples of punitive damages (rule 6)**

The SPC requires all courts to consider the degree of the defendant's subjective fault or the severity of infringement to determine the multiples of punitive damages. Already imposed administrative or criminal fines cannot be the sole reason for reduction or exemption of punitive damages, although the courts may consider such fines when deciding the multiples.

### **General comments**

The interpretation was born out of China's increasing need for stronger protection of IP rights at a time when the country aspires to upgrade its economy and to be more innovative. The interpretation should be helpful in this regard.

The SPC has indicated that it plans to release more typical cases to better illustrate the interpretation.

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