Questions

1)  a) Does your country have a concept of punitive damages?
   b) If so, does it apply to patents, trade marks and other IPR?
   c) Would the possibility of an award of punitive damages be of benefit in infringement cases?
   d) Is your Group in favour of courts having power to award such damages in IP cases?

Our country has a concept of punitive damage. Generally, liability of torts includes compensative liability and punitive liability, which means different damage awards: compensative damage awards and punitive damage award. In China, the court usually adopts compensative damage awards. However, with the development of marketing economics, a concept of punitive damage has been gradually introduced into China. Though the concept of punitive damage has not been accepted by most of people in China, there are some laws to have some provisions about punitive damages. For example, according to article 49 of Law of the People’s Republic of China on Protection of Consumer Rights, “Where a merchant engages in any fraudulent activity while supplying goods or services to a consumer, it is liable for increased damages according to the consumer’s claim, and the increased amount in the payment shall be equal to the price of the goods or the service charge”. At the same time, according to article 113.2 of Contract Law of the People’s Republic of China, “Where a merchant engages in any fraudulent activity while supplying goods or services to a consumer, it is liable for damages in accordance with the Law of the People’s Republic of China on Protection of Consumer Rights”.

But punitive damages do not apply to patents, trademarks and other IP cases in China. For example, pursuant to the relevant provisions of the Chinese Patent Law, damages for patent infringement are measured according to the plaintiff’s injury suffered caused by infringement, or the infringer’s profit obtained as a result of the infringement. Where such injury or profit is difficult to ascertain, the damages should be reasonably calculated based on the multiples of royalty.

However, we note that Article 20 of the Supreme Court Patent Trial Provisions states that “generally the infringer’s profit obtained as a result of the infringement is calculated based on the infringer’s business profit. Where the infringer makes a living by way of infringement, the infringer’s profit is calculated based on the sales profit. In a certain degree, this can be regarded as an enhanced damage.

In addition, Article 21 of the Supreme Court Patent Trial Provisions provides two alternative methods to calculate the damages where it is difficult to determine the losses of the plaintiff or the gains of the infringer. Two options are given:
1) where there is patent licensing fee to refer to, the court may determine the reason-
able amount of compensation according to the kind of patent right involved, the na-
ture and facts of the infringement by the infringer, the amount of the patent licensing
fee, the nature, extent and time of the patent license based on one to three times the
patent licensing fee (different from the "treble damages" in U.S. patent law);

2) where there is no patent licensing fee to refer to, or the license fee is obviously un-
reasonable, the court may, depending on various factors such as the kind of the
patent right, the nature and facts of the infringement, set the amount of damages at
more than RMB 5,000 yuan and less than RMB 300,000 yuan in usual situation, but
in no case exceeding RMB 500,000 yuan.

Generally, courts would use “reasonable royalty” as the yardstick for measuring dam-
ages. Only in situations of willful infringement, egregious infringement, and repetitious in-
fringement would courts apply treble the patent licensing fee provision. Here please be
noted that court decides the amount of damage based on treble the patent licensing fee
instead of treble damages calculated by the court.

Pursuant to Article 22 of the Supreme Court Patent Trial Provisions, trial courts may, at the
request of the patent owner or according to the specific facts of a case, include reason-
able expenses paid by the plaintiff for investigation or for stopping the infringement in the
total amount of award. However, Neither the Chinese Patent Law nor the Patent Imple-
menting Regulations provide for award of attorney’s fees to a prevailing plaintiff in a
patent infringement litigation. While the Supreme Court Patent Trial Provisions specifical-
ly provides for award of “reasonable expenses paid by the patent owner for investiga-
tion or for stopping the infringement”, it contains no reference to attorney’s fees. In prac-
tice, the court seldom awards attorney’s fees in IP infringement litigation in China. Award
of attorney’s fees is an exception in China.

The possibility of an award of punitive damages would be of benefit in infringement
cases.

Punitive damages were developed as a way to punish defendants found to have acted
maliciously. Therefore, the punitive damage aspect of an award represents deterrent to
future such malicious or other irresponsible and harmful actions. In particular, IP rights
have particular features different from other property. Firstly, it is difficult for the owner to
control intellectual property because of its immateriality. Secondly, the public can easily
obtain intellectual property because of its publicity. Thirdly, the infringer can obtain high
profits because it is easy to be copied. Finally, it is difficult to calculate the exact damage.
Therefore, it is necessary to apply punitive damage in IP field and the punitive damage
can effectively prevent such infringing acts. Moreover, the possibility of an award of puni-
tive damages will encourage the IP owner to file a suit so as to keep down the infringing
acts. In addition, the possibility of an award of punitive damages will encourage the le-
gitimate and fair business instead of infringement.

Our Group is in favour of courts having power to award such damages in IP cases so as
to beat the serious infringing acts and protect the owner’s interest. In fact, many IP
owners prevailed in IP infringing cases but they cannot obtain enough compensation in
China. It is necessary for the court to have power to award punitive damages.

2) If punitive damages are available:

a) In what types of situations can punitive damages be awarded?

b) How is the amount (quantum) of damages assessed?

If punitive damages are available, its range, situation and amount must be limited in a
certain degree.
Firstly, punitive damages should be only applied to IP infringing filed instead of IP contract field. Comparing with the liability of violating of contract, liability of infringement shows more clear punitiveness.

Secondly, punitive damages should be only applied to serious infringement.

Thirdly, willful infringement should be an important condition for punitive damage.

Finally, punitive damages should be only applied to the claim of the plaintiff, if the plaintiff does not file a claim to obtain punitive damages, the court cannot award punitive damages initiative.

Regarding to the amount of damage, we think the patent law may give a certain range, and the judge may determine the exact amount at his discretion in this certain range according to the following factors:

1) The degree of reprehensibility of the defendant’s conduct, the duration of that conduct, the defendant’s awareness of any concealment, and the existence and frequency of similar past conduct.

2) The amount of the profitability to the defendant.

3) The financial position of the defendant.

4) Any mitigation resulting from the imposition of criminal sanctions on the defendant for its conduct.

5) The existence of other civil awards against the defendant for the same conduct, these also to be taken in mitigation.

6) Whether the amount of punitive damage has a deterrent to future infringer.

3) Is there an obligation on a party to take legal advice to ensure there is no infringement? If so
   a) what is the obligation and when does it arise and
   b) how is that advice assessed in subsequent infringement proceedings?

There is an obligation on a party to take legal advice to ensure there is no infringement.

A potential infringer who has actual knowledge of another’s IP right has an affirmative duty of due care to determine whether he is infringing the IP right.

Generally, willful infringement will be easy to be found when a potential infringer has actual knowledge of the existence of another’s IP right that may cover an activity of the potential infringer, but continue to engage in the activity without analyzing the IPR. Therefore, when a potential infringer receives a cease and desist letter from the owner, there is an obligation on the potential infringer to take legal advice to ensure there is no infringement.

In determining willful infringement, even though the judge looks at the totality of circumstances and can take several factors, taking advice will be a very important factor in subsequent infringement proceedings.

In China, as mentioned above, only in situations of willful infringement, egregious infringement, and repetitious infringement would courts apply treble the patent licensing fee provision. In practice, the court seldom clearly shows it looks at “willful infringement” while determining the amount of damage. Therefore, whether to take legal advice is not a crucial factor in determining the amount of damage.

In addition, a cease and desist letter is not required to start litigation in China. Most infringers in China will either ignore any cease and desist letter or take any legal advice.
4) a) Is there a pre-trial discovery system which allows an IP owner to review the defendant’s behaviour?

b) If so, are the parties required to give discovery of documents held abroad?

There is a pre-trial discovery system which allows an IP owner to review the defendant’s behaviour in China. In this pre-trial discovery, the parties exchange evidence. However, China does not use extensive discovery as the US does. Therefore, the plaintiff must obtain evidence of infringement by its own efforts before initiating the lawsuit.

In China, exchange of evidence is conducted between the parties before trial and authentication of evidence is usually done through in-court cross-examination before panel of judges but sometimes complicated technical matters may also be dealt with during pre-trial hearings, with participation of technical experts as “people’s assessors.

The parties are not required to give discovery of documents held abroad in pre-trial discovery. The court may investigate and obtain evidence that the parties cannot obtain by its own efforts before the trial, if the court cannot obtain the evidence, the party will bear the responsibility that one cannot support the claim.

5) What is the impact in court proceedings in your country of the ability of courts in other countries to award punitive damages?

Since China joined the WTO in 2002, communications among different countries’ courts increased. The Chinese court began to accept some effective system or measures of courts in other countries for the protection and enforcement of IP rights in China. Some Chinese courts are more willing to award higher damages than before in order to strengthen protection of IP rights. However, China has no treble/punitive damage system so damages are much lower than that in the US.

Summary

With development of China’s economic and business transaction, a comprehensive legal framework has been developed for the protection and enforcement of IPR in China, but punitive damages do not apply to patents, trademarks and other IP cases in China resulting in the IP owner are not willing to file a suit. Therefore, it is necessary to establish an effective punitive damage system in China with the limit of its applying situation so as to prevent serious infringement of IP rights.