

Typical punitive damages in IP cases

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On February 7, 2021, the Chinese Supreme People's Court (SPC) released the Judicial Interpretation on Punitive Damages in Intellectual Property Infringement Cases (Interpretation), effective from March 3, 2021, and followed up by releasing six typical IP rights cases to facilitate accurate understanding and application of the Interpretation. We summarise the cases and comment below.

Case 1: *Guangzhou Tianci et al v Anhui Niuman et al* for infringing technical secret, No. SPC Zhiminzhong 2019-562

Guangzhou Tianci and Jiujiang Tianci sued Anhui Niuman and several associated individuals for infringing a technical secret. The court ascertained the infringement, and considering the bad faith and severe scenarios, granted a punitive damage of 2.5-fold infringement profit.

The plaintiffs and three of the defendants appealed to the SPC. While confirming the infringement, the SPC pointed out that the first-instance court failed to fully consider the contribution of the technical secret, the infringers' severe bad faith, professional infringement, scale, duration, and obstruction of evidence.

Accordingly, the SPC upheld the first-instance order to stop infringement and granted the maximum five-fold punitive damages of CNY30 million (\$4.6 million). This is the first IP rights case ruled by the SPC, where the maximum five-fold punitive damage was granted and the scenario has received widespread coverage.

Case 2: *Erdos v Miqi* for trademark infringement, No. Jingzhiminchu 2015-1677

Erdos, the owner of the registered trademark 'Erdos & Logo & Erdos in Chinese' in class 25, sued Miqi for selling cashmere yarn products in class 23 bearing 'Erdos in Chinese' prominently.

The Beijing IP Court granted cross-class protection and sustained the infringement claim. Moreover, the court ruled that Miqi, a company dealing in similar products, should have respected Erdos' famous trademark, but has long infringed the trademark through its Tmall shop, which proves its bad faith and severity of infringement. Double damages were granted.

Case 3: *Xiaomi Tech et al v Zhongshan Benteng et al* for trademark infringement and unfair competition, No. Suminzhong 2019-1316

Xiaomi owns the registered trademark 'Xiaomi in Chinese' on mobile phones, etc, and has won many industrial awards. Zhongshan Benteng applied for the trademark 'Xiaomi Life in Chinese' on electric cooking utensils, among other things, in November 2011, which was approved for registration in 2015 but was invalidated in 2018 because of unjustifiable registration.

Zhongshan Benteng registered more than 90 trademarks imitating or copying other famous brands. The Jiangsu High People's Court ruled that the number of comments on the online shop can be reference to the sales volume. The court took into consideration the sales of the defendants' 23 shops, long duration, variety and quantity, the inferior quality of the infringing goods, as well as Xiaomi's well-known trademarks, reputation, and influence.

Based on the infringing profit, punitive triple damages of CNY50 million (\$7.7 million) were granted.

Case 4: *Wuliangye v Xu Zhonghua et al* for trademark infringement, Nos. Zheminchu 2019-8601-1364 and Zheminzhong 2020-01-5872

The plaintiff enjoys exclusive licence to the mark 'Wuliangye in Chinese'. The suspected shops controlled by Xu Zhonghua had been administratively punished for selling counterfeit Wuliangye liquor and

using the mark in the signboards. Xu Zhonghua *et al* had also been sentenced to imprisonment for sales of counterfeit products.

The repeated and long infringement proved the defendants' professional IP rights infringement and was considered a severe scenario by the court, which awarded punitive double damages.

Case 5: *Adidas v Ruan Guoqiang et al* for trademark infringement, No. Zheminzhong 2020-03-161

The two individual defendants' company was found to have infringed Adidas' registered trademarks three times from 2015 through 2017 and fined for a total of more than 17,000 pairs of infringing footwear uppers. Adidas sued and claimed punitive damages. The court adhered to the preponderance principle and reasonably decided the basis of punitive damage according to Adidas' loss, unit price of genuine shoes, and gross profit rate.

Finally, the court granted a punitive triple damage, setting another example for recognising severe scenarios.

Case 6: *Opple v Huasheng* for trademark infringement, No. Yueminzai 2019-147

Opple registered two trademarks, including one recognised as a famous trademark of Guangdong Province and a well-known trademark of China many times. The defendant, Huasheng, sold similar products bearing a similar mark, which contains the first two characters of the plaintiff's famous mark plus a Chinese character meaning "special" and was once punished for substandard quality.

Although the first- and second-instance courts both denied the trademark infringement, the Guangdong High People's Court confirmed in the retrial the strong distinctiveness and well-known status of Opple's marks and confirmed the infringement.

The defendant had known of Opple's fame and goodwill and had been rejected for its own trademark due to Opple's prior marks but had used

the similar mark on its substandard products. Punitive triple damages were granted, based on proved royalties multiplied by the infringement duration.

As the calculated result exceeded the claimed amount, the claimed damage of CNY3 million was awarded. The ruling has introduced a method of precisely calculating basis and multiples.

Comment

Through the typical cases and the Interpretation, the SPC has clearly illustrated the necessary factors to ascertain bad faith, severe scenarios, and ways of calculating damages, which represent the Chinese courts' tougher attitude towards curbing IP rights infringement.

The Chinese authorities concerned are planning to also punish the infringers through the national credit system and a blacklist mechanism. All these efforts combined will make IP rights infringement more risky and less profitable.

The IP right owners and interested parties might spend less on IP rights enforcement or even recover their loss more easily, as reasonable enforcement expenses can also be compensated in addition to damages. Therefore, we suggest that the IP owners and interested parties take advantage of the situation by more aggressively enforcing their IP rights in China, administratively and/or judicially.