

## **Report Q203**

in the name of the Chinese Group  
by Zhongqi ZHOU

### **Damages for infringement, counterfeiting and piracy of Trademarks**

#### **Questions**

##### **1) The state of the substantive law in the countries**

- 1) *The Groups are invited to indicate, in summary form, if their national law distinguishes between different kinds of infringement, counterfeiting and piracy of trademarks and what the conditions are for liability for those different kinds of infringement, counterfeiting and piracy.*

Chinese law does not distinguish between different kinds of infringement, counterfeiting and piracy of trademarks.

*The Groups are also invited to indicate if these various forms of the violation of trademark rights have an impact on the monetary compensation to be provided to the trademark owner.*

When the monetary compensation to be provided to the trademark owner is assessed, seriousness of infringement, such as wilfulness of the infringer, duration and territory scope of infringement, and consequence of infringement, should be considered.

- 2) *The Groups are asked to present in a summarised form the legal theories in their respective jurisdictions for the assessment of damages for the violation of trademark rights.*

Under the Chinese laws, damages in its nature should be compensatory. We adopt so called "comprehensive compensation principle" to calculate compensation to be provided to the trademark owner. Specifically, compensation is calculated based on the losses suffered by the trademark owner, including reasonable fees incurred for stopping infringement, or the profits gained by the infringer arising from infringement. If neither the losses nor the profits can be assessed, statutory damages of up to RMB500,000 (approximately US\$70,000) can be awarded.

*Is this assessment based on the ground of civil liability or on the ground of violation of property ownership or some other ground(s)?*

Assessment of compensation to be provided to the trademark owner should be based on the ground of civil liability.

- 3) *The Groups are asked to indicate what factors are taken into account in the assessment of damages and how the value of the trademark is used in this assessment.*

a) *Do the Courts take into consideration how strong the trademark is, both in terms of its inherent distinctiveness and popularity acquired through use and publicity?*

Popularity of a trademark acquired through use and publicity should be considered.

- b) *Do the Courts take into consideration the investment made by the trademark owner in order to make the trade mark known?*
- Investment made by the trademark owner in order to make the trademark known should be considered.
- c) *Do the Courts consider what direct effect the infringing activity has had on the trademark proprietors profitability? If so, how?*
- Direct effect the infringing activity has had on the trademark owner's profitability should be considered. As infringing activity may directly reduce the trademark owner's profitability capability, the trademark owner should be compensated adequately.
- d) *Do the Courts take into account price erosion? If so, how?*
- Price erosion should be considered if the product price of the trademark owner has been reduced due to infringement.
- e) *Do the Courts distinguish between actual lost sales ( i.e; the sales which would otherwise have been made by the trademark owner) and all sales made by the infringer? If so, which sales matter?*
- The trademark owner is entitled to claim damages either on the basis of actual lost sales or all sales made by the infringer.
- f) *Do the Courts treat parallel imports differently? If so, what is the legal basis for this differentiation?*
- Court decision showed that parallel importation is not allowed, although our laws do not have specific regulation in this regard. When damages for trademark infringement are assessed, it should not be treated differently.
- 4) *In case the compensation is evaluated on the basis of lost profits of the trademark owner or an account of the profits arising from infringement:*
- a) *What are the key principles?*
- The trademark owner is entitled to claim damages either on the basis of actual lost sales or all sales made by the infringer.
- b) *How are the profits defined and how are they calculated?*
- The way to calculate profits arising from infringement is to multiply sale of infringing products by profit per unit. If the profit per unit of the infringer is not available, profit per unit of the trademark owner can be used.
- c) *What shares of the profits are attributed to the trademark owner and any licensees?*
- Total profits arising from infringement should be attributed to the trademark owner and any licensees proportionally considering facts such as number of license granted, exclusivity, duration, territory scope of the license. The proportion of the shares may also be the subject of licensing agreement.
- d) *Does the strength of the trademark come into play in apportioning the profits?*
- Infringement may damage the reputation of a trademark, reducing future interests of the trademark owner. Compared with the losses of the trademark owner, losses of a licensee is usually more visible. Therefore, the injured trademark owner deserves more shares of profits, especially in case a famous mark is involved.
- 5) *In case the monetary compensation is assessed on basis of a royalty,*
- a) *How is the royalty rate fixed?*

b) *Do the Courts consider whether the mark in question is one which is or was available for licence? If so, how does this affect their analysis?*

We do not assess monetary compensation directly on the basis of a royalty. However, if the trademark owner has granted a license, royalty can be taken into consideration when monetary compensation is assessed.

6) *The Groups are asked to summarise what information in relation to the unlawful activities causing the violation of the trademark can be obtained by the trademark owner in administrative or judicial proceedings in order to assess the level of monetary compensation.*

Competent administrative authorities are empowered by the law to issue an injunction against infringement, which can be enforced by a court. However, they have no power to award damages.

The trademark owner in judicial proceedings has no access to operation information of the infringer, such as sales volume and the cost of infringing products. The trademark owner may make investigation by himself or using an independent third party from publicly available sources. However, such investigation result usually is not acceptable by the court.

If a piece of evidence is likely to be destroyed or hidden away, or difficult to be collected if it is not collected promptly, the trademark owner may, before or after lodging a complaint with a court, request the court to have it preserved. The court may have the relevant documents, including the accounting book, of the accused infringer preserved, seize the facilities and detain the products involved in the infringement, upon request of the trademark owner. The court may appoint an accountant firm to assess the profits made from the infringement.

7) *One of the forms of the prejudice suffered by the trademark owner through the infringement is the damage to the trademark in a reputational sense (diluting exclusivity). The Groups are invited to report if this form of prejudice is considered by the Courts and what are the factors that are used in their evaluation?*

When damages are assessed on the basis of statutory damages, prejudice to the trademark reputation should be taken into consideration.

8) *The Groups are also asked to indicate if the moral/wilful element of the violation of a trademark right, and particularly the will to profit or gain from counterfeit activities (where the goods do not originate from the trademark proprietor or are not marked with his consent) is taken into consideration in the evaluation of the damages and/or the account of profits. If so, what are the consequences?*

When damages are assessed on the basis of statutory damages, wilfulness of infringer should be taken into consideration.

*The Groups are also asked to indicate if ignorance of the trademark and/or ignorance of the infringement is taken into consideration in the evaluation of damages or the account of the profits.*

When damages are assessed on the basis of statutory damages, ignorance of the trademark and/or ignorance of the infringement can be taken into consideration.

A person who sells infringing products without knowledge of infringement shall not be liable to pay damages to the trademark owner if he can prove that the goods are obtained from legitimate source and identify the supplier.

*Finally, is the scale of the counterfeiting or piracy an additional element which influences the assessment of damages and/or account of the profits? If so, what are the consequences?*

When damages are assessed on the basis of statutory damages, duration and territory scope of infringement, and volume of counterfeiting goods should be taken into consideration.

- 9) *Is the evaluation of damages based on the same principles in cases where the infringement also constitutes a violation of a contractual obligation, for example, a violation of a licence?*

The trademark owner has option to take court action based on trademark infringement or contract violation. If the trademark owner takes court action based on trademark infringement, damages should be assessed in accordance with the trademark law. If the trademark owner takes court action based on contract violation, liquidated damages or the method to calculate damages agreed upon by the two parties can be applied, if the contract has such clause.

- 10) *The Groups are also invited to explain the problems and practical difficulties that the trademark owners face in the assessment of the damages and/or account of the profits for the violation of trademark rights?*

As the trademark owner has no access to operation information of the infringer, it is difficult to discover profits gained by the infringer arising from infringement.

- 11) *In some cases the national law may provide, as a remedy for the violation of the trademark right, for the confiscation of the products bearing the illicit sign.*

*If this applies in their national law, the Groups are asked to indicate, if this confiscation influences the evaluation of the damages.*

Competent administrative authorities are empowered by the law to confiscate the products bearing the illicit sign. However, they have no power to awarded damages. The courts usually do not confiscate the products bearing the illicit sign.

- 12) *The Groups are asked to indicate if the jurisprudence in their countries is a useful source of information and comparison on the assessment of monetary compensation for the violation of the trademark rights.*

As modern intellectual property laws have been developed in China for only more than 20 years, our legal tradition may not be very helpful in assessment of monetary compensation for the violation of the trademark rights.

According to traditional Chinese tort theory, an injured party should be compensated exactly what the party lost. However, we found that in some cases, neither the losses suffered by the trademark owner nor the profits gained by the infringer arising from infringement can be assessed. In order to provide more available options to the trademark owner, statutory damages are provided when the Chinese Trademark Law was amended in 2001. Our practise showed that the introduction of the method provides great help to the trademark owner. In order to provide more adequate compensation to the trademark owner and to deter infringement more effectively, there are proposals to increase the limitation on the statutory damages as the Chinese Trademark Law is further amending.

*In this context, the Groups are invited to indicate if they are satisfied with the degree of certainty in their laws on evaluation of the compensation.*

We are fairly satisfied with the degree of certainty in our laws on evaluation of the compensation.

- 13) *The Groups are finally asked to explain any other issues related to the topic which would appear useful in the examination of the question.*

No.

## **II) Proposals for the future harmonisation**

- 1) *The Groups are requested to indicate if the evaluation of damages for violation of the trademark rights should be the subject of the international harmonisation and if this harmonisation should be undertaken through an international treaty.*

The evaluation of damages for violation of the trademark rights should be the subject of the international harmonisation. However, as legal theories in different jurisdictions for the assessment of damages for the violation of trademark rights are varied considerably, more discussion on the issue is needed before an international treaty is considered.

- 2) *The Groups are requested to indicate what should be, based on their national experience, the harmonised system for the evaluation of damages for violation of the trademark rights.*

No suggestion.

- 3) *The Groups are invited to make any other suggestions about possible future developments of the present question.*

No suggestion.

### **Summary**

Chinese law does not distinguish between different kinds of infringement, counterfeiting and piracy of trademarks. However, when the monetary compensation to be provided to the trademark owner is assessed, seriousness of infringement, such as wilfulness of the infringer, duration and territory scope of infringement, and consequence of infringement, should be considered.

Under the Chinese laws, damages in its nature should be compensatory, rather than punitive. Compensation is calculated based on the losses suffered by the trademark owner, including reasonable fees incurred for stopping infringement, or the profits gained by the infringer arising from infringement. If neither the losses nor the profits can be assessed, statutory damages can be awarded.

Although the trademark owner has very limited access to operation information of the infringer, preservation of evidence provides useful means to the trademark owner in evidence collection.

Our practise showed that the introduction of the statutory damages provides great help to the trademark owner in obtaining reasonable compensation. In order to provide more adequate compensation to the trademark owner and to deter infringement more effectively, there are proposals to increase the limitation on the statutory damages as the Chinese Trademark Law is further amending.