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Toothless Tiger No More: New Rules on Penalties in China's Copyright Law Amendment

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The new amendment to China's Copyright Law (the "Law"), which is slated to take effect on 1st June 2021, would be the first substantive revision of the Law in nearly two decades. The new Law provides a number of good news to copyright petitioners in China:-

- Introducing punitive damages for willful infringement in serious circumstances;
- Raising the ceiling for statutory damages for infringement to RMB 5 million (around USD 760,000);
- Shifting of evidence burden for damages to the defendant; and
- Clearer guideline to include reference to royalties when calculating damages.

These developments are in line with recent legislative developments to amplify deterrence against IP infringement in China.

I. PUNITIVE DAMAGES AVAILABLE FOR WILLFUL COPYRIGHT INFRINGEMENT IN SERIOUS CIRCUMSTANCES

Where there is *willful* infringement of copyright in *serious* circumstances, the copyright holder is entitled to extra compensation ranging from one to five times of the determined amount of damages. Such change is in line with the new Civil Code, which has already come into effect on 1 January 2021.

While there is not much guidance on what constitute "willful infringement", "willful" can be understood as imposing a lower judicial threshold than "bad faith" does, i.e. there is no need to prove malicious intent but only an intent to cause harm through infringement, or that the infringer ought to have known that their infringing act would cause harm, but still went ahead and did it anyway.

"Serious circumstances" is also undefined in the Law, but it is not an unfamiliar concept in China's law on IP rights. According to the Guidelines on the Determination of Damages and Statutory Damages in Disputes over Intellectual Property and Unfair Competition issued by the Beijing Higher People's Court on 21 April 2020 (the "Guidelines"), when determining "serious circumstances", the court will take into account the background of the defendant (e.g. whether they are a professional infringer with no legitimate business operations), the duration and scale of infringement, the volume of illicit profits obtained through the infringement and whether the infringement posed harm to personal safety, environment or public interests.

Copyright holders are therefore recommended to collect evidence to prove "willful infringement" and "serious circumstances" if they are minded to maximize the penalties awarded. For example, cease and desist letters and evidence of prior relationship between the copyright holder and the infringer (e.g. employment relationship, distributorship, license agreement) would be helpful to demonstrate prior knowledge of the copyright in question and infer willful intent of infringement.

II. RAISING THE CEILING FOR STATUTORY DAMAGES TO RMB 5 MILLION (AROUND USD 760,000)

Such damages will be awarded in cases where it is difficult to ascertain the copyright holder's loss, the infringer's gain or the royalties involved on a practical level. As this is often the case, Chinese courts will exercise their discretion in awarding statutory damages. It is indeed a welcome sight to see the amended Law significant raising the current cap for statutory damages from RMB 500,000 (around USD 76,000) to RMB 5 million (around USD 760,000), which is a ten-fold increase.

III. SHIFTING BURDEN OF PROOF TO DEFENDANT

One of the biggest challenges in claiming damages in a copyright infringement case is that the copyright holder may not be able to provide evidence to substantiate the amount claimed, such as when the

materials showing illegal profit gained by the infringer is not readily available to the copyright holder. The amended Law helpfully addresses this issue: where the copyright holder has done their best and exhausted all avenues to collect such evidence, and these materials are in the hands of the infringer, the court may shift the burden from the copyright holder and order the infringer to provide their accounting books, ledgers or any other relevant evidence to assist with the calculation of damages.

If the infringer remains uncooperative by refusing to hand over such evidence to the court, or provides fabricated evidence, the court will determine the damages awarded by relying on the existing evidence and the copyright holder's calculations. The act and/or omission of the infringer will also be taken into account unfavorably as an aggravating factor.

IV. REFERENCING ROYALTIES IN CALCULATING DAMAGES

The amended Law makes clear that the copyright holder, when claiming damages for copyright infringement, may refer to either their actual loss suffered or the illegal gain of the infringer, whichever standard is more preferential to them. It is now also possible to take reference to a reasonable multiplier of royalties of the copyright involved when calculating damages.

V. CONCLUSION

We are pleased to see that the amended Law is introducing a series of pro-copyright holder measures, particularly in the area of penalties and damages. Given these, we suggest foreign brand owners to consider recording their copyright in China, in addition to registering trademarks. Further, copyright records are not limited by classification of goods/services and may be a powerful tool in many circumstances. The codification of these existing judicial norms will certainly bring about more effective and efficient enforcement of copyright in Chinese courts.