Punitive Damages Not Sound Strategy to Address Tough Issues of IP Protection in China

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Some attribute inadequate intellectual property protection in China to the application of filling-up or full compensation doctrine, and absence of application of the punitive damages doctrine in the current law provisions on damages.[1] In recent years, with voice more loudly heard calling for enhanced protection of the intellectual property rights and the controversy arising again over whether to impose punitive damages on intellectual property infringements, the relevant authorities have been proactive in making investigation and research on the matter. This writer is going to present some tentative ideas on the following issues: whether application of punitive damages in the IP field is an common international practice; the provisions on punitive damages set forth in the Chinese law and effect of implementation thereof; the nature of damages for IP infringement and feasibility of the punitive damages system in China; and choice of approaches to addressing the tough issue of damages for IP rights in China. For this writer, the punitive damages are by no means an urgent option in addressing the tough issue of IP protection in China.

Application of punitive damages is not an common international practice in IP field

The TRIPs is a benchmark for assessing the level of IP protection in the members of the WTO. Article 45, paragraph one, thereof provides that the judicial authorities have the authority to order the infringer to pay the right holder damages adequate to compensate for the injury the right holder has suffered because of an infringement of that his intellectual property right by an infringer who, knowingly or with reasonable grounds to know, engaged in infringing activity. The provision shows that the filling-up system, not the punitive damages system, is adopted in the TRIPS.[2]

In some countries and regions, punitive damages system is put in place in respect of damages for IP infringement. It is provided in 35 U.S. Code that a court can increase the damages awarded by a panel or court by three times.[3] 15 U. S. Code provides that a trademark owner has the right to have the amount of damages awarded on the basis of an infringer's benefits or its own injury; the court may triple the amount of damages for the actual losses when it awards the damages on the basis of the right holder's injury; the court may, *ex officio*, award an appropriate amount of damages according to the circumstances of a case when the court finds that an infringer's benefits insufficient to compensate a right holder or excessive of the amount of damages due to the right holder.[4] Article 85 of the Patent Law of the Taiwan region provides that any of the following options may be adopted for calculating of the amount of damages: 1. to claim in accordance with Article 216[5] of the Civil Code. A patentee may, however, take the balance derived by subtracting the profit earned through the practice of his or her patent after the existence of infringement from the profit normally expected through the practice of the same patent as the amount of the damages, provided that no proving method can be presented to justify the damages; or 2. to claim based on the profit earned by the infringer as a result of his or her infringement. The entire income derived from the sale of the infringing articles shall be deemed to be the infringer´s profit, provided that the infringer is unable to produce proof to justify his or her costs or necessary expenses. Similar provisions have been set forth in Article 13 of the Business Secret Law of the Taiwan Region. As the relevant laws there show, the additional punitive damages apply to willful infringement.

In many countries, punitive damages are not provided for in their intellectual property laws. For example, Article 139 of the German Patent Law provides that when awarding damages, account may be taken of a infringer's benefits made because of the infringement, and the amount of damages is calculated on the basis of the royalties the infringer should pay presuming he or it was licensed the infringed invention. For another example, Article 61 of the British Patent Law provides that against an infringement, a patentee may claim damages based on the harm done to him as a result of the infringement or the benefits of the infringer from the infringement. However, the court should not award the damages on the basis of both.

Law provisions on punitive damages in China and effect of implementation thereof

Filling-up doctrine is the basic doctrine of civil damages in China. From the 1990s, China tried awarding punitive damages in civil cases. Relevant provisions on punitive damages have been set forth in the Law of the Protection of the Rights and Interests of Consumers, Food Safety Law and Tort Liability Law. The Law of the Protection of the Rights and Interests of Consumers marks the beginning of the application of the punitive damages.[6] Article 49 thereof sets forth the provision on the punitive damages, and makes it clear that the prerequisite for application of the provision is that a goods or service provider has practiced fraud; and in case like this, consumers may claim double damages based on the price they have paid for the goods or services. The content of the provision has been further affirmed in Article 113, paragraph two, of the Contract Law.[7] Besides, Article 9 of the Supreme People's Court's Interpretation of Several Issues Relating to Application of Law to Trial of Cases of Disputes Arising from Contract of Sale of Commercial Housing has specified several circumstances for application of the punitive damages provision to contractual disputes over sale of commercial housing.

Article 96, paragraph two, of the Food Safety Law[8] provides that consumers, in addition to claiming damages, may require the producer or seller who produces or sells food not up to the food safety standard or sells the same with clear knowledge to pay the damages ten times of the money they paid for the food. The punitive damages provision of Article 47 of the Tort Liability Law[9] has drawn wide attention from the academic and practice communities. However, this provision applies only to cases involving product liability, not to civil in-

fringement cases of other natures. Besides, stringent conditions are specified for the application of the provision: as a subjective element, an infringer should have the "clear knowledge", namely, he or it has the exact and definite knowledge that the product is flawed, and he or it still makes or sells it; "having good reason to have the knowledge" or "presumably having the knowledge" does not fall into this circumstance; for the element of harmful consequences, it requires that the infringement has caused serious consequences, such as death of another party or severe harm to his or her health. It is worth noting that Article 47 does not provide for how much more damages should be imposed.

For this writer, it is of great importance to put in place the punitive damages system in fields having great impact on public interests, such as the protection of the rights and interests of consumers, food safety and liability in relation to products. But, as the effect of implementation shows, it seems that the punitive damages system has little effect in curbing infringement as cases involving infringement of consumers' rights are incessant and serious food safety events endless. How to bring the punitive damages system into full play is an issue worth serious study.

The punitive damages system put in place in the implementation of the current laws has failed to achieve obvious effect. This shows that the punitive damages system put in place within the IP regime is unlikely to achieve its desired results, either.

Nature of damages for infringement of IP rights and feasibility of the punitive damages system in China

In China has been adopted the full-compensation doctrine in the IP field, with the goal of rectifying a right holder's injury. But some methods of calculating the amount of damages for IP infringement in China are punitive to an extent. For example, in patent infringement cases, when it is difficult to determine a right owner's actual injury or an infringer's benefits, damages are duly awarded with reference to the royalties of licenses that would otherwise be granted.[10] That is, the people's court may duly award the damages at an amount one to three times the license royalties according to the factors, such as the class of the patent right, nature of the infringer's infringement and the amount of the royalties under a patent license.[11] The royalties of a patent license usually represent the market value of the patent, and consideration of the royalties when the infringer is otherwise licensed and supposed to pay. In infringement cases, an award of damages one or more times the royalties of the patent license embodies penalty imposed on the infringer. Similar practice is found in judicial practice relating to copyright infringement cases. For example, in the Beijing Higher People's Court's Answer to Issues Relating to Application of Law to Trial of Cases of Civil Dispute over Copyright[12] have been specified the methods for calculating the amount of damages for infringement, including award of damages two to five times the standard amount of remuneration where such standard is provided for by the State. Besides, the statutory damages system for IP infringement also embodies penalty on infringers, in addition to reduced burden of proof on right owners, in that without the need to prove the right owner's injury or the infringer's benefits, the court will impose some damages on the infringer.[13]

The IP punitive damages system widely discussed in China refers to the system of increased damages awarded on the basis of the right owner's actual injury or the infringer's illicit benefits, namely, the system for awarding the damages at the amount, say three or more times the actual injury and illicit benefits. For this writer, even if such a system is put in place in the IP field in China, the intended goal stands little chance of being achieved. Punitive damages are calculated on the basis of the right owner's actual injury or the infringer's illicit benefits. If it is impossible to find out the right owner's actual injury or the infringer's illicit benefits, there is no basis for calculation of punitive damages. Unfortunately, this is true in most IP infringement cases in China, and there are royalties of license of the involved IP right to refer to. In cases like this, the court can do nothing but awards, at its discretion, the damages at the amount fixed in the statutory damages. The important reasons for this situation to happen are a right owner's negligence in adducing evidence in connection with the damages and failure to utilise the procedural rules of litigation, and the court's failure to take measures for evidence preservation and following excessive high standard for accepting evidence in connection with damages. For this reason, the writer would argue that it is far from being enough to set forth provisions on punitive damages in the law. Achievement of the intended goal of the punitive damages system requires implementation of a series of law provisions as a guarantee.

Options to addressing tough issue of damages for IP infringement in China

The tough issue of damages for IP infringement in China, for this writer, is mainly not an issue in connection with legislation. Therefore, it is impossible to address it by addition of a punitive damages system to the current law. The effective approaches to address the tough issue are for right holders to fully utilise the current law rules and meeting their burden of proof, and for judges to change their ideas on matters of calculation of damages.

All right holders want to be awarded sufficient damages in IP litigation to maximize their benefits from lawsuit. But, as a result of misconception of the litigation system and lack of litigation strategy, many a right holder attaches importance to collection of infringement evidence, but neglects collection of evidence in relation to damages, even has the misconception that it is the judge's business to determine damages. Besides, damages imposed for IP infringement in most cases are not high, and the litigation expenses (including the lawyers' fees and expenses for business trip) are not low, which virtually dampen the right holders' initiative to collect evidence in relation to damages. In litigation, if a right holder's evidence on which damages are claimed is not sufficient, or not presented at all, a judge cannot but award, at his discretion, the damages at the amount fixed in the statutory damages.

Judges are now under increasing caseload pressure as a result of the rapid increase in the number of IP cases received by the court each year, and it is more difficult for interested parties to receive support for their request for preservation measures or investigation and evidence collection. To secure evidence of an infringer's illicit benefits, a right holder may request, under law, the court to take measures for evidence preservation, check and seal up defendant's financial documents and account books. Where the court does not grant evidence preservation, nor order, in the meantime, a defendant to submit it within a specified time limit, a rightholder almost has no way to obtain such evidence. In some cases, judges take over-stringent standards for accepting evidence of damages interested parties have made painstaking efforts to obtain. For example, in a recently closed case involving infringement of a drug patent, to prove the quantity of the infringing products the defendant sold, the rightholder invited an authoritative market surveyor in the industry to have prepared and produced the Drugs Market Report (Hospital) to the court as evidence. It was accepted by the trial court, but not by the court of appeals mainly on the ground that the report had been prepared by a market surveyor invited by the rightholder, who were somewhat related in terms of interests. The court's reasoning and practice have doubtlessly rendered the evidence of the nature, such as market report, "useless". As reports of the nature are prepared with entrustment by an interested party, the entrusting and entrusted parties are related to each other in one way or another. For this writer, the second-instance court's view is contrary to the standard for review of damages evidence as specified by the Supreme People's Court in its relevant documents, namely "damages should be awarded with flexible application of the evidence rules and comprehensively and objectively review of evidence for calculation of damages, fully utilising logical reasoning and daily experience, so as to come up with a comprehensive assessment of the truthfulness, legitimacy and force of evidence."[14]

In response to the present situation of application of the statutory damages in awarding damages in most cases in China, judges should change their judicial ideas, act in the spirit of the relevant documents of the Supreme People's Court, and provide detailed, specific explanation of the factors they considered according to the specific circumstances, so as to come up with reasonable and convincing award of damages.[15] With flexible application of the standard of statutory damages, the court should impose relatively large or the largest statutory damages on willful or repeated infringers.

The issue of IP damages is one of the major tough issues in the IP field, which, in micro-terms, involves fairness and justice in a particular case, and, in macro-terms, has a bearing on the realisation of the goal of the entire IP system. It is widely accepted by our foreign colleagues that the intellectual property system in China is relatively well established, and its legislation by no means lags behind the times. The approaches to addressing the tough issue of IP damages in China is to stringently implement the IP laws, and change our judicial ideas. It is not urgently needed to put in place a punitive damages system in China. When the amount of damages awarded in infringement cases is sufficient to compensate the losses inflicted by an infringement and deter and curb IP infringement, all the tough issues of IP damages in China will be readily addressed. ■

[1] In law theory, the punitive damages doctrine is a doctrine of awarding damages more than an infringer's actual injury to impose heavier liability for damages on infringers. In the civil law field, debate has long been going on on whether to apply the punitive damages doctrine or not. Those for the application argue that punitive damages deter and curb infringement; those against the application or for stringent application argue that punishment falls within the domain of criminal law or administrative law, and application of the punitive damages is detrimental to the fairness doctrine and the basic value system of the civil law.

[2] Of course, the TRIPs does not inhibit members from adopting the punitive damages system. For example, Article 45, paragraph two, thereof provides that in appropriate cases, Members may authorise the judicial authorities to order recovery of profits and/or payment of pre-established damages even where the infringer did not knowingly, or with reasonable grounds to know, engage in infringing activity. Here to "order recovery of profits and/or payment of pre-established damages" embodies penalty on infringers.

[3] See 35 U.S.C.284.

[4] See 15 U.S.C. 1117. But the law meanwhile clearly points out that the awarded amount in the above two circumstances is merely "compensation", not "penalty".

[5] Article 216 of the Civil Law of the Taiwan Region provides that except otherwise provided in law or otherwise agreed in contracts, it is limited to compensation for an infringed party's injury or losses.

[6] Promulgated on 31 October 1993.

[7] It is provided for in the Article that "a business operator that practices fraud in providing goods or services shall be liable for damages under the Law on the Protection of Consumers' Rights and Interested of the People's Republic of China."

[8] Promulgated on 28 February 2009.

[9] Promulgated on 26 December 2009.

[10] Article 65 of the Patent Law of the People's Republic of China as of 2008.

[11] Article 21 of the Supreme People's Court's Several Provisions on Issues Relating to Application of Law to Trial of Cases of Patent Disputes, (No. Fashi 21/2001).

[12] The Beijing Higher People's Court's Answer No. Gaofafa 460/1996.

[13] Of course, whether the punitive effect of the statutory damages will work depends on a judge's judgment of the circumstances of a case and his discretion.

[14] The Supreme People's Court's Opinion on Several Issues Relating to Intellectual Property Trial in Service of the Overall Economic Situation issued on 21 April 2009.

[15] Ibid.