

Patent Litigation in China—Can You Receive Proper Compensation

Damages are one of the major remedies for patent infringement. China has long been criticized for low damages typically awarded to rightsholders who are victors in patent infringement lawsuits. Statistically, such an outcome is still likely now.

Recently, the Office of Legal Affairs for the State Council published *the Draft Amendment to the Patent Law* (Draft for Examination Procedure, “the Draft Amendment”), which seeks public opinions acceptable till January 1, 2016. In the Draft Amendment, compensating rightsholders adequately for past infringement and posing deterrent effects seriously upon potential infringement have become one of the major issues to address.

We brief here the Draft Amendment in this respect, discuss newly prescribed statutory damages, and provide our recommendations for receiving proper compensations in patent litigation in China.

Amendments Relating to Enforcement

To enhance patent enforcement and protect rightsholders’ legitimate rights and interests, the Draft Amendment has added/revised a few articles to address the issues of (i) difficulties to meet the burden of proof, (ii) long procedure to enforce rights, (iii) inadequate damages in compensation, and (iv) poor deterrent to future infringement. The articles include those perfecting evidence requirements, empowering administrative agency officers to order injunction and damages, adding definitions to punitive

Draft Amendment to Chinese Patent Law

damages, authorizing administrative officers to investigate and punish intentionally repetitive infringers, and clarifying the liabilities of indirect infringement.

One of the highlights in the Draft Amendment is the elevated amount of the statutory damages prescribed. Specifically, the Paragraph 2 of Article 68 specifies that “[i]f 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, a 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 RMB100,000 but not more than RMB5,000,000.” In this connection, the current Patent Law (2008 Revised) has prescribed a statutory damage ranging between RMB10,000 to RMB1,000,000.

Our Thoughts on Statutory Damages

The Chinese Patent Law articulates the methodologies of computing patent infringement damages, which shall be determined in the order of: (i) rightsholder’s losses; (ii) infringer’s profits; (iii) patent royalties; and (iv) statutory damages. In practice, the determination encompasses great difficulty and simplicity; difficulty because it puts all burden on the plaintiff to evidentially prove his/her losses, infringer’s profits, or patent royalties; simplicity because it creates a simply statutory damages scheme for a people’s court to arbitrarily decide damages for

over 90% of cases¹. The Draft Amendment introduces an increased statutory damage, which has manifested Chinese government's determination to offer strong patent protection. Moreover, the increase has a guidance effect on raising the compensation in patent litigation cases.

However, we noticed that the minimum limit has been revised from RMB10,000 to RMB100,000. Chinese proverb says "the duck knows first when the river becomes warm in the spring". Some open-eyed rightsholders, as well as patent attorneys, may be very sensitive to any slight change in the amendment; any revised legislature may lead to adjustments in their rights protection strategy. For example, when the minimum limit was changed from RMB5,000 (*Several Provisions of the Supreme People's Court on Issues Concerning Applicable Laws to the Trial of Patent Controversies* (2001)) to RMB10,000 (Patent Law (2008)), a lot of patent litigation cases targeting end sellers rushed out in practice. Author was in a patent panel in an Intermediate People's Court at that time, and handled a great number of such cases. In a case where the value is relatively very small and defendants are all small or individually-owned business owners, and where the plaintiff fails to meet the standards of proof in any of plaintiff's losses, infringer's profits and the patent royalty, a court will apply a statutory damage with a minimum of RMB10,000—it is a heavy burden

for these small or individually-owned business owners defendants. Similarly, if courts mechanically grant the minimum statutory damages in each case, there would be endless lawsuits against these small or individually-owned business owners, the whole society might be broadly and profoundly affected, and a lot of social contradictions would arise.

Similarly, according to the current Patent law, there are a lot of cases brought to the court based on the expectations that a plaintiff can acquire a RMB10,000 damage in each case relying upon one patent. Now, the minimum limit was proposed to rise to RMB100,000—10 times from the original. An explosive growth of lawsuits could be predicted, and the society might be affected at some level. Accordingly, Author would like to suggest legislators increasing the maximum limit, but cancelling the minimum limit simultaneously. If such done, we expect that the law would avoid misleading rightsholders, limit many malicious cases, decrease broad society contradictions, help courts in a dilemma when judging cases, and diminish unreasonable hurt to seriousness and authority of the Patent Law.

Our Recommendations to Adequate Compensations

(a) Shifted Burden of Proof

To increase the amounts of damages, the methodologies of rightsholder's losses, infringer's profits and patent royalties should be applied more often by a people's court. To this end, burden to prove rightsholder's losses, infringer's profits and patent royalties should not be only borne by the plaintiff, given the difficulty in collecting evidence, which has been considered as the trickiest part of infringement litigation in China.

¹ The Legal Department of China Patent Agent (H.K.) Ltd., *Theory and Practice Related to Patent Infringement Damages*, CHINA PATENTS & TRADEMARKS, NO. 4, 12 (2009), which reviewed patent infringement cases between 2007 and 2008, stating "[a]mong all the 416 judgments imposing damages, only one was adopted the method of the 'infringement profits,' four were adopted the method of the 'appropriate multiple of license royalties,' and the remaining 411 were adopted the method of statutory damages." *Id.* at 17. In other words, about 99% of damages were decided applying the statutory damages methodology.

The Draft Amendment clarifies a patent administrative agency's rights to investigate, confiscate infringing products and evidence such as invoices, accounting books and other relevant materials. In addition, the Draft Amendment provides that the alleged infringer may be subject to criminal charges, if it refuses to provide the evidence requested by the patent administrative agency or moves, forges or destroys the evidence. To this direction, we recommend rightsholders working together with the patent administrative agency and taking advantages of administrative-assisted investigation and evidence collection.

(b) Proper Application of Statutory Damages

Often, rightsholders have difficulties in gathering evidence to prove actual loss, infringer's profits, or patent royalties, and as a result, rightsholders can often only claim default statutory damages. Statutory damages are capped at RMB1,000,000 (approximately USD160,000) under the current Patent Law and the Draft Amendment raises it to RMB5,000,000. The amount awarded depends on various factors, including the scale and period of the infringement and the value and importance of the patented features to the product or process. Thus, at the time of collecting evidences, we recommend rightsholders taking those factors into consideration, even a statutory damage is

eventually claimed.

(c) Damages to Willful Infringement

The Draft Amendment introduces a punitive damages award for a willful infringement, which authorizes the administrative agency, or a people's court, to increase damages up to three times of the amount that is decided for the "willful act of patent infringement." However, the amendment is silent on the definition or standard for determining "willful." Nevertheless, we recommend plaintiff considering all evidences collected regarding potential willfulness to help a later claim.

In summary, most people currently believe that proper compensation for market disruption can be difficult to obtain, and in practice it is rarely worth litigating patents in the China only with a view to recovering damages where a final injunction is a more valuable goal. But with the Draft Amendment, together with the government's commitment to enhance patent protection and encourage innovation, we will see proper compensation for rightsholders is not far off. Many courts also have expressed the willingness to award adequate compensation to rightsholders and to deter infringers from repeated infringement. Nevertheless, the key to the end is to engage experienced attorneys in evidence collection and case preparation.

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 one of the attorneys listed below. General e-mail messages may be sent using ltbj@lungtin.com which also can be found at www.lungtin.com.

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