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Punitive Damage Issue Under the New Chinese Patent Law

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June 2021



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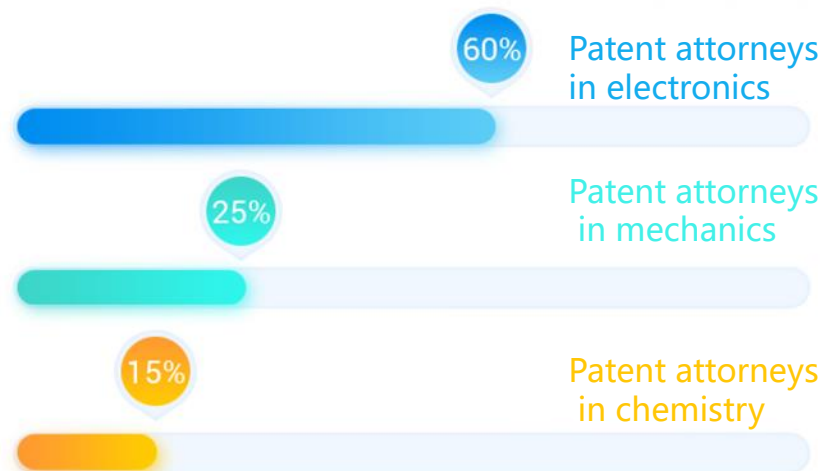
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Speaker Information



- General Manager of **Beijing Sanyou Intellectual Property Agency Ltd.**
- Patent Attorney/Attorney-at-Law
- Bachelor of Engineering
- Doctor of Laws (China); LL.M. (US); LL.B. (China)

- Vice President of All China Patent Attorneys Association (ACPAA)
- Vice Chairman of the National Intellectual Property Youth Federation
- The first batch of high-level talents in the patent agency industry (litigation category)
- National Outstanding Patent Attorney in 2013 and 2014
- Off-campus tutor for Master of Laws, Peking University Law School
- Off-campus tutor for the Master of Laws, School of Law, Beijing Institute of Technology



Passed US Patent Bar
in 2010

Passed Chinese
Trademark Bar
in 2000

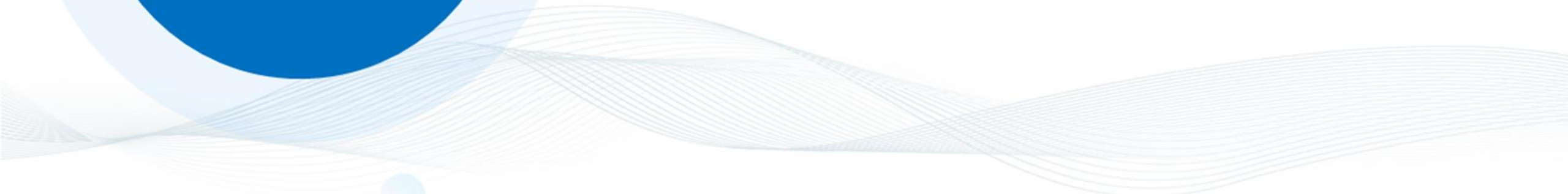
Passed Chinese
Patent bar
in 2000

Passed Chinese Bar
in 1999

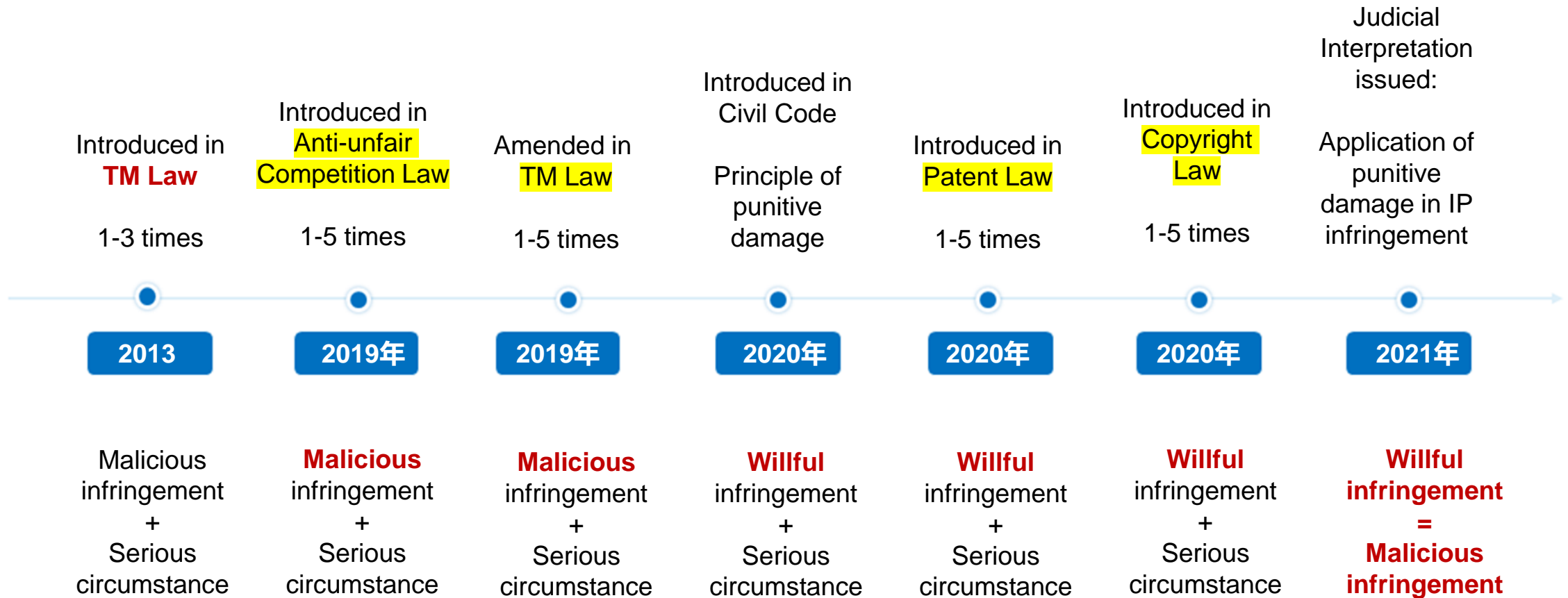
Xiaolin DANG



OUTLINES

- 01** History and Current Situation of Punitive Damage
 - 02** Rules and Applications of Punitive Damage Issue
 - 03** Challenges based on Punitive Damage Issue
 - 04** Suggestions on avoiding punitive damage risk
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1. History and Current Situation of Punitive Damage



1. History and Current Situation of Punitive Damage



CASE INTRODUCTION:

Guangzhou Tianci, etc.

(defendant, appellant) **VS.**

Anhui Newman (plaintiff, appellee), for know-how disputes, Supreme Court



Punitive Damage:

2.5 times (first instance), 5 times (second instance)



Grounds Relating To Punitive Damage:

- First instance: generally considering infringement intentions and infringement circumstances.
- Second instance: first instance did not completely consider the degree of subjective maliciousness of the infringer, serious circumstances such as **taking infringement as business**, the large scale of infringement, the long duration, **and the existence of hindrance of proof during litigation by the infringers**.



Final decision:

Injunction + (30M RMB for damage + 400K for reasonable expense) against Tianci (company) + 5M, 30M, 1M, 1M joint liability against 4 individuals.



Remark:

This is the first IP case relating to punitive damage decided by the Supreme Court, decided in November 2020.

1. History and Current Situation of Punitive Damage



CASE INTRODUCTION:

FILA (plaintiff, appellee,) vs. Zhejiang Zhongyuan footwear company etc. (defendant, appellant)



First instance: Beijing Haidian District Court, decided in 2017

- “FILA” vs. “GFLA” ---- trademark infringement
- Infringement issue: similar and infringed
- Profit due to infringement: 2,638,322 Yuan RMB
- Punitive damage: 3 times
 - Defendant is a operator in the same product and should have knowledge of FILA
 - Defendant’ s TM application was refused based on plaintiff’ s TM as cited marks and should have knowledge of FILA
 - Defendant should know the confusion by using “GFLA” but continue to do so
 - Thus, malicious infringement is clear and the circumstance is serious
- Final compensation: over 8M RMB
 - 2,638,322 X 3 = 7.91 M RMB
 - 410K RMB reasonable expense



Second instance: Beijing IP Court, affirmed



Retrial petition by infringer before Beijing High Court: rejected

2. Rules and Applications of Punitive Damage Issue



Rules for applying punitive damage issue in patent cases:

- Legal basis: Article 71 of the Patent Law
- No real cases available since the new Patent Law is effective on June 1, 2021
- **R1: Whether punitive damage shall be applied?**
 - **Two conditions to meet:**
 - **Willful infringement**
 - **Serious circumstance**

RULES AND APPLICATIONS
OF PUNITIVE DAMAGE
ISSUE



2. Rules and Applications of Punitive Damage Issue

Condition 1: Willful infringement

- Preliminary proofs based on Judicial Interpretation of 2021

(1) **The defendant continues to commit the infringing act after being notified or warned by the plaintiff or the interested party;**



Ordinary relationship between right owner and infringer

(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 labor, service, cooperation, licensing, distribution, agency, representative, etc. relationships, and have been in contact with the infringed intellectual property rights;

(4) The defendant has business dealings with the plaintiff or interested parties or has negotiated for the conclusion of contracts, etc., and has been in contact with the infringed intellectual property rights;



Special relationship between right owner and infringer

(5) The defendant committed acts of pirating or counterfeiting registered trademarks;



Copy under copyright law
Counterfeiting under TM law

(6) Other circumstances that can be determined as intentional.



2. Rules and Applications of Punitive Damage Issue

Condition 2: Serious circumstance

- Preliminary proofs based on Judicial Interpretation of 2021

- | | | | |
|---|---|---|-------------------------|
| (1) After being punished by an administrative penalty or a court decision for infringement, still commits the same or similar infringement again; | } | → | Repeated infringement |
| (2) Taking the infringement of IP rights as its business; | | | Willfulness is clear |
| (3) Forging, destroying or concealing evidence of infringement; | | | |
| (4) Refusal to perform the preservation ruling; | | | |
| (5) The infringing profit or loss the right owner suffers is huge; | | → | No subjective intention |
| (6) The infringement may endanger national security, public interest or personal health; | | | |
| (7) Other circumstances that can be determined to be serious. | | | |



2. Rules and Applications of Punitive Damage Issue

Rules for applying punitive damage issue in patent cases:

- **R2: How to calculate punitive damage?**
 - Step 1: Identify basis of damage for applying punitive damage
 - Step 2: Determine times of the punitive damage
 - Step 3: Do the math



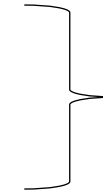
2. Rules and Applications of Punitive Damage Issue

R2: How to calculate punitive damage?

- Identify basis of damage for applying punitive damage

- Four methods to determine damage

- Loss of profit by patentee
- Infringing profit due to infringement
- Reasonable times (1-3 times) of previous royalty
- Statutory damage from 30 K to 5 M RMB



Basis of damage for applying punitive damage



Cannot be the basis of damage for applying punitive damage



2. Rules and Applications of Punitive Damage Issue

- **R2: How to calculate punitive damage?**
 - Determining times of the punitive damage
 - Case by case basis
 - Degree of the willfulness and seriousness
 - Understanding: between 2 and 5, may not be integer
 - 2.2 times is possible



3. Challenges Based On Punitive Damage Issue



- **For R1: Whether punitive damage shall be applied?**
 - A possible combination of the two conditions:
 - Willful infringement:
 - The defendant continues to commit the infringing act after being notified or warned by the plaintiff or the interested party;
 - +
 - Serious circumstance
 - The infringement gains or the right holder suffers huge losses;
 - Possible high risk against a manufacturer with good faith?

3. Challenges Based On Punitive Damage Issue



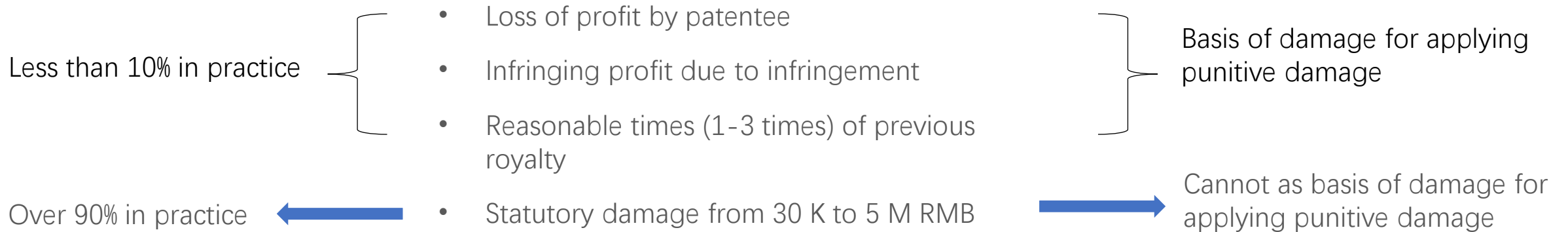
- **For R1: Whether punitive damage shall be applied?**
 - Possible high risk against manufacturer with good faith?
 - Yes, patent infringing behavior is different from TM infringing behavior
 - Company A manufactures a product with high scale and good profit
 - Good business, but if infringe, the infringing profit will be high;
 - Company A is warned by a patentee with a warning letter
 - Company A believes there is a difference in their products from the patent (no literal infringement), but not 100% sue the final result if litigated (equivalent infringement?)
 - Shall company A stop manufacturing or continuing to do so?

3. Challenges Based On Punitive Damage Issue



- For R2: How to calculate punitive damage?
 - Basis of damage for applying punitive damage May be difficult to prove

- **Four methods to determine damage**



3. Challenges Based On Punitive Damage Issue



- How to calculate punitive damage?
- Adidas AG (plaintiff, appellant,) vs. Ruanguoqiang, etc. (defendant, appellant)
 - For trademark infringement, Zhejiang High Court
 - ◆ **First instance:**
 - Repeated infringement:
 - The defendant was fined before for infringing Adidas's trademarks by local government for three times
 - Infringing product: 6050 pairs of footwear uppers with Adidas trademarks
 - Injunction
 - Damage (200K RMB) based on statutory damage
 - No punitive damage:
 - profit due to infringement required as basic damage for applying punitive damage by plaintiff cannot be calculated since insufficient of evidences



- ◆ How to calculate punitive damage?
- ◆ Cont. Adidas AG (plaintiff, appellant,) vs. Ruanguoqiang, etc. (defendant, appellant)
 - ◆ Second instance:
 - Damage :
 - **When applying damage clause, court should accurately understand and grasp the "difficult to determine" standard, and it is not appropriate to simply require precise calculations.**
 - Damage calculated based on loss of profit by right owner:
 - Sale price (189 Yuan/pair)× 6050 pairs × gross profit (50.4%)× contribution rate 60% (uppers rather than complete footwear) = 345,779.28 Yuan RMB
 - Punitive damage:
 - Repeated infringement---Malicious infringement is clear & serious circumstance is clear
 - 3 times
 - Final compensation: $345,779.28 \times 3 + 40678.8$ (reasonable expense) = 1,078,016.64 Yuan RMB ----- 178 RMB per pair of footwear uppers

3. Challenges Based On Punitive Damage Issue



- ◆ How to calculate punitive damage?
- ◆ Xiaomi (plaintiff) vs. Zhongshan Benteng, etc. (Defendants), trademark infringement
 - First instance: Nanjing Intermediate Court
 - Damage claimed by plaintiff: 50 M RMB
 - Basic damage: based on infringing profit
 - Sales amount in 23 online shops (19 dealers and 4 self-shops): 83,157,636 Yuan RMB
 - Profit rate: the mean number 33.35% of gross profit range 29.69%- 37.01% of small home appliance industry
 - Infringing profit: 27,733,071.6 Yuan RMB
 - Punitive damage:
 - the infringement has extremely obvious malice and the circumstances are extremely serious
 - 2 times = 55 M > 50M
 - Final compensation: 50 M RMB

3. Challenges Based On Punitive Damage Issue



- ◆ How to calculate punitive damage?
- ◆ Xiaomi (plaintiff) vs. Zhongshan Benteng, etc. (Defendants), trademark infringement
 - Second instance: Jiangsu High Court
 - Basic damage: based on infringing profit
 - Sales amount in 23 online shops shall be divided into sale amount of 19 dealers and sales amount of 4 self-shops
 - Price to dealers is about 60% of sales price of self-shops
 - Correct sales amount by defendants: 61,158,213.3 Yuan RMB
 - Profit rate: 33.35%
 - Infringing profit: 20,396,264.1 Yuan RMB

3. Challenges Based On Punitive Damage Issue



- ◆ How to calculate punitive damage?
- ◆ Xiaomi (plaintiff) vs. Zhongshan Benteng, etc. (Defendants), trademark infringement
 - Second instance: Jiangsu High Court
 - Basic damage: based on infringing profit
 - Infringing profit: 20,396,264.1 Yuan RMB
 - **If the punitive damage is still 2 times, then**
 - Final compensation would be: $40,792,528.2 < 50 \text{ M}$ as claimed
 - **Punitive damage: increased to 3 times**
 - $20,396,264.1 \times 3 = 61,188,792.4 > 50 \text{ M}$
 - Final compensation: 50 M RMB, affirmed

3. Challenges Based On Punitive Damage Issue



◆ Brief summary in determining punitive damage

Factors		
Willful infringement	Preliminary proofs	<ul style="list-style-type: none"> • Correlative to each other • Counter evidence may work
Serious circumstance	Preliminary proofs	
Damage basis for punitive damage	One of three methods: <ul style="list-style-type: none"> • Loss of profit • Infringing profit • Reasonable times of previous royalty 	<ul style="list-style-type: none"> • Avoid statutory damage • Court is more flexible than before with certain discretion to derive a factor for calculation, rather than specific number shown by evidences • Prove as much as possible
Times for punitive damage	2 – 5 times	Quite flexible now, since less experience

4. Suggestions On Avoiding Punitive Damage Risk

The Hypothetical Case:

Company A manufactures a product with high scale and good profit

Company A is warned by a patentee with a warning letter

Company A believes there is a difference in their products from the patent (no literal infringement), but not 100% sue the final result if litigated (equivalent infringement?)

- Shall company A stop manufacturing or continuing to do so?
 - **Check:** whether the warning letter is competent?
 - Patent number available?
 - Accused infringing behavior (product) is clear?
 - Infringement analysis is available?
 - **Seek:** an infringement analysis report by a competent lawyer
 - Do not ignore the warning letter
 - The lawyer is competent
 - The analysis is reasonable

THANK YOU

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