On the System Arrangement Regarding IP Infringement Penalties

— Comments on Application of Punitive Damages

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I. Background and objectives of studies

The punitive damages system in the intellectual property laws of some countries is an additional punishment for infringers on the basis of compensatory damages. According to the general theories of the tort law, infringement damages are in the nature of compensation, rather than punishment. In this sense, as far as the civil liabilities for intellectual property infringement are concerned, both the civil law and the common law take compensation for actual losses as the principle. Even in countries with the punitive damages, they are not applicable to all types of intellectual property rights, for instance, there are no punitive damages in the copyright law in the United States. A fundamental difference between infringement of intellectual property rights (illegal exploitation of other's intangible property) and infringement of property rights (illegal possession or exploitation of others' tangible property) in terms of civil remedies lies in that in the case of infringement of property rights, the plaintiff can claim the cessation of infringement and damages, as well as the return of the original property. However, due to the intangible nature of the subject matters eligible for patent protection, where infringement occurs, the defendant can be ordered to cease infringement and compensate for losses, but the "original property" can never be returned. If the principle of full compensation for actual losses is strictly followed, it means that those infringers can first commit infringement and then compensate for losses, because even if they are found to have infringed others' intellectual property rights, they just need to stop exploiting patents (cease infringement) and pay an amount of money as "royalties" that should have been paid. Such a remedy is tantamount to encouraging infringement and cannot serve as an effective deterrent or hindrance to infringement.

According to the basic requirement of Article 41.1 of the Agreement on Trade - Related Aspects of Intellectual Property Rights (the "TRIPS Agreement"), members shall ensure that enforcement procedures are available under their law so as to permit effective action against any act of infringement of intellectual property rights, including expeditious remedies to prevent infringements and remedies which constitute a deterrent to further infringements. In theory, countries may still insist that the civil liabilities for damages resulting from infringement of intellectual property rights shall follow the principle of full compensation for actual losses. For effectively deterring infringing acts, provisions in both domestic laws and international rules have already somewhat deviated from the above - mentioned principle even without punitive damages. Or in addition to the civil damages for fully compensating for actual losses, other systems are arranged to impose monetary penalties for "willful" and "serious (especially commercial - scale)" infringement of intellectual property rights.

This article is going to review the punitive legal measures in addition to the punitive damages, analyze the potential repetitive punishments caused by those legal systems and the punitive damages system, point out the difficulties and noteworthy issues in the application of the punitive damages system by the courts in China, and put forward related suggestions so as to make the implementation of punitive damages more reasonable.

II. Punitive remedies for infringement of intellectual property rights

1. The subjective fault requirement for the reduction of or even exemption from damages

According to the general principles of the tort liability law, the infringer's liability for damages should be in principle based on the infringer's subjective fault (including willfulness and negligence). However, in the intellectual property laws, the infringer may not be exempt from the liability for damages even though the infringer is not at fault, which is demonstrated in international intellectual property rules and domestic intellectual property laws of various countries.

First, Article 45.2 of the TRIPS Agreement and Article 13.2 of the Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights (the "Enforcement Directive") both clearly state that the judicial authorities shall 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. Different from the statutory damages in the China's intellectual property laws that are applicable where the amount of damages cannot be calculated accurately, the pre-established damages are actually ordered in the case of no-fault infringement. 17 U.S.C.§504(c)(2) stipulates that in a case where the infringer sustains the burden of proving, and the court finds, that such infringer was not aware and had no reason to believe that his or her acts constituted an infringement of copyright, the court in its discretion may reduce the award of statutory damages to a sum of not less than $200. [1] As for the recovery of profits gained from infringement where the infringer was at no fault as stipulated in the Enforcement Directive, strictly speaking, the right to claim is not based on damages or recovery of unlawful profits, but on a new skimming off of profits procedure (Gewinnabschöpfungsanspruch). Article 20 of the Interpretation of the Supreme People's Court Concerning the Application of Laws in the Trial of Civil Disputes over Copyright (No. 31 [2002] of Legal Interpretation) once requires that "where the publisher has given reasonable care and the copyright holder cannot produce evidence to prove that the publisher should have known that the publication thereof has constituted infringement, it shall, according to the provisions of Article 117.1 of the General Principles of the Civil Law of China, bear the civil liabilities for ceasing the infringement and recovering the profits gained from the infringement." [2] The liability for "recovering the profits gained from the infringement" therein is as a matter of fact a no-fault liability.

Second, Article 77 of the China's Patent Law and Article 64.2 of the China's Trademark Law only exempt sellers who sell infringing products (infringe on others' right of sale) from "damages" based on their "good faith (sellers do not know what they sold are infringing products and can prove the lawful source thereof)", but there is no "exemption" from the liability for damages for other exploitation of patents or trademarks without the authorization of right holders. It seemingly has implied the conclusion that where there is the infringement of the exclusive right of the intellectual property right holder, even though the infringer did not commit willful infringement or had no fault, the infringer has to bear liabilities for damages and cannot be exempted from liability to pay damages.

In short, the above regulations have deviated from the traditional principles of the tort liability law to some extent, and the damages born by the infringers with no subjective faults somewhat can be considered as "punitive".

2. Assumption of liability for damages when no economic loss is caused to plaintiff

In disputes over infringement of intellectual property rights, even when the defendant only manufactured or offered to sell unauthorized products, and the infringing products have not been put on the market and thus have no direct impact on or cause no damages to the plaintiff, the defendant shall cease infringement and compensate for the losses as long as the defendant infringed a statutory exclusive right.

Some people may have a different opinion: the manufacturing of unauthorized products which are not sold belongs to "imminent infringement", so the defendant should not be liable for the damages. The authors of this article hold that since the defendant committed the infringing act of reproduction, there is no so-called "imminent infringement" and the defendant shall be liable for damages. Some domestic scholars interpret the concept of "imminent infringement" introduced by Professor Zheng Chengsi merely based on its literal meaning, that is to say, the "imminent infringement" is understood as infringement that will occur very soon, or considered as an equivalent to the impending sale or offer for sale, or the preliminary injunction is taken as

a remedy for imminent infringement. As a matter of fact, Professor Zheng Chengsi expounded the theory of "imminent infringement" for criticizing the opinion that "all the infringement must be established on the actual damage that has been caused, and no damage means no liability". In his view, according to the theory of imminent infringement, infringement occurs as long as the defendant "manufactured" an infringing product, regardless of whether the infringing product has been put on the market. Even if the defendant's act did not infringe the right of sale and has not given rise to actual loss, the patent right has been infringed. Where someone other than the trademark owner stores wine bottles with stickers carrying other's trademark in a warehouse and those bottles haven't been filled, sold or caused any losses yet, he still constitutes infringement according to the provision (unauthorized manufacturing of trademark signs) of the trademark law. This is an example of the "imminent infringement" prohibited by Article 50 of the TRIPS Agreement, i.e., infringing products shall be prevented from entering into the circulation channel and infringement shall be ceased before "actual damage" is caused. If an infringer does not have to bear the liability for damages in the case of such infringement, it may manufacture infringing products recklessly and escape the liability for infringement easily as long as the infringing products sold in the market are not found or confiscated. This is kind of an encouragement to infringement.

For this reason, in March 2021, the Intellectual Property Court of the Supreme People's Court clearly indicated in the second-instance judgments of two disputes over infringement of utility model patents that even if the only infringing act of the accused infringers was to offer for sale (by demonstrating the infringing products on their websites), they shall be civilly liable for the cessation of infringement and compensation for losses, and eventually awarded at the court's discretion the statutory damages. The Intellectual Property Court of the Supreme People's Court held that "the assumption of civil liability for offer-for-sale infringement is not premised on actual sale……If the infringer were exempted from liability for damages because of the difficulty in proving the specific consequences resulting from offer for sale and only bore the civil liabilities for ceasing offer for sale and paying reasonable expenses for the patent holder for right enforcement, it would not conform to the civil law principle that for every right, there is a remedy, nor would it contribute to the realization of the legislative purpose of the patent law."

3. Some methods for calculating damages have deviated from the principle of full compensation for actual losses

In the intellectual property laws of many countries including China, the amount of damages can be calculated according to profits earned from infringement or royalties or even multiples of royalties, in addition to actual losses. Such calculation methods, however, may not completely conform to the principle of "full compensation for actual losses".

For instance, according to the German Patent Act, if the requirements for compensation for damages resulting from infringement, especially the subjective fault requirement, are met, the damages for patent infringement can be calculated according to the defendant's profits earned from infringement. In China's intellectual property laws, it is also clarified that the right holder can claim damages based on the defendant's profits earned from infringement (however, account shall be taken of the actual contribution made by the plaintiff's intellectual property right to the defendant's profits). As a matter of fact, the recovery of profits is based on the deprivation of the infringer's profits, and the losses which the right holder has suffered are not linked to the profits earned from infringement which the infringer should recover. Where the defendant's profits earned from infringement are much greater than the plaintiff's actual losses, if the plaintiff is allowed to opt to claim damages based on the defendant's profits, the damages are not completely aimed for the full compensation for economic losses, but for the deprivation of the defendant's profits, or even a penalty in some sense. In Germany, it is extremely hard to prove that the recovery of profits complies with the principle of full compensation for actual losses, which is also quite controversial in the academic circle. In judicial practice, the causal relationship between the recovery of profits and the principle of full compensation for actual losses is bypassed, and the profits earned from infringement is directly considered as the losses suffered by the right holder through "legal fiction". However, under many circumstances, the profits earned from infringement are greater than the right holders' losses, and the monetary remedy for plaintiffs can hardly be considered as just "full compensation for actual losses". What's more, the right to claim damages in the German intellectual property law is in theory to fully compensate for actual losses, but many judgments in judicial practice deem that the recovery of profits earned

from infringement is not based on the right to claim damages, but on an independent "right to claim the deprivation of profits", which originates from "unreal *negotiorum gestio* (Unrechte Gschäfts ohne Auftrag)" [3] that is a form of spontaneous voluntary agency in which an intervenor or intermeddler acts on behalf and for the benefit of a principal, but without the latter's prior consent, as stipulated in Article 687.2 of the German Civil Code.

There is another example. According to Article 13.1 of the Enforcement Directive, the plaintiff's "economic losses" are not determined simply on the basis of the actual losses or improper profits obtained by the infringer. Account shall be taken of all appropriate aspects, such as lost profits, which the injured party has suffered, any unfair profits made by the infringer and the moral prejudice caused to the right holder by the infringement. In the authors' view, the determination of the amount of damages in consideration of all those aspects cannot be simply interpreted as fully compensating for the actual prejudice, although the Enforcement Directive emphasizes that its aim is not to introduce an obligation to provide for punitive damages but to allow for compensation based on an objective criterion.

In addition, although the methods for calculating damages as specified in the legal provisions are theoretically in line with the principle of full compensation for actual losses, if it is allowed to calculate the amount of damages based on the multiples of royalties, such as Article 63.1 (with reference to the appropriate multiple of trademark royalties) of the China's Trademark Law or Article 71.1 (with reference to the appropriate multiple of patent royalties) of the China's Patent Law, it is, in essence, no longer a simple full compensation, but the additional payment of multiples of royalties besides the royalties that should have been paid. Such determined damages is like penalties. There is a counterexample: the German Federal Parliament (Der Deutsche Bundestag) once proposed to add the damages of twice the amount of royalties in the Draft of the German Patent Act taking effect in July 2008, which was rejected by the federal government on the grounds of incompliance with the basic legal principle on damages. At present, the German Patent Act only calculates damages based on reasonable royalties, rather than the multiple(s) of royalties.

4. Statutory or discretionary damages may be punitive

In the determination of the amount of damages, the defendant's subjective fault is often taken as an important factor that may affect the court's judgment. In particular, in cases realting to infringement of intellectual property rights tried in China, the amount of damages is determined mostly according to statutory damages and sometimes discretionary damages that exceed the maximum statutory damages. Both the amounts of statutory damages and discretionary damages shall be determined after comprehensive consideration of various factors and are, in essence, determined at the court's discretion. Under such circumstances, the defendant's subjective malice often becomes an important influential factor.

For instance, the Supreme People's Court found in the *Huiyuan case* that the first-instance court did not take the other two infringing products into consideration and the defendant's "subjective malice is obvious", so the damages was raised from RMB 3 million (maximum statutory damages) as determined in the first instance to RMB 10 million. [4] The Shanxi High Court also hold in the *Der case* that the first-instance court did not take the defendant's fault into full consideration, and the damages should be increased accordingly. [5] It is clear that that willfulness or malice is not only the core element for awarding punitive damages, but also a crucial factor in determining statutory or discretionary damages. Therefore, judges probably have considered imposing penalties on defendants when determining the amount of statutory or discretionary damages. In order to avoid superimposed punishment, the China's intellectual property laws clearly stipulate that statutory damages should not be used as the basis for calculating punitive damages.

From the comparative law aspect, without explicit provisions on punitive damages, 17 U.S.C. §504(c)(2) requires the defendant's willful infringement as a statutory factor of the increase in the amount of statutory damages: a sum of not less than $750 or more than $30,000 is the range of statutory damages under normal conditions; however, in a case where infringement was committed willfully, the court at its discretion may increase the award of statutory damages to a sum of not more than $150,000. [6] That is to say, in the case of the same actual losses, the maximum statutory damages awarded for willful infringement are five times those for non-willful infringement. The huge gap is obviously to punish willful infringers for their malice, which reflects the punitive nature of the statutory damages system. In practice, precedents in the United States followed the same path. For instance, in *Davis v. Gap, Inc.*, the Court held that the purpose of punitive damages - to punish and prevent

malicious conduct - is generally achieved under the Copyright Act through the provisions of 17 U.S.C. § 504(c)(2), which allow increases in an award of statutory damages in cases of willful infringement. [7] In *Kamakazi Music Corp. v. Robbins Music Corp*., the court also reasoned that the public policy rationale for punitive damages of punishing and preventing malicious conduct can be properly accounted for in the provisions for increasing a maximum statutory damage award per infringement found to be willful. [8]

5. Deterrence of injunction forces defendants to pay more monetary damages

The German Patent Act does not have the punitive damages but strictly abides by the principle of full compensation for actual losses. Since the right holder can claim the cessation of infringement, even if the infringer is not subjectively faulty in the infringement of an intellectual property right, the infringer must cease infringement once the court finds the defendant's act constitutes infringement of other's intellectual property right. Therefore, the greatest deterrent to the infringer lies in the cessation-of-infringement remedy, rather than damages. Or in other words, as long as the court orders the defendant to cease infringement, it suffices to result in huge losses to the defendant. Once the infringer has to bear such consequences, the deterrence is much greater than damages. Although the latest revised German Patent Act allows the determination of whether to order to cease the infringement in the light of the "principle of proportionality (Verhältnismäßigkeitsprinzip)" [9], unlike the U.S. law which decides whether to grant an injunction based on equity, the German law has long emphasized the absoluteness of cessation of infringement, so that the right to claim the cessation of infringement shows significant deterrence.

In addition, where the infringing party acts neither intentionally nor negligently, he may, in order to avert the assertion of the claims, pay pecuniary compensation to the infringed party if the fulfilment of the claims would cause disproportionate harm and the infringed party can be expected to accept pecuniary compensation (for example, Section 100 of the German Copyright Law). Hence, under such circumstances, the defendant is often willing to pay additional pecuniary compensation in a bid to reach a settlement with the plaintiff. Where the infringing party is not at fault, the defendant does not need to bear the liability for damages according to the principles of the German tort law; however, under the deterrence of the right to claim cessation of infringement, many infringing parties are still willing to pay at least the certain amount of money that equals to royalties so as to prevent greater potential losses caused by the assumption of the liability for cessation of infringement.

To sum up, in face of such stronger liability for cessation of infringement, even if the punitive damages are not provided in Germany, the deterrent effect equivalent to that of the punitive damages has been achieved.

6. Criminal and administrative fines

For intellectual property infringement, according to the TRIPS Agreement, each member must provide not only civil remedies but also criminal remedies. According to Article 61 of the TRIPS Agreement, members shall provide for criminal procedures and penalties to be applied at least in cases of willful trademark counterfeiting or copyright piracy on a commercial scale, and members may provide for criminal procedures and penalties to be applied in other cases of infringement of intellectual property rights, in particular where they are committed willfully and on a commercial scale. Remedies available shall include imprisonment and/or monetary fines sufficient to provide a deterrent. Obviously, both the criminal penalties and punitive damages are mainly applied in cases of malicious infringement on a commercial scale. Thus, in those countries which provide criminal liabilities for infringement of intellectual property rights, criminal fines work as monetary punishment on infringers even if there is no civil punitive damages in their intellectual property laws.

In addition to criminal penalties, the China's intellectual property laws also provide administrative protection for intellectual property rights, to be specific, the infringer shall bear administrative liabilities including administrative fines. According to Article 53 of the China's Copyright Law, Article 60 of the China's Trademark Law and Article 68 of the China's Patent Law, administrative fines are mainly calculated by multiplying the amount of illegal business revenue or illegal income, which is similar to the calculation of the punitive damages by way of "multiplying a base". The amount of administrative fines calculated in this manner will at least exceed the income resulting from infringement (generally speaking, the amount of illegal business revenue is certainly greater than that of income gained from infringement), or possibly the actual losses. In this sense, administrative fines are punitive and can also serve as monetary penalty.

In summary, in case of infringement of intellectual property rights, if the principle of full compensation for actual

losses is strictly followed, it is not sufficient to provide a deterrent to infringers. Although each country may not necessarily provide punitive damages due to its jurisprudential logic and legal traditions, different punitive factors undoubtedly have "hidden" in various legal systems. In other words, even without punitive damages, infringers may also face penalties in addition to damages "compensating for actual losses". Hence, the punitive damages should not be a necessity in the intellectual property law.

III. Grounds for the punitive damages system in China and practical effect thereof

Why should China establish the punitive damages system in the intellectual property laws? There are special background and considerations besides the fundamental reason that the principle of full compensation for actual losses is insufficient to provide a deterrent to the infringement of intellectual property rights.

1. Grounds for the punitive damages in China's intellectual property laws

First, in China's judicial practice, damages awarded in a great number of disputes over intellectual property infringement is statutory damages. However, over a longer period of time, the maximum amount of statutory damages in various intellectual property laws in China was obviously low, which could hardly deter or curb infringement. The maximum amount of statutory damages in the China's Copyright Law was only RMB 500,000 before its third revision in 2020, through which the maximum amount of statutory damages for copyright infringement was raised to RMB 5 million. The maximum amount of statutory damages in the China's Trademark Law was only RMB 500,000 before its third revision in 2013. The maximum amount of statutory damages in the China's Patent Law was only RMB 1 million before its third revision in 2008. In the Opinions of the Supreme People's Court on Several Issues Concerning Intellectual Property Judicial Adjudication under the Current Economic Situation issued in 2009, for the purpose of solving the problems with regard to the maximum amount of statutory damages, the Supreme People's Court clearly stipulates the discretionary damages which is higher than the maximum amount of statutory damages, requiring that "where it is difficult to prove the specific amount of the loss caused or profits made but there is evidence proving that the above-mentioned amount obviously exceeds the maximum amount of statutory damages, the amount of damages above the maximum amount of statutory damages shall be reasonably determined in comprehensive consideration of all the evidence in the case". Therefore, Chinese courts occasionally award discretionary damages that exceed the maximum amount of statutory damages. In general, however, most courts are not inclined to actively make such a breakthrough.

Second, although China's legislature has been constantly increasing the maximum amount of statutory damages, it is still difficult to satisfy the actual need to award appropriate damages. In the intellectual property laws in China such as the Trademark Law, the Patent Law and the Copyright Law, statutory damages are only awarded as an alternative measure when the damages cannot be determined through any of the three calculating methods, and therefore is, in theory, compensatory damages according to the principle of full compensation for actual losses. As for discretionary damages that exceeds the maximum amount of statutory damages, the prerequisite for its application is still to "provide evidence proving that the amount of losses obviously exceeds the maximum amount of statutory damages" and the basic rationale is still the principle of full compensation for actual losses. Under the guidance of such a rationale, Chinese courts are very prudent when determining the amount of statutory damages, and reluctant to award the amount of damages that exceeds the maximum amount of statutory damages under normal circumstances. Even in cases where the infringement is obviously willful and serious, the statutory damages are set to the maximum extent in only some of them, which cannot effectively deter or curb malicious infringement. The Standing Committee of the National People's Congress made the inspection reports on the implementation of the Patent Law and the Copyright Law in 2014 and 2017 respectively, pointing out that low damages is one of the problems in intellectual property cases. Low damages awarded for infringement of intellectual property rights leads to difficulties in compensating the losses suffered by right holders and effectively curbing the infringement of intellectual property rights.

The low statutory damages in infringement cases gives rise to low infringement cost and insufficient deterrence to infringers. Malicious infringement becomes a hard nut to crack. In order to change this situation, punitive damages,

as a promising solution, was first introduced as a remedy for trademark infringement through the third revision of the China's Trademark Law in 2013. After the formal establishment of the punitive damages for trademark infringement, the CPC Central Committee and the State Council jointly released the Opinions on Improving the Property Rights Protection System and Lawfully Protecting Property Rights in 2016, stating that "efforts shall be made to explore the establishment of the punitive damages system for infringement of intellectual property rights, such as patents and copyrights, and impose punitive damages for serious malicious infringement." The Anti-Unfair Competition Law revised in 2019 introduced, in Article 17, the punitive damages for infringement of trade secrets. In 2019, the Decision of the CPC Central Committee on Major Issues Concerning Upholding and Improving Socialism with Chinese Characteristics and Modernizing the State Governance System and Capacity clearly requires to "improve the property rights protection system based on the principle of fairness, establish the punitive damages system for infringement of intellectual property rights and strengthen protection of enterprises' trade secrets". At the end of 2019, the general offices of the CPC Central Committee and the State Council further emphasized that "the establishment of the punitive damages system for infringement of patents and copyrights shall be quickened" in the Opinions on Strengthening the Protection of Intellectual Property Rights. The punitive damages system was introduced into the China's Patent Law and the China's Copyright Law revised successively in 2020. So far, China has introduced the punitive damages into laws in all major intellectual property fields, and the punitive damages system against infringement of intellectual property rights has been formally established.

2. Practical difficulties faced by punitive damages

It has not been a long time since the introduction of the punitive damages into the China's Patent Law and the China's Copyright Law, so cases concerning punitive damages for infringement currently awarded by Chinese courts are mainly disputes over trademark infringement [10]. However, only in a few cases punitive damages have been awarded since the revision of the China's Trademark Law in 2013 mainly because according to the China's Trademark Law, the punitive damages can only be calculated on the basis of actual losses, profits gained from infringement or the multiple of royalties. However, as stated above, in judicial practice, the above methods for calculating damages cannot be applied in a large number of infringement disputes and statutory damages (determined by the court at its discretion within the maximum limit) became the last resort. Although the punitive damages is expected to tackle the situation that statutory damages, as a remedy, can hardly serve to curb infringement, it has to be calculated on the basis of damages other than statutory damages, on which a majority of cases still fall back. It seems like a dead end. Thus, according to current calculation rules, the application of punitive damages will inevitably encounter great difficulties.

On March 2021, the Supreme People's Court further clarified in Article 5 of the Interpretation on the Application of Punitive Damages in the Trial of Civil Cases Concerning Infringement of Intellectual Property Rights (hereinafter referred to as the "Punitive Damages Interpretation") that "when determining the amount of punitive damages, the people's court shall use the actual losses suffered by the plaintiff, the amount of the defendant's illegal gains, or the profits obtained from infringement as the calculation base in accordance with relevant laws, respectively. This base shall not include the reasonable expenses paid by the plaintiff to stop the infringement. Where the law provides otherwise, such provisions shall prevail. If it is difficult to calculate the amount of actual losses, the amount of illegal gains, and the profits obtained from infringement as mentioned in the preceding paragraph, the people's court shall reasonably make determination by reference to the multiple of the royalties for the right in accordance with the law, and use this as the base for calculating the amount of punitive damages." It can thus be seen that the way to calculate the punitive damages according to the above-mentioned judicial interpretation still cannot solve the difficulty in determining the calculation base as mentioned in this article.

Of course, in practice, even if the court cannot find a base for punitive damages, it can still determine, at its discretion, the amount of statutory damages by taking the subjective fault of the infringer and the seriousness of the infringement into consideration. The amount of damages determined as such may be even much higher than the maximum amount of statutory damages. Although such damages may be punitive from the viewpoint of judges, it is determined, theoretically, for compensating actual losses. It is not real "punitive damages", but discretionary damages that exceeds the range of statutory damages.

3. Potential superposition of punitive damages and other punitive remedies

The punitive damages is, on the one hand, faced with the difficulty as mentioned above, and, on the other hand, is likely to be superimposed with other punitive remedies.

First, China's original judicial understanding of compensation for damages resulting from infringement as a punishment may lead to the superposition of penalties. Although, in theory, the China's intellectual property laws follow the principle of full compensation for actual losses, compensation under the principle of full compensation for actual losses cannot sufficiently curb or deter infringement. In the Opinions of the Supreme People's Court on Several Issues Concerning Intellectual Property Judicial Adjudication under the Current Economic Situation issued in 2009, the Supreme People's Court calls to "enhance the compensatory, punitive and deterrent effect of damages, reduce the cost of rights protection and increase the price to be paid for infringing." In 7 July 2016, Tao Kaiyuan, the vice president of the Supreme People's Court, emphasized again in the Work Conference for Intellectual Property Adjudication for National Courts cum the Meeting for Promoting the "Three-In-One" Intellectual Property Adjudication for National Courts that "the dual characteristics (objectivity and uncertainty) of the market value of intellectual property rights shall be fully considered. In the determination of the amount of damages for infringement of intellectual property rights, efforts shall be made to accurately reflect the corresponding market value of the infringed intellectual property rights and consider the subjective state of the infringer as appropriate so as to achieve the dual effect of taking compensation as the primary measure and punishment as the secondary measure."

The damages as mentioned in those judicial policies or speeches is obviously not punitive damages later established in the intellectual property laws, such as the China's Trademark Law, but the statutory damages awarded according to the principle of full compensation for actual losses or damages determined on the basis of losses, profits or the multiple of royalties. However, such judicial policies or rationales have deviated from the nature of the principle of full compensation for actual losses and can be punitive to some extent. Since the amount of punitive damages is calculated on the basis of "losses, profits or the multiple of royalties", after its introduction, if the principle that damages shall be both compensative and punitive is still followed, the courts when determining the damages based on "losses, profits or the multiple of royalties" have already taken into account the "punitive effects", and the further punitive damages will impose punishment again in cases concerning malicious or repeated infringement.

Second, using the multiple of royalties as the base for calculating punitive damages may lead to superimposed punishment. The amount of punitive damages can be determined as not less than one time and not more than five times the damages determined "with reference to the multiple of trademark royalties" in the China's Trademark Law, "with reference to the multiple of patent royalties" in the China's Patent Law, and "with reference to copyright royalties" in the China's Copyright Law, respectively. Thus, according to the China's Trademark Law and the China's Patent Law, the base for calculating punitive damages can be "the multiple of royalties".

Article 5.2 of the Punitive Damages Interpretation stipulates that if it is difficult to calculate the amount of actual losses, illegal gains or the profits obtained from infringement as mentioned in the preceding paragraph, the people's court shall reasonably determine by reference to the multiple(s) of the royalties for the right in accordance with the law, and use this as the base for calculating the amount of punitive damages. The damages calculated according to the "multiple(s) of the royalties for the right" may be actually punitive, so the punitive damages calculated based thereon can be superimposed punishment. According to Article 6 of the above judicial interpretation, "when determining the multiple(s) of punitive damages in accordance with the law, the people's court shall comprehensively consider factors such as the degree of the defendant's subjective fault and the seriousness of the infringement". It means that the court needs to consider the above two factors when determining "the multiple(s) of the royalties for the right", [11] as well as "the multiple(s) of punitive damages". Such a judging rationale obviously violates the jurisprudential logic underlying the liability for damages because both the defendant's subjective fault and the circumstances of infringement have to be taken into account in the determination of punitive damages and non-punitive damages.

Third, the criminal and administrative liabilities for infringement of intellectual property rights may lead to superimposed punishment. Both criminal and administrative fines are punitive, they, if superimposed with punitive damages, will be too high for infringers. However, Article 6.2 of the Punitive Damages Interpretation stipulates that "where an administrative fine or criminal fine has been imposed for the

same infringement and the execution has been completed, and the defendant claims to reduce or exempt punitive damages, the people's court shall not support the claim." It is apparent that the Supreme People's Court believes that administrative or criminal fines and punitive damages are not in conflict and can be superimposed.

IV. Conclusion and suggestion

Based on the above analysis, this article puts forward two suggestions regarding the difficulties and possible problems that Chinese courts may face in the application of punitive damages in disputes over infringement of intellectual property rights.

1. Non-punitive statutory damages can serve as the base for calculating punitive damages

Judging from the fundamental rationale of damages and international intellectual property treaties, the statutory damages *per se* is not for punishment at all. Statutory damages is just discretionary damages, and discretionary damages is theoretically the same as damages awarded according to the plaintiff's losses, the defendant's profits or royalties as long as they are determined in line with the principle of full compensation for actual losses. Chinese courts often add certain amount as penalties based on the defendant's subjective fault or the seriousness of infringement when calculating statutory damages. Statutory damages in some other countries, such as in the U.S. Copyright Act, is also somewhat for punishment. This is because monetary penalties had to be realized by means of statutory damages in the absence of the punitive damages in China's intellectual property laws in the past, which is just like the situation in the United States, where copyright law does not provide any punitive damages.

However, since punitive damages rules have been clearly specified in the Trademark Law, the Patent Law, the Copyright Law and the Anti-Unfair Competition Law of China, there is no need to impose monetary penalties on willful infringers through statutory damages, that is to say, when determining the amount of statutory damages, the courts should not consider whether the infringement is willful or malicious, nor impose penalties accordingly. On the one hand, statutory damages that is "non-punitive" or only for full compensation of actual losses can serve as the base for calculating punitive damages so as to overcome the difficulties in finding such a base; and on the other hand, after the "non-punitive" statutory damages resumes the function to fully compensate actual losses, the long-standing ambiguity in the nature of statutory damages in China can be clarified. In the future, the punitive damages and statutory damages in the China's intellectual property laws will be clearly demarcated and perform their own functions, i.e., punitive damages shall be applied to willful or malicious infringement, damages (including statutory damages) for full compensation of actual losses be applied to non-willful infringement, and part of infringers who are not found to be at fault shall be exempted from liabilities for damages. Thus, the system in relation to the liability for damages in the China's intellectual property laws can be clearly and satisfactorily explained in theory.

Article 1185 of the China's Civil Code stipulates that in case of a willful infringement of another party's intellectual property right, where the circumstances are serious, the infringed party has the right to request for corresponding punitive damages. Thus, in judicial practice, where the punitive damages cannot be calculated based on the losses, profits or royalties, it can be calculated based on "non-punitive" statutory damages according to Article 1185 of the China's Civil Code, rather than specific provisions in the intellectual property laws, such as the Trademark Law.

2. Beware of excessive punishment for willful infringement of intellectual property rights

As analyzed above, the so-called "damages for full compensation of actual losses" in China's judicial practice is somewhat for punishment. If punitive damages is awarded additionally, the reasonableness thereof is worthy of discussion. In particular, after the base for calculating punitive damages has been determined according to the multiple of royalties, the punitive damages that is one or five times the base, if imposed, may lead to superimposed punishment. Such a rule is extremely rare even in western countries with the strictest intellectual property protection. Therefore, this article recommends that:

First, when determining the base for calculating punitive damages based on the plaintiff's actual losses, or the defendant's illegal gains or the profits resulting from infringement, the courts should strictly follow the principle of full compensation for actual losses, and shall not further consider any "punitive effects". If the courts calculate the amount of punitive damages based on the royalties, the "multiple of royalties" should, in principle, not be used as the base. If the "multiple of royalties" has to be used as the

base, various factors shall be considered comprehensively so as to avoid imposing several multiples of punitive damages in addition to several multiples of royalties as much as possible. [12]

Second, civil, administrative and criminal remedies for infringement of intellectual property rights shall be further coordinated, and the superimposed application of punitive damages, administrative and criminal fines shall be prevented. As indicated by some scholars, "punitive damages is identical with fines in criminal and administrative penalties in nature, so it is necessary to consider the amount as a whole so as to prevent the infringer from being excessively punished." [13] This problem also aroused the attention of the Supreme People's Court, which stipulates in Article 6.2 of the Punitive Damages Interpretation that where an administrative fine or criminal fine has been imposed for the same infringement and the execution has been completed, and where the defendant requests to reduce or exempt punitive damages, the people's court shall comprehensively consider the request in determining the multiples mentioned in the preceding paragraph. However, this judicial interpretation is only binding on the civil cases. It is still necessary to set forth legal provisions to clarify how to avoid repeated penalties in criminal trials and administrative procedures involving infringement of intellectual property rights. ■

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[1] 17 U.S.C.§504(c)(2): In a case where the infringer sustains the burden of proving, and the court finds that such infringer was not aware and had no reason to believe that his or her acts constituted an infringement of copyright, the court in its discretion may reduce the award of statutory damages to a sum of not less than $200.

[2] This provision has been deleted. Reference shall be made to the Decision of the Supreme People's Court to Amend Eighteen Intellectual Property Judicial Interpretations Including the Interpretation (II) of the Supreme People's Court on Several Issues Concerning the Application of Law in the Trial of Disputes over Patent Infringement (No. Fashi 19/2020), which was adopted at the 1,823rd session of the Judicial Committee of the Supreme People's Court on 23 December 2020 and took effect on 1 January 2021.

[3] BGH GRUR 1961, 354, 355 - Vitasulfal, m.w.Nachw.; BGH GRUR 1982, 301, 303 - Kunststoffhohlprofil II; BGH GRUR 2007, 431, 433 - Steckverbindergehäuse.

[4] See the Civil Judgment No. Minsanzhongzi 7/2015.

[5] See the Civil Judgment No. Jinminzhong 555/2018.

[6] See supra note 1.

[7] *Davis v. Gap, Inc.*, 246 F.3d 152, 172 (2d Cir. 2001).

[8] *Kamakazi Music Corp. v. Robbins Music Corp.*, 534 F. Supp. 69, 78 (S.D.N.Y. 1982).

[9] Zhang Xiaoquan. German Patent Act Plans to Apply the Principle of Proportionality When Ordering Cessation of Infringement. WeChat Account: Tongji Intellectual Property and Competition Law Research Center, visited on 9 August 2021.

[10] Typical Intellectual Property Infringement Civil Cases, to which punitive damages apply, published by the Supreme People's Court on 15 March 2021 mainly involve trademark cases, no patent and copyright cases.

[11] Article 21 of the Several Provisions of the Supreme People's Court on Issues Concerning Applicable Laws to the Trial of Patent Disputes stipulates that "where it is difficult to determine the losses of the right holder or the benefits obtained by the infringer, and reference can be made to patent royalties, the people's court may reasonably determine the amount of damages by reference to the multiple of patent royalties based on the nature and circumstances of the infringement."

[12] In *Opple Co. v. Huasheng Co.*, the Guangdong High People's Court took the reasonable multiples of trademark royalties as the base for calculating punitive damages for trademark infringement. The plaintiff, Opple Co., claimed that the trademark in suit was authorized to distributors with the royalties of RMB 365,000 per year for use and promotion within their business venues in the cities where they are located. However, Huasheng Co. was accused of infringement on the grounds of manufacturing, sale and offer for sale of the accused products on line and off line in China and globally. It can be seen that Huasheng Co. used the trademark in suit to an extent and within a scope which are much larger than those granted by Opple Co. to its distributers. Hence, the possible royalties in this case shall be at least two times "the royalty of RMB 365,000 per year" agreed by Opple Co. and the distributors, i.e., RMB 730,000 per year. It seems that RMB 730,000 per year doubled the normal loyalty, but actually it is the actual royalties of the trademark in suit calculated by the court. Thus, it is reasonable to use RMB 730,000 per year as the base for calculating punitive damages. See the Civil Judgment No. Yueminzai 147/2019.

[13] Cao Ke and Duan Shengbao (2021). Selection of routes for punitive damages system in the context of the Civil Code — From the view of modernization of national governance. *Electronics Intellectual Property, 3, 86*.