



Experience and Prospect: Classification of Applicable Conditions of Punitive Damages in Judicial Practice in China

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How to apply punitive damages is a focus of attention in intellectual property infringement litigations. In March 2021, the Supreme People's Court ("SPC") issued the Interpretation on the Application of Punitive Damages in the Trial of Civil Cases Involving Intellectual Property Rights Infringement ("Punitive Damages Interpretation") and the Model Cases for Applying Punitive Damages in Civil Cases Involving Intellectual Property Rights Infringement (five trademark infringement cases and one trade secret case, "Model Cases") to specify applicable conditions of punitive damages, which provides a clear guidance to the PRC courts on the accurate application of punitive damages.

Based on our research of relevant laws, judicial interpretation, model cases, and our experience in handling punitive damage case, this article sorts out judicial practice of punitive damages, especially on the classification of its applicable conditions. At the end, we have some take-away points on strategies of evidence collection for brand owners.

1. Legislative framework on applicable conditions of punitive damages

The 2013 Trademark Law firstly stipulated punitive damages in the field of intellectual property law, that is, the application of punitive damages shall be firstly based on constitute of trademark infringement and shall be established on two applicable conditions, i.e. "malicious" and "serious circumstances". Later on, the *PRC Civil Code*, the *PRC Seed Law*, the *PRC Anti-Unfair Competition Law*, the *PRC Patent Law*, the *PRC Copy Right Law* also stipulated punitive damages accordingly. Furthermore, the SPC, the Beijing Higher People's Court, the Shenzhen Intermediate People's Court and the Zhengzhou Intermediate People's Court have further issued judicial guidance as to how to apply punitive damages in judicial practice.

In accordance with the stipulations of the above laws and judicial interpretations, punitive damages will be triggered by two applicable conditions, i.e. subjective condition "intentional (malicious)" and objective condition "serious circumstances". It is noteworthy that the *2013 PRC Trademark Law* expressed the subjective condition as "malicious". The *Anti-Unfair Competition Law* amended in 2019 and *Beijing Court's Interpretation* promulgated in April 2020 also followed the same expression "malicious". However, the *PRC Civil Code* issued in May 2020 along with other laws or judicial interpretations express the subjective condition as "intentional". As such, there remains an inconsistency in wording on subjective condition in various laws and judicial interpretations.

To unify judicial practice on determination of subjective condition, the *Punitive Damages Interpretation* stipulated that the meaning of “intentional” is equal to the same of “malicious”, and includes the case of “malicious” stipulated in the *PRC Trademark Law and the PRC Anti- Unfair Competition Law*, in order to eliminate such a misunderstanding that “malicious” is applicable to cases concerning trademark and unfair competition, while “intentional” is applicable to other intellectual property disputes. Therefore, the *Punitive Damages Interpretation* has aligned different wordings in various laws of intellectual property rights.

2. Subjective condition - “intentional”

Paragraph 1 of Article 3 of the *Punitive Damages Interpretation* lists several factors that should be comprehensively considered in the determination of “intentional”, such as types of infringed intellectual property rights, state of rights, popularity of relevant products, as well as relationship between defendant and plaintiff or interested parties.

Considering the nature of “intentional” is a subjective concept, the determination of “intentional” should be actually based on defendant’s objective acts. To better guide judicial practice, the *Punitive Damages Interpretation* and the *Model Cases* have made their efforts to provide some typical circumstances that may be preliminarily determined as “intentional”. For example, paragraph 2 of Article 3 of the *Punitive Damages Interpretation* stipulates that the following circumstances may be preliminarily determined as “intentional” by the PRC courts: (1) the defendant continued to commit the infringement after being notified and warned by the plaintiff or interested parties; (2) the defendant or its legal representative or manager is the legal representative, manager or actual controller of the plaintiff or interested party; (3) the defendant and the plaintiff or the interested parties have relationships in terms of labor,

service, cooperation, licensing, distribution, agency and representation, etc., and have access to the infringed IP rights; (4) the defendant has a business relationship with the plaintiff or interested parties or has negotiated for the reach of a contract, and has access to the infringed IP rights; (5) the defendant committed acts of pirating or counterfeiting of registered trademarks ; (6) other circumstances where the defendant’s acts can be determined as “intentional”.service, cooperation, licensing, distribution, agency and representation, etc., and have access to the infringed IP rights; (4) the defendant has a business relationship with the plaintiff or interested parties or has negotiated for the reach of a contract, and has access to the infringed IP rights; (5) the defendant committed acts of pirating or counterfeiting of registered trademarks ; (6) other circumstances where the defendant’s acts can be determined as “intentional”.

Based on the above circumstances and the summary of relevant judicial precedents (including the Model Cases), we summarized the circumstances for assessing “intentional” as the following five categories:

- Repeated infringement;
- Certain relationship;
- Pirate or counterfeiting;
- A high degree of fame enjoyed by prior mark; and
- Competitors in the same region.

2.1 Determination of “intentional” based on repeated infringement

(1) Repeated infringement after notifications, warnings (including cease and desist letter and other warnings), administrative penalty: the defendant continued to commit the infringement after being notified and warned by the plaintiff or interested parties or being imposed administrative penalty.

Case I: in the case *Ba Luo Ke Wood Industry v. Zhejiang Living Ba Luo Ke over trademark infringement disputes*, the court held that the plaintiff has submitted evidence to prove “intentional” based on several facts, including the circumstance that Ba Luo Ke Wood Industry sent several warning letters to Zhejiang Living Ba Luo Ke.¹

(2) Repeated infringement after settlement agreement: the defendant further conducted infringement after settlement agreement is reached.

Case II: in the case *Balanced Body INC. v. Yongkang Elina over trademark infringement dispute*, the court held that the defendant was warned by the plaintiff by a warning letter in 2011 as the products exported by the defendant to Spain were suspected of infringement, and finally the defendant signed a settlement agreement with the plaintiff, undertaking not to engage in any activities that might infringe or hinder the plaintiff’s IP rights in the future. However, only after a few years, the defendant was found to produce and sell products that infringed upon the plaintiff’s trademark right again. As such, the Court deemed the defendant’s repeated infringement as “intentional”.²

(3) Repeated infringement after effective judgment: defendant or its holding shareholder, legal representative repeatedly conducts infringement after the judgment comes into force.

Case III: in the case *Guangzhou Tianci v. Anhui Newman over Trade Secret (Technical Information) Disputes*, the court held that the infringement is “intentional” based on several facts, including the circumstance that the former legal representative LIU Hong of Anhui Newman was prosecuted for criminal liability for infringement of trade secret in related criminal

case, while LIU continued to commit infringement.³

2.2 Determination of “intentional” based on certain relationship

(1) Affiliated relationship: the defendant or its legal representative or manager is the legal representative, manager or actual controller of the plaintiff or interested party.

Case IV: in the case *Guangzhou Redsun v. Guangdong Zhimei etc. over trademark infringement disputes*, the court held that Wenxiang Shi, one of defendants was a former employee in marketing department of the plaintiff, Guangzhou Redsun. Based on the said fact and other case facts, the court held that the defendant’s infringement is intentional.⁴

(2) Collaboration relationship: the defendant and the plaintiff or the interested parties have relationships in terms of labour, service, cooperation, licensing, distribution, agency and representation, among other things, and have access to the infringed IP rights.

Same as Case I: in the case *Ba Luo Ke Wood Industry v. Zhejiang Living Ba Luo Ke over trademark infringement disputes*, the court held that the plaintiff has submitted evidence to prove “intentional” based on several facts, including the circumstance that the defendant Zhejiang Living Ba Luo Ke had been entrusted to manufacture floors by Ba Luo Ke Wood Industry, but continued to use company name “Ba Luo Ke” and the same or similar marks to the plaintiff’s registered trademarks.

(3) Business relationship: the defendant has a business relationship with the plaintiff or interested parties or has negotiated a contract, and has access to the infringed IP rights.

¹ See e.g., (2018) Su Min Zhong No. 1297 rendered by Jiangsu Higher People’s Court.

² See e.g., (2018) Hu 0115 Min Chu No. 53351 rendered by Shanghai Pudong New District Court.

³ See e.g., (2019) Zui Gao Fa Min Zong 562 rendered by the SPC, SPC Model Case No.1.

⁴ See e.g., (2019) Yue Min Zhong 477 rendered by the Guangdong Higher Court.

Case V: in the case *Fujian X Company v. Shanghai X Company over trademark infringement dispute*, the Court held that Shanghai X Company obviously knew that the Fujian X company issued the authorization letter to Shanghai X Company for sales of products and thus deemed its infringement as intentional.⁵

2.3 Determination of "intentional" based on piracy and counterfeiting

Piracy and counterfeiting: the defendant committed the acts of pirating or counterfeiting registered trademarks

Case VI: in the case *Wuliangye Corp. v. Zhonghua Xu over trademark infringement dispute*, the court held that the counterfeited mark used for selling counterfeited liquor is same or highly similar to the trademark owned by the plaintiff Wuliangye Corp., and the packing and decoration of counterfeited liquor is almost identical with those of plaintiff's products. As such, the court concluded that the defendant has the intention of fully imitating the plaintiff's products and thus punitive damages should be applied.⁶

2.4 Determination of "intentional" based on a high degree of fame enjoyed by prior mark

(1) Well-known trademark: defendant used brand owner's well-known trademark on same or similar goods.

Case VII: in the case *Erdos Corp. v. Miqi Trading over trademark infringement dispute*, the Court held that the trademark "Erdos" was recognized as well-known trademark, and Miqi Trading should have known reputation of the mark "Erdos". Based on the said fact and other facts, the court concluded that the punitive damages should be applied to the case.⁷

⁵ See the online report issued by the Fuzhou Intermediate Court, <https://mp.weixin.qq.com/s/Tr0CLOxZ7WcYrrDzn5yMQ>

⁶ See *e.g.*, (2020) Zhe 01 Min Zhong 5872 rendered by the Hangzhou Intermediate Court, SPC Model Case No.4.

⁷ See *e.g.*, (2015) Jing Zhi Min Chu Zi No. 1677 rendered by the Beijing Intellectual Property Court, SPC Model Case No. 2.

(2) Bad faith trademark application: defendant applied for brand owner's well-known trademark or the mark applied by the defendant has been refused due to mark similarity and the defendant continued to use the said mark.

Case VIII: in the case *Nature Home v. Fujian Yin Er Xin An over trademark infringement dispute*, the court held that the defendant Fuliang Zhou registered plenty of marks similar to the trademark "Nature Home" owned by the plaintiff. During the period when the infringing mark was declared for invalidation and after the Beijing IP Court has made administrative judgment on the invalidation of the infringing marks the defendants Fuliang Zhou and Yin Er Xin continued to use the infringing marks. As such, the Court opined that the punitive damages should be applied to the case.⁸

2.5 Determination of "intentional" based on competitors in the same region

Competitors in the same region: the defendant and the plaintiff are in the same region and also are competitors in the same or similar industry.

Case IX: in the case *Action Soft v. Amazon Tong over trademark infringement dispute*, the court held that, as competitors in the same region, the defendant Amazon Tong should have known that plaintiff Action Soft owned the trademark "AWS", however, the defendant still conducted joint infringement. Based on the said fact and other facts, the court concluded that the punitive damages should be applied to the case.⁹

3. Objective condition - serious circumstances

Article 4 of the *Punitive Damages Interpretation* stipulates that the determination of "serious

⁸ See *e.g.*, (2020) Su 05 Min Chu No. 60 rendered by the Suzhou Intermediate Court.

⁹ See *e.g.*, (2018) Jing Min Chu No. 127 rendered by the Beijing Higher Court.

circumstances” shall be based on a comprehensive consideration of the means and times of the infringement, the duration, scope, scale, consequences of the infringement, and the defendant’s acts in the lawsuits. It further sets forth the following objective factors to consider when determining whether there are “serious circumstances”: (1) the defendant repeatedly committed the same or similar infringement again after administrative penalty has been imposed or the court’s judgment has been made; (2) the defendant committed infringement of IP rights as its primary business; (3) the defendant forged, destroyed, or concealed evidence of infringements; (4) the defendant refused to abide with preservation ruling; (5) the profits from the infringement or losses suffered by the right holder are huge; (6) the defendant’s infringing acts may cause harm to national security, public interests, or personal health; (7) other circumstances that can be deemed as serious.

Based on the above provisions and our summary of relevant judicial precedents (including *Model Cases*), we summarized “serious circumstances” as the following two categories:

- The nature of infringing acts is bad; and
- The consequences of infringing acts are serious.

3.1 Determination of “serious circumstances” based on the fact that the nature of infringing acts is bad

(1) Repeated infringement: the defendant repeatedly commits the same or similar infringement again after administrative penalty has been imposed or the court's judgment has been made

Case X: *In the case Adidas AG v. Guoqiang Ruan over trademark infringement disputes*, the court held that the defendant Guoqiang Ruan was imposed administrative penalty three times for

its repeated sales of infringing products. Based on the said fact along with other facts, the court concluded that the punitive damages should be applied to the case.¹⁰

(2) Taking infringement as primary business: the defendant committed infringement of IP rights as its primary business

Same as Case III: in the case *Guangzhou Tianci v. Anhui Newman over Trade Secret (Technical Information) Disputes*, the court held that Anhui Newman claimed to be an enterprise specializing in R & D, production and sales of the alleged infringing goods, and there was no evidence to prove that it had any other products, and the court thus opined that it took infringement as primary business.

(3) Obstruction of evidence: the defendant forged, destroyed, or concealed evidence of infringements

Same as Case III: in the case *Guangzhou Tianci v. Anhui Newman over Trade Secret (Technical Information) Disputes*, the court held that Anhui Newman refused to provide accounting books and original receipts without justified reasons at the first instance, which constituted an obstruction of evidence.

(4) The defendant refused to abide with preservation ruling

Same as Case IV: in the case *Guangzhou Redsun v. Guangdong Zhimei etc. over trademark infringement disputes*, the court held that Guangdong Zhimei continued to conduct trademark infringement after the court made an injunction order.

(5) Comprehensive infringement: diversification of infringement means

¹⁰ See e.g., (2020) Zhe 03 Min Zhong No. 161 rendered by the Wenzhou Intermediate Court. SPC Model Case No.5.

Case XI: in the case *John Deere (China) v. John Deere (Dandong) over trademark infringement dispute*, the court held that John Deere (Dandong) not only conducted infringing acts upon the plaintiff's infringed trademark rights by using the same or similar marks, but also conducted unfair competition acts at the same time. As such, the court concluded that the defendant's acts constitute comprehensive infringement and thus the punitive damages should be applied to the case.¹¹

3.2. Determination of "serious circumstances" based on the fact that circumstances of infringement is serious

(1) Huge profits or losses: the profits from the infringement or losses suffered by the brand owner are huge

Case XII: in the case *Xiaomi Technology Co., Ltd. v. XXX Company over Trademark Infringement and Unfair Competition Disputes*, the court held that the profits of 23 infringing shops were beyond 20 million RMB. Based on the said fact along with other facts, the court supported the plaintiff's claim for punitive damages.¹²

(2) Irreparable losses: the infringement has caused serious damages to brand owner's reputation and market shares

Same as Case I: in the case *Ba Luo Ke Wood Industry v. Zhejiang Living Ba Luo Ke over trademark infringement disputes*, the court held that during the period of 2015 and 2016, Ba Luo ke Wood Industry suffered losses amounting to CNY 8.68 millions due to defendant's sales of infringing products, and Ba Luo ke Wood Industry also suffered losses of more than CNY 10 million due to price erosion. Accordingly, the actual loss suffered by Ba Luo ke Wood Industry has exceeded CNY 18 million.

(3) Endangering public interest: the defendant's infringing acts may cause harm to national security, public interests, or personal health

Case XIII: in the case *Oppl Lighting Corp. v. XXX Company over Trademark Infringement Disputes*, the Court held that the counterfeiting product in poor quality would easily lead to safety accidents, result in damage to consumers as well as damaging social and public safety.¹³

4. Take-away points

Punitive damages are a powerful weapon to strike malicious infringement of intellectual property rights. The core strategy for applying punitive damage is to comprehensively collect evidence to support the determination of "intentional" and "serious circumstances" based on the all the circumstance discussed above. Furthermore, the "intentional" and "Serious circumstances" are also directly related to the amount of the damages awarded, i.e. assessment for calculation of base and times.¹⁴

In order to better apply punitive damages, we recommend that brand owners structure efforts to collect and prepare evidences based on the points illustrated in the chart below. In the meantime, some pre-measures could be taken prior to the filing of the lawsuit, such as sending a cease and desist letter, filing an administrative complaint and etc.

¹¹ See e.g., (2016) Jing 73 Min Chu No. 93 rendered by the Beijing IP Court, (2017) Jing Min Zhong No. 413 rendered by the Beijing Higher People's Court.

¹² See e.g., (2019) Su Min Zhong 1316 rendered by the Jiangsu Higher Court. SPC Model Case No.3.

¹³ See e.g., (2019) Yue Min Zai 147 rendered by the Guangdong Higher Court. SPC Model Case No. 6.

¹⁴ See paragraph 3 of Article 20 of the SPC's several provisions on the application of law in the trial of patent dispute and Article 6 of the Punitive Damages Interpretation

Key evidences to prove “intentional”
A. Evidence of prior mark’s popularity, such as awards, sales volume, decision or judgment to confirm well-known mark;
B. Evidence of repeated infringement, such as whether a cease and desist letter was sent to defendant, whether settlement agreement has been previously reached, whether administrative penalty has been imposed and whether effective judgment or order has been made by court, etc.
C. Investigate the establishment date and registered/operation address of infringer, its industry, personnel and possible relationship with brand owner.
D. Investigate the mark(s) applied by defendant, and whether any of mark(s) has been refused due to mark similarity.
E. Evidence of defendant's specific infringement acts, infringement scale, infringing means etc.
Key evidences to prove “serious circumstances”
A. Evidence of repeated infringement, such as whether the defendant has been subjected to administrative penalty or its acts has been recognized as infringement by effective judgment or order, etc.
B. Infringement means of the defendant, the sales of infringing products or whether there is any evidence obstruction.
C. Evidence of sales price, sales volume and industrial margin of infringing products.
D. Evidence of actual loss such as reduction of sales volume, market share and erosion of price suffered by brand owner.
E. Evidence of possible damage to public interests.

In the case *Balanced Body v. Yongkang Elina* over trademark infringement dispute, our firm successfully represented *Balanced Body* to claim punitive damages. On one hand, we proved that the infringement was intentional based on *Yongkang Elina*’s repeated infringement after settlement agreement as well as *Yongkang Elina*’s imitation of brand owner’s products. On the other hand, we illustrated that the infringement was serious circumstances based on *Yongkang Elina*’s large infringing scale, counterfeits with quality problems and damages to *Balanced Body*’s market reputation. Accordingly, the Shanghai Pudong New Area Court made a breakthrough to apply punitive damages and fully supported *Balanced Body*’s claim for damages of CNY 3 million.

This case is the very first IP case applied to punitive damages before Shanghai courts, and it has been selected as top 10 intellectual property cases by the SPC in 2019. By imposing punitive damages on “intentional” defendants with serious circumstances, the Shanghai Pudong New Area Court not only causes deterrence to defendants, but also provides great judicial guidance for application of punitive damages. We look forward to the emergence of more punitive damage cases in judicial practice to further standardize China’s punitive damages system.

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For more information, please contact the author of this article:

ZHANG ,Mengchun: Attorney at Law:ltbj@lungtin.com

DENG, Sihan: Attorney at Law:ltbj@lungtin.com



ZHANG ,Mengchun
Attorney at Law

Mr. Zhang has expertise in trademark and unfair competition matters, ranging from trademark administrative litigation, trademark civil action, unfair competition civil action, raid action, criminal enforcement to trademark prosecution. He has represented international clients to conduct over 100 complicated IP cases, among the victories he has won include a trademark infringement case he handled for Jo Malone, obtaining an injunction order and an award of CNY 3 million in damages; an invalidation administrative case he handled for Burger King which was selected by the IPHouse as one of the typical administrative trademark cases; a raid action he handled for L Brands which was selected by the QBPC as one of the top ten raid action cases; a criminal raid action he handled for Starbucks which was selected by the Supreme People's Procuratorate as one of the typical IP criminal cases and also selected by the China Business Law Journal as one of the outstanding IP cases.



DENG, Sihan
Attorney at Law

Ms. Sihan DENG has joined Lung Tin Law Firm since 2018 assisting as paralegal in “OPLINK” trademark infringement dispute, Taikang trademark infringement and trade secrets infringement cases, etc.. Prior to joining in Lung Tin, Ms. Sihan DENG has joined in legal department of Nokia Networks in 2017 responsible for labour dispute resolution and merger of affiliates in mainland China , and has worked as Board Secretary in joint venture of Nokia and Neusoft as well as analyst and controller in Nokia Beijing R&D Center.



18th Floor, Tower B, Grand Place, No 5, Huizhong Road,
Chaoyang District, Beijing 100101, P. R. China

Tel: 0086-10-84891188 Fax: 0086-10-84891189

Email: LTBJ@lungtin.com Web: www.lungtin.com