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## Shanghai court innovates with punitive damages for trademark infringement: IP owners can aim higher

*14 November 2019*

**The Shanghai Pudong District Court has recently handed down a remarkable judgment, awarding punitive damages equal to 3 times the proven damages to a foreign sportswear company, and fully upheld the company's claim for RMB 3 million (USD 450k) in damages. The judgment is remarkable because it is, to our knowledge, the first published case in which a claimant was awarded punitive damages for trademark infringement by the Shanghai courts.**

**The takeaways for trademark owners are: (a) the conditions for punitive damages are establishing "a malicious infringement" and "serious circumstances"; (b) evidence of repetitive violations can be used to establish "malicious infringement", while "serious circumstances" are judged on a case-to-case basis; (c) providing direct evidence of the specific amount of**

**damages is required for the court to be able to apply the appropriate multiplier for punitive damages; and (d) it is essential for claimants to claim the maximum amount of potential damages due, because a court cannot grant more than what has been explicitly claimed.**

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## The Factual Background

The claimant in this case is a large multinational sportswear and fitness equipment company, which has been active on the Chinese market for over a decade. It protected its intellectual property rights in China by obtaining a number of trademarks, as well as other rights, such as invention patents, and has taken an active and assertive approach to enforcing these rights. In fact, as early as 2012, the claimant had sent cease-and-desist letters to a number of infringers, including the defendant in this case. The defendant had subsequently agreed to sign a written settlement agreement, in which it undertook not to engage in any further infringing activities. However, in March 2018, the claimant discovered that the defendant was once more selling counterfeit products, through various channels, such as at a trade fair, via its WeChat account and through factory sales. The claimant therefore decided to bring a civil trademark infringement case, claiming punitive damages from the defendant.

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## The Shanghai Court's judgment

In its judgment, the court held that the claimant's trademarks were distinctive and had obtained a reputation in China through continuous use and extensive advertising, by both the claimant and its distributors. The Court held that the defendant's use of the claimant's trademark on identical goods constituted a clear case of trademark infringement.

The Court then considered the damages, the most interesting part of the judgment. In order to ascertain the defendant's illegal profits from counterfeiting, the court ordered it to submit its sales data, financial books and invoices. However, the defendant refused to submit these documents to the Court. The Court therefore deducted a presumption from this refusal, and accepted the claimant's evidence of the defendant's sales numbers, based on the contents of the defendant's WeChat advertising materials. On that basis, it was concluded that the defendant's illegal profits ranged between RMB 1 million and RMB 1.3 million (USD 140k and USD 184k).

The Court then turned to the claimant's request for punitive damages. Since 2014, China's Trademark Law stipulates that the courts can award punitive damages in trademark infringement cases, ranging from one to five times the illegal turnover, provided that the infringement is "malicious" and the circumstances are "serious". In the case at hand, the court held that the fact that the defendant entered into a settlement agreement with the claimant in 2012, and nevertheless resumed infringing upon the claimant's rights, as well as the fact that there were quality problems with the counterfeited goods, were sufficient to establish the "malicious" intent of the infringement and the "serious circumstances". The Court therefore awarded punitive damages, set at three times the illegal turnover, i.e. a total amount of RMB 3 million (USD 450,000). However, it should be noted that this award could have even been higher, since the punitive damages and procedural costs taken together actually exceeded RMB 3 million. Nevertheless, since the claimant only claimed RMB 3 million, the court could not award more than that amount.

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## Lessons to be learned

Punitive damages are regulated under article 63 of the Trademark Law, and require, cumulatively, "malicious trademark infringement" and the existence of "serious circumstances". The punitive damages system is a compensation system that rewards the victim with higher damages than the amount of actual damages incurred. It has multiple purposes: it is, first and foremost, meant to punish malicious infringers, serve as a deterrent for other infringers or repetitive infringements, compensate the losses incurred by the right holder and encourage it to actively defend its rights.

The court clarified the following aspects in this case:

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**"malicious infringements" are not limited to intentional infringements, repetitive violations can be taken into account.**

In its judgment, the Pudong Court clarified a grey area under the Trademark Law, as a strict reading of the Law would seem to require proof of a subjective intention on the part of the infringer for an infringement to qualify as a "malicious" infringement. The Court clarified that this is not the case.

In its judgment, the Court considered two main elements: (a) the plaintiff's trademark had acquired a strong reputation in China, and the defendant should therefore be aware of the claimant's registered trademarks in China; and (b) the Court also referred to the 2012 cease-

and-desist letter and subsequent settlement agreement between the parties. The Court accepted these elements as sufficient proof that the defendant knew about the trademark infringement and nevertheless chose to consciously commit the infringement again. This means that the Court accepted objective elements as proof of malice on the part of the infringer. This approach significantly relieves the burden of proof for the claimant, since this means that evidence of a subjective intention of the claimant is not an absolute prerequisite.

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### "serious circumstances", entails a comprehensive consideration of the infringement and its ill effects on society at large

As to the second prerequisite, "serious circumstances", the main takeaway of this case is that this element needs to be judged on a case-by-case basis, taking into account all interests at stake. These relevant interests are not limited to those of the claimant and the defendant, but also include those of the consumers and of market competition in general. Relevant factors pointing to serious circumstances are: long-lasting infringements; infringements throughout a large area; infringements with a large impact on society at large, such as the poor quality or dangerous properties of the counterfeit products (e.g. counterfeits in the food and drug sector), or other serious social effects of the infringement.

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### Punitive damages require the right holder to actively provide evidence of direct damages

In order to be awarded punitive damages, right holders have to provide direct evidence of the amount of damages caused, by providing the amount of actual losses arisen from the infringement, the infringer's illegal turnover or a multiple of the royalty rate for the infringed mark. Lump sum awards of statutory damages cannot be used as a basis to claim punitive damages. This means that in order to obtain punitive damages, right holders will have to actively provide evidence of one of the three types of direct damages, which may prove to be difficult in many cases. If the court accepts the evidence of direct damages, it may award punitive damages by way of multiplying the proven amount of direct damages up to five times, depending on the seriousness of the case.

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## Courts are bound by the claims of the claimant and cannot grant more than has been claimed

As a general principle of procedural law, Chinese courts are bound by the claims of the parties. This means that courts in China cannot grant amounts of damages exceeding the amount claimed. Therefore, when calculating potential (punitive) damages, claimants should always claim the maximum possible amount of damages.

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## Next steps

This case is a clear example that it is possible to obtain punitive damages for trademark infringement in China. The case also clarifies the prerequisites for such punitive damages, and right owners should explore this as an option in their litigation strategy.

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