SPC opinion on safeguarding technological innovation – what you need to know

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Zhu Zhigang and Paul Ranjard, 27 January 2025, first published by WTR

- The SPC encourages the courts to award higher damages to holders of invention patents demonstrating a high level of innovation
- The opinion provides recommendations on how to determine that a piece of information is a trade secret
- Statutory damages may serve as a basis for the calculation of punitive damages

On 6 January 2025 the Supreme People's Court (SPC) published the "Opinion on Safeguarding Technological Innovation through High-Quality Judicial Adjudications" (Fa Fa [2005] No 1).

This opinion, dated 31 December 2024, is essentially directed to the High People's Courts of all provinces, autonomous regions and municipalities directly under the central government. Most of the opinions and recommendations made by the SPC to the courts are very general, but some points are noteworthy.

General principles (Article 4)

The SPC encourages the courts to apply the "general principles" that are often provided at the beginning of laws and the "catch-all" provisions that appear at the end of provisions enumerating specific circumstances. In Article 18, the SPC refers specifically to the Anti-unfair Competition Law and the articles which pose the general principle of commercial ethics as a fundamental standard. The SPC thus confirms and endorses the trend already adopted several years ago by the People's Courts in China.

The SPC also encourages the courts to award higher damages to holders of invention patents that demonstrate a high level of innovation; on the other hand, the protection of more ordinary inventions should be strictly controlled to avoid an unjustified expansion of their scope.

Design patents (Article 6)

The SPC's general intention is to improve the quality of design patents. Given that such rights are, in principle, granted without substantive examination, the SPC recommends that the courts, when they examine the validity of design patents, take into account:

"the knowledge and cognitive abilities of the average consumer, [….] the design space available and the features of products in new technological fields, thereby promoting higher quality in granting design patent…"

Trade secrets (Article 8)

The opinion provides recommendations on how to determine that a piece of information is a trade secret, by evaluating "the specific field, carrier and characteristics of such information". More specifically, it states that:

"technical solutions derived from summarising, generalising or refining undisclosed technological details contained in multiple documents […] will generally be regarded as trade secrets."

The possibility to reverse the burden of proof is confirmed: when the rights holder provides preliminary evidence that it has taken confidentiality measures and makes a reasonable case that its trade secrets have been infringed, the alleged infringer, if disputing the validity of said secret, must submit supporting evidence.

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Preliminary injunctions (Article 15)

Preliminary injunctions are provided in Chapter 9 of the Civil Procedure Law. In practice, they are very difficult to obtain. The SPC seems to be aware of this difficulty and encourages the court to "[f]ully leverage the role of preliminary judgments to prevent further impairment of lawful rights during litigation". The courts may even impose preservative measures concurrently with the issuance of a first-instance or preliminary judgment, when there is little doubt about the merits of the case.

Increased damages for IP infringements (Article 16)

This article addresses two points: statutory damages and punitive damages.

A recent study showed that 98% of IP civil cases are decided on the basis of statutory damages, which means that the courts are almost never satisfied with the calculation of the losses or profits, or with the reference to a licence fee. Therefore, the courts award the damages within the limit of Rmb5 million (statutory damages), as provided by the law. The SPC considers that statutory damages should be applied with caution and suggests, for example, that factors such as the infringer's public statements about the scale of its operations may be taken into account in order to determine the illegal profits. Another factor that may be taken into account is where both parties have agreed on the amount of damages: such figure should serve as a key references in determining the awards.

The calculation of punitive damages is, however, where the SPC is the most creative. According to the law, when a case is particularly serious or the infringer is of particularly bad faith, the court may multiply the amount of damages – calculated according to the law (losses, profit or reference to a licence fee) – by a coefficient of up to five times. Therefore, the punitive damages may not be calculated based on statutory damages (this is confirmed by an interpretation of the SPC dated 7 February 2021).

Here, the SPC brings a complete change. In order to "increase the use of punitive damages", the SPC declares that, where actual losses or infringer's profits are difficult to calculate, and no comparable license fees are available, the court may rely on existing evidence to reasonably estimate a base for punitive damages, comprehensively considering the infringer's intent and means, and the scale and impact of infringement. This means that statutory damages may serve as a basis for the calculation of punitive damages.

In the same way as above mentioned, when an agreement has been made and the infringer is a repeat offender, the SPC declares that the previously agreed damages in the settlement may serve as the basis for punitive damages.

Comment

This opinion is only a recommendation to the Higher Courts and is not legally binding. Still, particularly in terms of the calculation of damages, and in particular punitive damages where the SPC clearly breaks away from the current practice, this opinion could be used as a strong argument in future cases.