

Study on the Dilemma and Improvement of the Punitive Damages System for Intellectual Property Rights

Haobo Hu

Henan Institute of Science and Technology, China

Abstract. With the improvement and optimization of the Civil Code in recent years, legislation governing the punitive damages system for intellectual property rights have become more consistent. The establishment of Article 1185 of the Civil Code ensures that the system of intellectual property punitive damages develops thoroughly, reflecting China's strong punishment of intellectual property infringement and the maintenance of obligees. Furthermore, the adoption of the Outline for Building a Powerful Intellectual Property Country (2021-2035) has set defined development goals for legislative action and has caused the legal system in the field of intellectual property to evolve in a more ideal path. However, due to the current state of imprecise research, there are various issues in judicial application that have caused complications for the relevant parties. As a result, from the standpoint of protecting intellectual property owners' interests, this paper undertakes the goal of building a strong intellectual property country and ensuring the high-quality development of innovative countries, and summarizes some shallow suggestions on clarifying the application of punitive damages and perfecting the litigation proof system.

Keywords: Detection Theory; Punitive Damages; Litigation Proof System.

1. Overview of Punitive Damages System of Intellectual Property from the Perspective of Detection Theory

The legal detection theory first entered people's field of vision in the field of classical criminology. In this field of law, foreign representative scholars include Bentham and beccaria, who mainly discuss the relationship between punishment and crime, thus forming a mature legal theory. [1] The spirit of this theory is reflected in the Opinions on Strengthening Punishment of Infringement of Intellectual Property Rights according to Law and other documents. This series of documents points out that the infringer must be punished and deterred by exerting the role of punitive damages, and his intentional infringement should be dealt with. Many legal scholars point out that it is necessary to attach importance to the important value orientation of legal detection theory in judicial practice, and regard it as the key legal basis for optimizing the punitive damages system of intellectual property rights.

1.1 The Concept and Characteristics of Intellectual Property Punitive Damages

Punitive damages for intellectual property infringement primarily refer to monetary compensation awarded by the trial court to the infringer in intellectual property infringement cases. Punitive damages are a type of legal recompense that is secondary to civil liability for reparation. Its major purpose is to penalize the infringer legally, achieve the effect of compensation, punishment, and deterrence, and preserve intellectual property rights and interests. In contrast to conventional compensation, the amount of punitive damages is usually more than the victim's reality. This is due to the fact that intellectual property is an abstract and intangible right, and it is impossible to compensate for the consequences of infringement. As a result, applicable punitive damages must not only reimburse the victim for damages, but also contain severe penalties for violation in order to deter intellectual property infringement. Deterrence is the primary goal of punitive damages. [2] If the tort's act is purposeful, the trial court can award punitive damages based on the real injury. However, there are no specific legal rules governing the severity of the punishment. In general, the court must weigh various elements, including the severity of the infringement, the infringer's responsibility, the victim's damage, and the infringer's economic capabilities. Punitive damages for intellectual property are defined as additional compensation based on actual damage. The primary goal of this type of

compensation is to dissuade the infringer, prevent additional infringement, and raise the illegal cost. The amount of punitive damages considers not only the victim's losses, but also the infringer's fault, the nature of the behavior, the victim's status, the infringer's economic circumstances, and other variables. The particular amount of punitive penalties is often greater than the actual loss suffered by the injured party, but it must be tailored to the gravity of the infringement and the infringer's economic circumstances. Punitive damages are not commonly utilized in civil litigation and are typically employed when infringers purposefully harm intellectual property rights. In a nutshell, punitive damages are a method of severely punishing intellectual property infringement that not only provides economic protection for victims, but also raises the illegal cost of the infringer, improves the punishment, and is more conducive to protecting the rights holders' interests and making the intellectual property industry's development order more stable and healthier.

1.2 The Necessity of Intellectual Property Punitive Damages

1.2.1. Implementing the Punitive Damages System of Intellectual Property Rights is the General Trend

Comrade XI delivered a speech at the opening ceremony of the China International Import Expo on November 5, 2018, emphasizing that China places a high value on protecting the interests of foreign companies and severely punishes intellectual property infringement, and that we must adopt a zero-tolerance policy. Furthermore, it demonstrates that China will continue to improve the resolution and trial efficiency of cases involving intellectual property infringement disputes, as well as the quality of intellectual property case trials, the intellectual property service system, and the punitive damages mechanism. The goal of optimal deterrence and the value of legal interest balance are extremely compatible in legal deterrence theory. Given the current duality of value objectives in China's intellectual property laws, it not only provides legal protection for intellectual property owners, but also considers public welfare objectives such as fostering social advancement and scientific and technical development. With the further strengthening of globalization and the rapid growth of science and technology, the international community's exchanges and interactions are rising, and the policies and systems between them are also learning from and absorbing. At the same time, China has steadily strengthened its capability in scientific and technological innovation, giving it an advantage in the world market's severe rivalry. As a result, intellectual property rights protection has become a critical legal research topic, and the punitive damages system is also a system that is desperately needed in the contemporary day.

1.2.2 The Existing Legal Provisions have Defects in Intellectual Property Compensation

When attempting to adjust the attention in social innovation activities while considering the goal logic of optimal deterrence, there are flaws in the system of intellectual property punitive damages. Many legal professionals stated that the use of this legal system still has certain flaws. Even if we can moderately prevent re-infringement, if we truly want to achieve the optimal deterrent goal, namely to better manufacture the optimal number of knowledge products, we must moderately tolerate intentional infringement that is worthy of adoption and does not cause significant legal interests' infringement. [3] Other than compensating compensation, economic punishment may raise the stock and use efficiency of knowledge goods. As a result, based on the notion of optimal infringement, we should forcefully punish and impose punitive damages on criminals who violate intellectual property owners' and social public interests. Furthermore, some researchers argue that the system's deterrent mode is defective, as evidenced by the effectiveness and cognizability of marginal deterrence. Although limiting and restricting the degree of punishment played by punitive damages can help to avoid excessive deterrence, it is difficult to reach the best deterrent goal, which is to keep the level of attention within an acceptable range. As a result, in order to achieve the optimal deterrent goal of intellectual property punitive damages, more detailed standards for measuring and controlling the amount of infringement compensation under the premise of reasonably limiting the severity of punishment are required. The realistic deterrent effect of punitive damages, on the other hand, will

develop a correlation with the infringer's cognitive degree of marginal deterrence. Only when the infringer's cognitive level of marginal deterrence reaches the highest level, and those who may commit infringement accurately understand that there is a correlation between the severity of infringement and the number of punitive damages, can we better prevent infringement and achieve the ideal deterrent effect.

2. Dilemma of Punitive Damages System of Intellectual Property Rights

2.1 The Appropriate Standards for Subjective and Objective Elements of Punitive Damages for Intellectual Property are not Uniform

When combined with the legislative rules, it is clear that punitive damages for intellectual property rights must meet both subjective malice and objective seriousness in the court process. However, subjective malice is not specifically mentioned in Chinese law. The Anti-Unfair Competition Law and the Trademark Law both specify the contents of punitive damages, however there are no specific provisions for subjective malice and serious objective circumstances. Similarly, intellectual property law states that the punitive damages system can only be used in cases of intentional infringement of intellectual property that meet the standard of "serious circumstances," implying that the system can only be used in cases of obvious infringement of legal interests. However, the legal provisions concerning "serious circumstances" are still unclear. According to the criteria of the Civil Code, both the Copyright Law and the Patent Law recognize punitive damages. When "the circumstances are serious," however, the legal laws governing intellectual property rights remain consistent. The Supreme Law established the Interpretation on the Application of Punitive Damages in Civil Cases of Infringement of Intellectual Property Rights in order to serve the unified judicial reform. Article 4 governs the parameters for defining the legal requirements of "serious circumstances," of which there are six. However, given the complexities and diversity of intellectual property conflicts, there may be additional scenarios. In terms of subjective conditions, intellectual property laws use different standards to define the subjective malice of infringers than other laws. When evaluating the subjective malice of the offender, the Trademark Law and the Anti-Unfair Competition Law impose relatively high legal criteria when compared to other statutes. However, in the system of punitive damages for intellectual property rights, we can see that the two elements of "intention" and "malice" exist concurrently, which causes confusion in the trial of cases and easily interferes with the trial judge's judgment, leading to one-sided determination of whether punitive damages should be applied based on whether the infringement meets the legal enumeration performance, which violates the comprehensive thinking equivalence. [4] As a result, in order to improve the current system, we need further harmonize the laws and standards for subjective and objective identification, as well as offer a clearer foundation for right holders who lack the ability to prove.

2.2 The Dilemma of Proof in Applying Punitive Damages to Intellectual Property Rights

2.2.1. Evidence Collection and Preservation is not Standardized, the Burden of Proof is too High

Infringement of intellectual property is considered a general infringement, and the general burden of proof distribution system is used, which means that the plaintiff must appear in person. However, it is difficult for the obligee to properly collect the required evidence of the case during the real proof procedure, leaving the infringing with significant hurdles and the possibility of losing the case. There is no compelled disclosure of information in civil litigation, making it even more difficult to protect rights. Due to the intangible nature of intellectual property rights, infringers usually begin to profit from the implementation of infringement, whereas obligees frequently realize that their rights and interests have been infringed when the scope and influence of the infringement are great, resulting in a lag in the opportunity to defend their rights and making direct physical evidence extremely difficult to collect. If the infringement conceals the evidence on purpose, the obligee will be unable to collect

adequate proof, making it more difficult to prove that the right has been violated. In terms of infringing earnings, for example, crucial data such as sales volume, accounts, and confidential data are in the hands of the infringer, making it impossible for the obligee to collect actual and credible evidence. Furthermore, infringers frequently erase proof material that is harmful to them in a timely manner, making the obligee even more unsustainable. Furthermore, the infringer possesses a number of infringement tools, and if the infringer refuses to give the evidence, the right holder will encounter significant obstacles in collecting the evidence. What's more, evidence preservation will limit the obligee's ability to give evidence, and the evidence preservation measures adopted by different judicial institutions are inconsistent, making it impossible to effectively apply evidence preservation measures, resulting in a serious imbalance in the ability of obligee and infringer to give evidence. This will not only result in a judicial stalemate in the trial of cases, but the punitive damages system may be unable to adequately punish and deter the infringer, making it difficult to prevent the infringement from occurring again and compensating for the victim's interests.

2.2.2. The Distribution of Burden of Proof is Imperfect

Aside from the influence of substantive law, the burden of proof system in procedural law also influences the calculation of damages for intellectual property infringement. In tort litigation, the parties must file a compensation claim with the court and provide evidence. If the court rejects the evidence, it implies the proof failed, and the motion for punitive damages may be denied. If the judge does not approve the obligee's proof, the proper remedy will be affected, and the case will be unable to continue. As a result, relying solely on the general burden of evidence system to address the problem of intellectual property infringement punitive fines will raise the pressure on rights holders to defend their rights. Because the burden of proof on the obligee is now excessively high, we should reasonably consider the possibility of lowering the burden of proof on the plaintiff. Some scholars proposed the burden of proof obstruction rule. The rule of burden of evidence states that the plaintiff cannot show his claim due to the other party's or a third party's behavior or omission, or it becomes extremely difficult to prove it, but the court will eventually find in favor of the aggrieved party. For example, the obligee may have done everything possible to prove the ledger, data, and other evidence required for the infringement, but the necessary material is in the hands of the infringer, and the infringer may take efforts to cover up or hide the evidence advantageous to the obligee. When the trial court orders the infringer to present evidence but the infringer refuses or fabricates false evidence, the plaintiff's demands and claims are usually deemed to be proved. In the proof system, it is difficult for the infringer to avoid bearing the burden of proof, which also makes the implementation of the presumption rule of evidence obstruction problematic. Although the Trademark Law and corresponding Supreme People's Court regulations already exist in China, these legal provisions have not been widely employed in practice.

3. Perfection of Punitive Damages System of Intellectual Property Rights

3.1 Clarify the Subject and Object Requirements for the Application of Intellectual Property Punitive Damages

3.1.1. Clarify the Standard of Subjective "Malice"

In 1992, the United States Court of Appeals for the Federal Circuit ruled in the case of *Read Corp. v. Protect, Inc.*, as one of the first countries to design and apply punitive penalties, and identified nine reference factors for evaluating "malice." Some scholars have determined that malice is a purposeful criminal act, which also implies that the infringer intentionally engages in a wrong deed. The word "malice" literally has a subjective mentality of "malignancy," which is a very subjective level. Its definitions vary, including "deliberately committing illegal acts", "bad" or "evil motives", and "deliberately ignoring others". As a result, this article contends that the court commonly considers

the following three types of action to be "malicious": (1) leaned against the entrance. This behavior is most common in cases of trademark infringement. When an infringement happens, the infringer is aware that the trademark has a certain effect in the public eye, and he wishes to climb the renowned trademark in order to increase his notoriety by low-cost hitching. The judge will classify this behavior as subjective "malice" to a large extent. (2) widespread infringement and a broad range of infringement. Intellectual property infringement is extremely tough in online. Infringers can post infringing content in a matter of minutes or even seconds, and thousands of users may view the infringing content. Despite the fact that the infringement period is limited, it usually substantially infringes on the rights holder's interests, including the number of visits, clicks, forwarding, and so on, which may become a way for the infringer to achieve illegitimate interests. As a result, the infringer is judged to be "malicious" in this situation. (3) He has violated the law and continues to do so despite being warned. To determine the subjective "malice" of the infringer, assess if his behavior requires the appropriate level of attention. As a result, we can concretize malevolent infringement and characterize it as follows: (1) Violating well-known intellectual property rights. (2) Infringement of the same intellectual property right on multiple occasions. (3) Despite having taken administrative punishment or receiving a warning letter, continuing to commit the infraction. (4) Imitating the obligee's intellectual property rights in order to deceive the public, which is obviously a "free rider" infringement. [5] Of course, these types are only used as the initial judgment basis. In specific cases, the trial judge needs to try the case in combination with the actual situation.

3.1.2. Constructing Dynamic and Systematic Objective Criteria for Determining "Serious Circumstances"

Because human rationality is limited, it is difficult for the legislature to learn more about all infractions. As a result, it should give the trial judge with better scientific methodological direction for applying the law in trial practice. Through the concept of dynamic systematization, this study argues that a strong legal system guarantee should be created for the accurate application of intellectual property punitive damages. The concept of dynamic systematization is a scientific concept founded on explicit value. It searches for, summarizes, and refines the relevant consideration elements for the solution scheme, performs extensive evaluation, and generates the final balance result after balancing and comparing various factors. Through diverse weighing and examination, this thought can build a scientific and reasonable legal conclusion, and it can supplement the legal system that takes into account the intellectual property owner and the public interest. To determine the objective "serious circumstances" requirement, it is required to analyze not only the concept of dynamic systematization, but also the degree of infringement of intellectual property owners' interests and social public interests. When measuring the damage to personal interests, we must evaluate both the actual damage and the degree of objective damage. When establishing the extent of damage to the competitive order of the intellectual property sector, the infringer's infringement must be considered as well as the injustice of the infringement. Through the concept of dynamic complementarity, the trial judge must determine if the intellectual property activity has reached "serious circumstances" in order to determine whether the punitive damages system should be applied. Even if some criteria are unsatisfactory and others meet the requirements, the system of intellectual property punitive damages can be applied in future cases. On the contrary, if just certain aspects are suitable but others are not, punitive damages cannot be imposed. The methodology described above can help to avoid the problematic practice of using punitive damages to automatically identify an intellectual property matter in legal practice, allowing for greater internalization of the law and balancing the value orientation of public welfare and private interests.

3.2 Improve the Punitive Damages Litigation Proof System of Intellectual Property Rights

3.2.1. Perfecting the Rules of Evidence Preservation and Lowering the Standard of Burden of Proof

China amended the rules of evidence in civil litigation and strengthened the rules of evidence in intellectual property rights in December 2019. The proof connection is unique in intellectual property conflicts, and the validity and integrity of the evidence will directly affect the referee's implications. At the moment, it is difficult for intellectual property rights holders to get evidence of their losses or the infringer's gains, resulting in an overly burdensome burden of proof. As a result, China's legal system must be constantly improved. In particular, we should improve and innovate the evidence collection and preservation stage system in the current intellectual property damage compensation litigation system based on its unique conditions and characteristics, and align it with the intellectual property punitive damages system and the peculiarities of civil litigation evidence.[6] It is worth noting that the civil procedure legislation lacks specific provisions for dealing with faults in preservation, but most cases are decided using the blame basis. If the evidence supplied by the obligee contains preservation mistakes, the evidence will be deemed invalid and the obligee will be held accountable. As a result, the current preservation standards are overly stringent, making the obligee frightened to request for evidence preservation. The applicable laws and regulations should interpret the preservation provisions in such a way that the standards are lowered while the interpretation room for the obligee is expanded. In actuality, we can learn from the "standard of superior evidence" in the common law system, which has the advantage of lowering the overall cost of incorrect judgment. [7] The use of this strategy can help intellectual property owners reduce some of their burden of proof. This can not only lessen the burden of proof, but also motivate the obligee to actively provide evidence and raise the use of punitive damages. In short, in terms of procedural law, China must optimize and innovate the system in accordance with the current situation, referring to relevant laws of developed countries such as the United Kingdom and the United States, in order to protect the rights and interests of the obligee, maintain the balance between the litigants, and solve the problems that make it difficult for the obligee to prove, defend rights, and obtain compensation. This will also serve to enhance public awareness of the importance of rights protection and strengthen legal protection for intellectual property rights.

3.2.2. Apply the Rules of Evidence Disclosure and Superior Evidence

The concept and cornerstone of designing an evidence obstruction system is the rule of evidence disclosure. Although both common law and civil law countries have incorporated an "evidence disclosure mechanism" to their legal systems, the structure and specific implementation of this system differ due to differences in litigation principles. The evidence disclosure mechanism has just recently emerged in Chinese civil suit law. Given the subject matter of evidence disclosure, the infringer and any third party involved in the evidence in the litigation must meet the requirement of supplementing evidence. If a third party knows certain essential evidence involved in an intellectual property dispute and the court determines that the evidence is necessary, the third party is required to disclose the material. The evidence disclosure mechanism also applies to relevant supporting items that can affect compensation, such as bank account books or data information involved in the case. Third parties and people engaged in the case cannot decline to submit or disclose evidence on the grounds that doing so will divulge trade secrets or violate their privacy. The materials clearly banned by the Civil Procedure Law, on the other hand, should be avoided. Respect for the obligee's actual will is an important concern while beginning the evidence disclosure procedure. To avoid interfering with the status balance of both parties in litigation, legislation should be impartial and not started on its own initiative. It is suggested that China should improve the provisions on obstruction of proof in legislation in order to reduce the burden of proof on intellectual property owners and broaden the scope of application of punitive damages, such as calculating the amount of infringement profits by perfecting and supplementing the specific circumstances of obstruction of proof. If one party's evidence cannot defend the other party and is insufficient to protect its own rights and interests, the

court will accept advanced evidence or a substantial amount of evidence as the facts of this case. However, the court's findings do not rule out the potential of errors being discovered. For example, during the trial, the intellectual property owner has evidence to demonstrate the objective presence of the infringement, but both parties' evidence may be inadequate, insufficient, or ambiguous. In this case, the court should adopt the major evidence rule based on the high coverage evidence supplied by one party. The number and profit rate of counterfeit products are evaluated in litigation involving counterfeit and substandard products using current evidence rules and referring to catalogues maintained by industry organizations. [8] The existence of the dominant evidence rule is conducive to lowering the standard of proof when the infringer conceals or gives false information and it is beneficial to him.

4. Summary

The value of the legal system is to provide certain protection and priority to citizens or certain organizations, which aids in resolving the conflict of interests between private and public interests. This is because property rights are abstract and immaterial, making traditional property protection laws difficult to enforce. The punitive damages mechanism is intended to raise the cost of infringement and serve as a deterrent. In the realm of intellectual property rights, the legal system can fully use the efficiency of penalties, which is beneficial to preserving intellectual property owners' private interests, punishing infringers, protecting rights themselves, and increasing the cost of infringement. Based on the intellectual property industry's development foundation, the state strongly advocates for all-around and high-quality intellectual property development, further promotes intellectual property development, and stimulates scientific and technological progress and technological innovation. As a result, we must devise an acceptable legal framework for intellectual property rights, as well as give a robust legislative assurance. Simultaneously, it is necessary to aim for the subjective "malicious" identification standard of infringement in the field of intellectual property rights, refine the objective "serious circumstances" identification standard through dynamic thinking, and improve the intellectual property proof system, among other things. Only in this manner can we develop a solid legislative foundation for intellectual property protection.

References

- [1] Beccaria. On Crime and Punishment [M]. Huang Feng, translated. Beijing: China Legal Publishing House, 2002.
- [2] Bentham. Introduction to Morality and Legislative Principles [M]. Shi Yinhong, translated. Beijing: Commercial Press, 2000:229-230.
- [3] Bern Weideshi. Jurisprudence [M]. Ding Xiaochun, wuyue, translated. Beijing: Law Press, 2013:233.
- [4] Cao Xinming. Analysis on the liability of punitive damages of intellectual property infringement [J]. Intellectual property rights, 2013(4).
- [5] Wang Liming. Difficult case study of civil law [M]. China Legal Publishing, 2002,264.
- [6] Zhu Li. Judicial application policy of punitive damages of patent infringement [D] Intellectual property rights. Wang Shigang. New Thoughts on the Application of Legal Compensation for Trademark Infringement in China-Analysis Based on the Judgment of Beijing Intellectual Property Court in 2015-2019 [J]. Intellectual Property, 2020(5): 56.
- [7] Research Group of Futian District People's Court, Shenzhen City, Guangdong Province. Institutional Construction of punitive damages for Trademark Infringement [J] Intellectual Property, 2020(5).
- [8] Jiao Heping. Legislative Choice of the Relationship between punitive damages of Intellectual Property and Legal Compensation [J]. Journal of East China University of Political Science and Law, 2020, 23 (04): 130-143.