

Chinese Courts Are Increasing Damages Awards

On December 8, 2016, Beijing IP Court, in a patent infringement case, found in favor of plaintiff Watchdata System Company Ltd., and ordered defendant Hengbao Company, Ltd. to pay an unprecedented amount of CNY 49 million (\$ 7.1 million) in damages for infringing a single patent. In addition, the court awarded attorneys' fees—a rare grant of its kind—in the amount of CNY 1 million (\$ 145,000). This decision has demonstrated the increased willingness of Chinese Courts to enforce IP rights through assessing relative high penalties on patent infringers.

We discuss below about development and trend of the Chinese legal system regarding the compensation of patent infringement.

The infringement compensation system is firstly established in the Chinese Patent Law (1985 version), in which the Article 60 reads: "if any acts of infringement arise from the exploitation of a patent without the authorization of the patentee, the patentee or interested parties may request the patent administrative authorities to handle the matter or may directly file a suit in a People's Court; in handling the matter, the patent administrative authorities shall have the power to order the infringer to stop the acts of infringement and compensate for the losses; any party dissatisfied with the order may, within three months from receiving notification of it, file a suit in a People's Court; if, at the expiration of such period, the party has neither filed a suit nor complied with the order, the patent administrative authorities may approach the People's Court for compulsory enforcement of the order".

It can be seen that "stop the acts of infringement" and "compensate for the losses" are prescribed in the Chinese Patent Law (1985 version), which, however, does not provide a calculation method for compensation. In the current point of view, this Article 60 is too general and not operable to some extent. Considering that the General Principles of the Civil Law of the People's Republic of China was promulgated in 1986 (one year after the Chinese Patent Law was implemented), the Chinese Patent Law was relatively progressive at that time.

In the 1992 Amendment to the Chinese Patent Law ("1992 Amendment"), Article 60 is not revised. Nevertheless, the Supreme People's Court issued the Answers of Several Issues concerning the Trial of Patent Dispute Cases ("the Answers") on December 29, 2016 to articulate the methodologies for calculating the compensation for losses.

First, the amount of compensation for losses shall be the practical economic losses suffered by the patentee due to infringement, which are calculated by multiplying the reduced sales volume of the patented products by the profit of each patented product, wherein the reduction in sales should be caused by selling infringing

products (including the products manufactured with others' patented method) in the market.

Second, the amount of compensation for losses shall be the proceeds gained by the infringer from infringement, which are calculated by multiplying the profit of each infringing product (including the products manufactured with others' patented method) by the sales volume of the infringing products.

Third, the amount of compensation for losses shall be no less than a reasonable royalty for the patent.

It should be noted that the above three calculation methods are applied by the People's Court optionally without any necessary sequence. In addition, the patentee and the infringer may consult with each other and adapt one of other calculation methods than the above three.

Then, in the 2000 Amendment to the Chinese Patent Law ("2000 Amendment"), Article 60 is added and reads: "the amount of compensation for infringement upon a patent right shall be determined on the basis of the losses suffered by the right-holder due to infringement or the proceeds gained by the infringer from infringement; if the losses of the aggrieved party or the proceeds gained by the infringer are difficult to determine, they may be determined in a reasonable way with reference to the multiple of the royalties for this patent".

Article 60 codifies the methodologies provided in the Answers. In the meantime, it prescribes an order to apply, i.e., in the order of "the losses suffered by the right-holder" or "the proceeds gained by the infringer," and "multiple of the royalties".

Article 60 in the 2000 Amendment was enacted so that the Chinese Patent Law could be in accordance with Article 45 of the Agreement on Trade-Related Aspects of Intellectual Property Rights (the TRIPs) which records "the judicial authorities shall have the authority to order the infringer to pay the right-holder damages adequate to compensate for the injury the right-holder has suffered because of an

infringement of that person's intellectual property right by an infringer who knowingly, or with reasonable grounds to know, engaged in infringing activity", and this was actually a preparation for China to join the WTO.

One year after the 2000 Amendment was enacted, the Supreme People's Court issued the Several Provisions of the Supreme People's Court on Issues Concerning Applicable Laws to the Trial of Patent Controversies ("the Provisions").

Article 20 of the Provisions prescribes that the patentee may initiatively choose to apply "the losses suffered by the right-holder" or "the proceeds gained by the infringer" as the calculation method when prosecuting the infringer for liability of compensation, which means the calculation methods are not applied by a People's Court only. Also, Article 20 of the Provisions prescribes that "the proceeds gained by the infringer" normally shall be the operating profit of the infringer, but shall be the selling profit of the infringer if the infringer take infringement as his only business. That is to say, the punishment to a malicious infringer is heavier than to an innocent infringer. The calculation method based on the selling profit is similar to the method of marginal profits adopted by Germany.

Further, Article 21 of the Provisions specifically prescribes the compensation amount of patent infringement, i.e., the compensation amount of patent infringement shall be determined as one to three times of the royalty for the patent. In addition, Article 21 of the Provisions provides a miscellaneous provision (the statutory compensation), that is "in case that no royalty for the patent can be referred to or the royalty for the patent is unreasonable obviously, the People's Court shall determine the compensation amount of patent infringement to be generally not less than RMB 5,000 and not more than RMB 300,000 based on the category of patent right, the nature and the plot of the infringer, and so on, and the compensation amount of patent infringement cannot exceed RMB 500,000".

After that, in the 2008 Amendment to the Chinese Patent Law ("2008 Amendment" hereinafter), old Article 60 becomes Article 65, recording "the amount of compensation for a patent infringement shall be determined on the basis of the actual losses incurred to the patentee as a result of the infringement, if it is difficult to determine the actual losses, the actual losses may be determined on the basis of the gains which the infringer has obtained from the infringement; if it is difficult to determine the losses incurred to the patentee or the gains obtained by the infringer, the amount shall be reasonably determined by reference to the multiple of the royalties for this patent; in addition, the compensation shall include the reasonable expenses that the patentee has

paid for stopping the infringement; if it is difficult to determine the losses incurred to the patentee, the gains obtained by the infringer as well as the royalty obtained for the patent, the People's Court may, by taking into account such factors as the type of patent, nature and particulars of the infringement, etc., decide a compensation in the sum of not less than RMB 10,000 but not more than RMB 1,000,000 million".

There are two key points in the revision of Article 60: first, the two optional calculation methods, i.e., "the losses suffered by the right-holder" and "the proceeds gained by the infringer" were revised as that "the losses suffered by the right-holder" should be applied in preference to "the proceeds gained by the infringer"; second, the amount of the statutory compensation of not less than RMB 5,000 and not more than RMB 500,000 was revised as not less than RMB 10,000 and not more than RMB 1,000,000.

In 2009, the Supreme People's Court issued the Interpretation of the Supreme People's Court on Several Issues concerning the Application of Law in the Trial of Patent Infringement Dispute Cases ("Interpretation"). Article 16 of the Interpretation records "when the People's Court determines the profits gained by the infringer due to the infringement according to the Article 65(1) of the PRC Patent Law, the profits shall be limited to the profits gained by the infringer due to the infringement to the patent right and those profits generated from other rights shall be reasonably excluded; where a product infringing an invention or utility model patent right is one of the components of another product, the People's Court shall reasonably determine the amount of compensation in accordance with the value of the component per se and its function in achieving the profits of the finished product and so on; where a product infringing a design patent right is a package, the People's Court shall reasonably determine the amount of compensation in accordance with the value of the package per se and its function in achieving the profits of the packaged product and so on".

In theory, the above Article 16 establishes the technical apportionment rule (calculating the compensation amount of patent infringement based on the contribution ratio of patented element to product profit) in calculation of the compensation amount of patent infringement. The technical apportionment rule is quite necessary for preventing excessive punishment. Otherwise, in case that one kind of product infringes more than one patent right, the infringer may compensate the gained profits to every patentee, resulting in that the total compensation amount will be much more than the gained profits.

In March 21, 2016, the Supreme People's

Court issued the Interpretation of the Supreme People's Court on Several Issues concerning the Application of Law in the Trial of Patent Infringement Dispute Cases (II) (“Interpretation (II)”). Article 27 of the Interpretation (II) specifically prescribed the burden the patentee should bear to prove the profits gained by the infringer, i.e., “where the actual loss suffered by the right-holder due to infringement is difficult to ascertain, the People’s Court shall ask the right-holder to provide evidence on profits gained by the infringer from the infringement according to the Article 65(1) of the PRC Patent Law; where the right-holder has provided preliminary evidence on profits gained by the infringer, and the account books and documents relating to the patent infringement are mainly within possession by the infringer, the People’s Court may order the infringer to provide the books and documents; if the infringer refuses to provide the books and documents without justification or provides false books and documents, the People’s Court may ascertain the profits gained by the infringer from the infringement according to the right-holder’s claims and evidence provided by the right-holder”. In addition, Article 28 of the Interpretation (II) records “where a right-holder and an infringer have legally agreed on the amount of damages or the method for calculating damages, and in a patent infringement suit elect to ascertain the amount of damages based on the agreement, the People’s Court shall support it”.

According to Chinese juridical practice before Interpretation (II) was issued, most cases were decided based on the statutory compensation due to lack of evidence support. In future, Article 27 of the Interpretation (II) is supposed to have a good effect on the current situation, so as to help patentees use other calculation methods, for example “the proceeds gained by the infringer”, instead of the statutory compensation.

At present, the draft of the fourth amendment to the Chinese Patent Law (“Draft”) is published and in the stage of seeking public opinions. According to the published contents, Article 65 will introduce “a punitive damages system”, which prescribes that with regard to the behaviors of intentionally infringing the patent right, the compensation amount of patent infringement shall increase by one to two times of the compensation amount calculated by any one of the calculation methods in consideration of the plot, scale, damaged result, and so on.

The punitive damages system is supported by most of the scholars, one of the scholars considers that the system will change the situation of low

compensation amount effectively, replace the civil sanction, remedy the insufficient criminal punishment, and reduce the strong administrative responsibility [1].

Besides the Chinese Patent Law, on August 30, 2013, Article 63(1) of the Trademark Law of the People's Republic of China has already introduced the punitive damages system firstly. In addition, a similar proposal has been raised during the revision of the Copyright Law of the People's Republic of China. Thus, the punitive damages system will not be introduced into the Draft only, but will be a common tendency for all of the three main intellectual property laws.

More recently, judgments of several patent infringement cases reconciled Beijing IP Court, and ordered high damages awards. In March, 2017, Quanzhou Intermediate People's Court decided Huawei v. Samsung relative to an invention patent entitled “Method for displaying and processing assembly and user equipment”. During the trial, both the plaintiff (Huawei) and the defendant (Samsung) failed to prove actual losses of the plaintiff and actual gains of the defendant. The Court estimated the defendant's gains ranging from CNY 2.65 billion to CNY 10.91 billion based on the relevant evidences. Instead to determine the damages on the statutory compensation (CNY 10,000 ~ 1,000,000), the Court awarded Huawei a compensation of CNY 80 million (\$ 12 million) at last.

Making a general survey of the whole development processes of the Chinese Patent Law and the judicial interpretation, it is gratifying that relevant system of the patent infringement compensation grew out from nothing, and improved gradually. The regulations of the patent infringement compensation are approaching that of the main developed countries, and the compensation amount of the patent infringement is increasing. However, amending the law is the first step, the more important things are that the People's Court should sufficiently protect the lawful right of the patentee according to the amended law, and the patentee should correctly use the amended law so as to gain a reasonable compensation when his patent right is infringed. In this way, the potential infringer will stop going forward when he has a possibility of infringing others' patent right.

[1]Yudong HE, etc: Debating for the introduction of punitive damages for intellectual property infringement [J], Intellectual Property, 2013, (4): 112-114.

The newsletter is not intended to constitute legal advice. Special legal advice should be taken before acting on any of the topics addressed here.

For further information, please contact the attorney listed below. General e-mail messages may be sent using LTBJ@lungtin.com which also can be found at www.lungtin.com

LIU, Xiao(Shawn), Patent Attorney: LTBJ@lungtin.com



LIU, Xiao(Shawn)
(Patent Attorney)

Mr. Liu is a patent attorney of Lung Tin, where he focuses on patent matters, primarily on patent application prosecution and translation in the fields of mechanical and material. Mr. Liu has rich experiences in patent agency and provides services for several large international corporations.

Mr. Liu has attended an internship in PCT department of WIPO for three months, and knows well about the work in International Bureau. Before joining in Lung Tin, he worked for Sunshine Intellectual Property Corporation as a patent engineer.