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How China's new Patent Law transforms the issuance of damages

Feng Zheng of **Wanhuida Intellectual Property** analyses how the amendments to the law could assist stakeholders claim damages and protect their patent rights

On October 17 2020, China promulgated the fourth amendment to the Patent Law (the amendment), which will become effective as of June 1 2021. Substantial changes are made in terms of patent filing and patent enforcement, among other matters.

The amendment largely codifies the evolving patent practice of the Chinese judiciary, incorporating revisions that are expected to change the litigation landscape including, *inter alia*, raising statutory damages, introducing punitive damages and leveraging the good faith principle to address the abuse of patent rights. The article will analyse these revisions and hopefully help stakeholders navigate the changing litigation landscape.

Damages

Increase of the amount of statutory damages

Article 71(2) of the new Patent Law increases the amount of statutory damages from the range of RMB 10,000 – RMB 1 million (approximately \$1,535 – \$153,458) to RMB 30,000 – RMB 5 million (approximately \$4,605 – \$767,290).

In China, damages are calculated by the following approaches: losses incurred to the right holder, illegal profit acquired by the infringer; or by a reasonable multiple of patent royalties. Where it is difficult to determine the amount of damages by the aforesaid three approaches, the court may resort to statutory damages and determine at its discretion the amount of damages within the range provided by the Patent Law. In practice, over 90% of patent infringement cases apply statutory damages.

The amendment over statutory damages reflects stakeholders' pressing demand for a stronger patent protection regime in China. Before the promulgation of the amendment, courts have been mildly raising the amount of damages to echo such demand albeit with fluctuation, as corroborated by statistics (see below table) published by the China National Intellectual Property Administration (CNIPA).

Despite the growing media coverage of cases with considerable damages in recent years, statistics delineates a slightly different picture. Of all the cases concluded by Chinese courts, only 6% were granted damages of over RMB 1 million in 2019. The increase in the ceiling of statutory damages from RMB 1 million to 5 million gives courts more leeway to support high damages.

The increase, though opens the door to higher damages, does not exempt the patentee from the onerous burden of proof. Still patentees are strongly advised to furnish compelling evidence on actual loss, illegal profit or royalty to facilitate court determination of statutory damages.

Allocation of burden of proof

The patentee often opts to calculate damages by referencing the illegal profit acquired by the defendant, but evidence to prove the defendant's illegal profit is not easy to collect. The amendment provides that the court may allocate the burden to the defendant in producing account books, provided that certain conditions are met.

The amendment added the infringer's burden of proof about damages. Specifically, Article 71(4) of the new Law provides that where the patentee has made best efforts to adduce evidence, while the account books or materials related to the infringement are controlled by the infringer, the court may order the infringer to provide such account books and materials. Non-compliance may result in the court's award of damages by reference to the claims and the evidence provided by the patentee.

Allocating the burden of proof to the defendant is not new. In 2016, the SPC issued the 'Interpretation (II) on Several Issues concerning the Application of Law in the Trial of Patent Infringement Dispute Cases', promulgating a similar rule, but courts in lower levels were generally conservative towards this rule, and their concerns are legit. For the most part, courts struggle to confirm the authenticity of the account books produced by the defendant (if any were turned over at all), the cost and time-consuming audit process and the uncertainty of return on waging a costly war against the infringer could be quite intimidating to the patentee.

PATENT LAW AMENDMENTS



Damages for Patent Infringement: 2014 to 2019

Amount of compensation (RMB)	2014	2015	2016	2017	2018	2019
0	-	45.5%	46.7%	25.5%	28.9%	26.8%
<100,000	51.3%	21.7%	28.9%	34.7%	43.3%	27.8%
100,000 – 500,000 (exclusive)	34.3%	23.9%	18.8%	13.4%	11.7%	29.4%
500,000 – 1,000,000 (exclusive)	11.5%	6.0%	3.8%	15.3%	10.7%	10.1%
1,000,000 – 5,000,000 (exclusive)	2.6%	1.1%	1.7%	10.7%	3.0%	3.6%
>5,000,000	0.3%	1.8%	0.1%	0.4%	2.4%	2.4%

Source: China National Intellectual Property Administration (CNIPA)

The Supreme People's Court has been trying to use exemplary cases to guide lower court's practice. In *Dunjun v Tenda* [(2019) Zui Gao Fa Zhi Min Zhong No.147], Dunjun sued Tenda for patent infringement and claimed compensation of RMB 5 million based on Tenda's illegal profit acquired from infringement. Dunjun produced evidence collected from Tenda's online store, which shows sales revenue of over RMB 20 million, multiplied by the average profit margin of the industry 30%, making a profit about RMB 6.1 million.

The court of the first instance found that Dunjun had provided preliminary evidence to prove the infringement scale, and upon Dunjun's application, ordered Tenda to submit account books related to the manufacture and sales of the accused product, which Tenda refused without justifiable reasons. The court thus supported the damages of RMB 5 million claimed by Dunjun. Tenda appealed to the IP Court of the Supreme People's Court (the SPC IP Court), which also ordered Tenda to disclose the account books.

Tenda again refused to comply. Instead, Tenda argued that the online sales revenue was unreliable, there was no proof to substantiate the industry profit margin, and the contribution of the patent to product profit was low. Without furnishing contrary evidence, Tenda's argument was dismissed by the court. The court concluded that without account books, it was impossible to assess the contribution of the patent to the accused product. The court of appeal finally affirmed the lower court's decision.

Dunjun v Tenda set an example on how to allocate the burden of proof between the parties in terms of damages. The defendant being ordered to produce its account book does not mean the patentee is exempted from producing evidence to substantiate the claimed damages. The plaintiff should produce preliminary evidence to prove the defendant's likely illegal profit. In order to make an effective rebuttal, the defendant must produce contrary evidence rather than merely casting doubt on the plaintiff's evidence, even if the doubt sounds reasonable (the patent contribution to profit is not considered in *Dunjun v Tenda*).

The amendment will carry wider influence than the 2016 judicial interpretation and exemplary cases. Although the amendment has yet become effective, courts are increasingly active in considering allocating burden of proof to defendant in producing account books. Defendants of patent infringement proceedings will have to tread more carefully in the rebuttal of the plaintiff's evidence of damages. Casting doubts over the plaintiff's evidence will not suffice. Defendants are advised to base their counter-argument on convincing contrary evidence and provide justification in case of difficulty to disclose account books.

Punitive damages

Article 71(1) of the new Law provides punitive damages of up to quintuple damages for wilful patent infringement, in case of serious circumstances.

Bad faith had been taken into account by courts in the determination of damages long before the amendment. Without a legislative basis to order punitive damages, courts tend to award higher damages within the legislative framework. However, the amendment remains silent as regards parameters to find wilfulness and to what extent the damages should be applied.

The SPC issued on March 3 2021 the 'Interpretation on the Application of Punitive Damages to the Trial of Civil Cases involving Infringement of Intellectual Property Rights', to give lower courts more guidance on the utilisation of the regime.

The judicial interpretation enumerates scenarios where circumstances are deemed serious if the defendant:

- Commits infringement again after being found infringement by court or government agency;
- Is an IP infringer by trade;
- Forges, destroys or conceals evidence of infringement;
- Refuses to comply with court's preservation ruling;
- Reaps significant illegal profit or causes huge losses to the right holder; or
- May endanger national security, public interest or personal health.



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The judicial interpretation still leaves a lot of issues unaddressed. A recent trade secret infringement case decided by the SPC IP Court could serve as a frame of reference in applying quintuple damages under 'serious' circumstances. In *Tianci v Newman et al* [(2019) Zui Gao Fa Zhi Min Zhong No.562], the first punitive damages case decided by the SPC IP Court, quintuple damages were granted. The court based its decision on the following reasoning that the infringer Newman has been mainly engaged, since its creation, in the production of the accused infringing products, that Newman continued massive infringement even after its former legal representative was convicted for trade secret infringement, and it refused to produce account books and materials, which showed the gravity of its wilful infringement.

Tianci v Newman et al showcases a combination of some of the aforesaid 'serious' circumstances: the defendant commits infringement again after being found infringement; is an IP infringer by trade; and likely refuses to comply with court's preservation ruling. Practitioners will have to pay close attention to future judicial practice to fathom how courts correspond extent of wilful infringement and gravity of serious circumstance to the multiple of damages.

Nevertheless, the introduction of punitive damages regime in the amendment and the promulgation of the SPC interpretation would encourage the Chinese judiciary to utilise the vehicle with more confidence in judicial practice.

Abuse of patent rights

The amendment also addresses the abuse of patent rights. Article 20 of the new Law reads "Patent filing and enforcement of patent rights shall follow the principle of good faith. Patent rights shall not be abused to harm public interests or the legitimate rights of others. Misuse of patent rights that eliminates or restricts competition so as to constitutes monopolistic behavior, shall be dealt with in accordance with the Anti-Monopoly Law".

The newly added provision is believed to be installed to balance enforcement of patent rights and public interest, with an emphasis on good faith and a reference to the Anti-Monopoly Law.

So far, there has been nothing to suggest that this article will discourage right holders' regular enforcement



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action. The existing cases falling under this category are very limited and mainly address bad faith litigation. In *Qiao'an Company v Zhang et al* [(2019) Hu Min Zhong No.139], the Shanghai High Court found the design patentee, Zhang, abused his right by filing a design patent over a surveillance camera product that had already been launched to the market prior to the filing date of the design patent, a fact found by a court in an earlier dispute between Zhang and Qiao'an.

Afterwards Zhang sued Qiao'an based on the design patent at issue, claimed damages of RMB 10 million and applied for the preservation of the equivalent amount of property owned by Qiao'an to secure damages. After looking into the previous dispute between the parties, the court found Zhang had exhibited bad faith in enforcing his patent, by taking into account the following Zhang was fully aware that the design patent at issue is devoid of novelty; Zhang deliberately intended to harm the interests of Qiao'an by claiming damages of RMB 10 million, which is far beyond the contribution of the patent at issue to the product profit; and Zhang's application to preserve Qiao'an's property apparently aimed to disrupt Qiao'an's business operation.

The amendment remains silent on how the good faith principle should be observed in patent filing and circumstances where patent enforcement harms public interests or violates the Anti-Monopoly Law, which are expected to be clarified in future contentious practice.

The amendment reflects the judicial practice evolving through the years, but it is far more than a summary of existing practice. Instead it provides direction and leaves room for judicial practice to develop. With the increase of statutory damages, allocation of burden of proof to defendant and installation of punitive damages, the right holder has more tools to fall back on in claiming high damages, while the defendant will face a higher burden of defence.

The future patent litigation will largely rest on the wrestle of evidence. With the addition of provision banning patent abuse, patentees are advised to double check patent stability and assess court preservation actions before initiating a proceeding.