

Theory and Practice Related to Patent Infringement Damages

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The issue of damages for patent infringement is always a focal point in patent infringement litigation. On 15 April 2009, the high-profile patent infringement lawsuit Chint Group Ltd. (Chint) v. Schneider Electric Low Voltage (Tianjin) Co., Ltd. (Schneider) was settled by the two parties during the trial of second instance, with the accused infringer Schneider paying Chint, the patentee, the damages of RMB 157.5 million yuan, an amount about half of the damages of RMB 335 million yuan as decided in the first-instance judgment¹. The huge amount of damages involved has drawn so wide attention in China and abroad that damages for patent infringement have again become a hot topic in the community.

This article is meant to present an overview of the fundamental theory and the pertinent law provisions governing patent infringement damages, and probe into the patent infringement judgments, made in the five regions of Beijing, Shanghai, Guangdong, Zhejiang and Jiangsu between 2007 and 2008, which have been made accessible in the Fabao Legal Database of the Peking University with a focus on the exploration of the amount of the decided damages for patent infringement in China now from the theoretical and practical perspectives.

I. Fundamental theory and pertinent law provisions governing patent infringement damages

In China, civil infringement damages are based upon the “equity (or fill-in) doctrine”, i.e. injury or losses are recovered with damages at such an amount that an infringer would be brought back to the state before its or his right was infringed, without putting it or him at a position more advantageous than that before the infringement took place. Since patent infringement is a civil infringement, this doctrine is naturally followed in respect of damages for patent infringement. To date, provisions with regard to punitive damages² are not incorporated in the laws governing patent infringement in China.

In the Patent Law, as promulgated on 12 March 1984,

was not specified the amount of damages for patent infringement. In the court practice, the matter of damages is addressed under the general provisions concerning the damages for civil infringement.

In the Answers for Addressing Several Issues Concerning Trial of Cases of Patent-related Dispute as issued by the Supreme People’s Court on 31 December 1992 (the Judicial Interpretation as of 1992), it was specified, for the first time, the methods for the determination of the amount of damages for patent infringement, spelling out, in Part 4 thereof³, three ways of damages computation or calculation:

(i) A patentee’s actual economic damage inflicted because of an infringement (infringement damage for short) may be calculated by multiplying the reduced sales of the patented product because of the infringement with the profit of the unit piece of the patented product;

(ii) All the profits an infringer makes because of an infringement (infringement profits for short) may be calculated by multiplying the profit of each infringing product with the amount of their sales; and

(iii) The amount of damages are fixed at an amount no less than the reasonable amount of the royalties of the patent license.

Issuance of the Judicial Interpretation has played a positive role in guiding and regulating trial of patent infringement cases to an extent.

In Article 60⁴ of the Patent Law as amended on 25 August 2000 (the Patent Law as of 2000) are officially incorporated the following three methods of damages calculation, namely:

(i) based on the infringement damage;

(ii) based on the infringement profits; and

(iii) duly determined with reference to the multiple of royalties of the patent license (the appropriate multiple of royalties for short) (with the wording here somewhat different from that of the Judicial Interpretation as of 1992).

This is the first time to have officially incorporated in the

Patent Law the provision relating to the damages for patent infringement, which serves as an express law basis for the calculation of the amount of damages. But, the provision does not specify which of the two methods of calculation should apply first, nor address the issue of how to determine the amount of damages when none of the three methods is applicable⁵.

On 22 June 2001, the Supreme People's Court issued the Several Provisions on Issues Relating to Application of Law to Adjudication of Cases of Patent Disputes (the Judicial Interpretation as of 2001), in which a series of important and new provisions have been set forth on the determination of the amount of the damages for patent infringement.

In Article 20⁶ of the Judicial Interpretation as of 2001 are worked out two flexible methods for calculating the amount of "infringement damage" and "infringement profits":

(1) Where it is difficult to determine the total reduction in the volume of sales of the rightholder because of the infringement, the total of the infringing products sold in the market times the reasonable profit of each patented product may be deemed to be the losses suffered by the rightholder due to the infringement.

(2) The benefits made by the infringer because of the infringement are generally calculated on the basis of the business profits made by the infringer. As for the infringer who engages in infringement as its or his sole business, the benefits may be calculated on the basis of its or his sales profits.

The concept of "statutory damages" (or "fixed amount of damages") was used for the first time in Article 21⁷ of the Judicial Interpretation as of 2001, whereby the people's courts are empowered to determine the amount of damages in the range of RMB 5,000 to 300,000 yuan (not exceeding RMB 500,000 yuan) depending on the factors, such as class of the patent in suit and the nature and circumstance of the infringement by the infringer. The introduction of "statutory damages", which is a major change in the trial of patent infringement cases and of landmark significance, has made it possible for judges to determine the amount of damages depending on the circumstances of the case where the aforesaid methods of calculation are not applicable, and greatly improved their efficiency in handling case of the kind. In recent years, imposition of the statutory damages has gradually become the dominant method used by the courts at all levels to determine the amount of damages in their trial of patent infringement cases. As shown by our corpus of cases under

our scrutiny in the five regions mentioned above, approximately 99% of all the cases were treated with the amount of damages determined with the method of statutory damages, and in some regions, even 100%⁸ of cases were treated this way. But with the cases where the statutory damages applied also rest the problems, such as passivity in adducing evidence on the part of interested parties, low amount of damages determined and too much discreption on the part of the judges.

Article 21 of the Judicial Interpretation of 2001 also provides that where it is possible to refer to the patent license royalties, the people's court may determine the reasonable damages at an amount one to three times the patent license royalties. In other words, "one to three times" is determined as the "appropriate multiple" mentioned in Article 60 of the Patent Law as of 2000 in the judicial practice.

Besides, in Article 22⁹ of the Judicial Interpretation of 2001 is also mentioned that it is possible to include the reasonable costs or expenses paid for investigation or for ceasing the infringement in the amount of damages. This is a positive change, which would help rightholder recover their enforcement costs, and enhance, to an extent, the protection of the rightholders.

In Article 65¹⁰ of the Patent Law as amended on 27 December 2008 (the Patent Law as of 2008, going into force on 1 October 2009) expressly provides that priority is given to the application of the "infringement damage" in determination of damages for patent infringement; "infringement profits" applies only when it is impossible to determine the "infringement damage". For the first time, it is made clear in the Patent Law that the amount of damages should include or cover the reasonable costs for ceasing infringement (reasonable costs for lawsuit). Also, in paragraph two of the Article has been officially incorporated the "statutory damages", with both the upper and lower limits of the amount doubled. Judges are thus empowered to impose damages at the amount of RMB 10,000 to 1 million yuan depending on the specific circumstances of a case.

On 18 June 2009, the Supreme People's Court issued the draft of the Interpretation of Several Issues Concerning Application of Law to Trial of Cases of Dispute Arising from Patent Infringement (the Draft Interpretation) for comments, which reflects the Supreme People's Court new practice along the line. While the terms of the Draft Interpretation are not final, they have drawn great attention from the community. Article 21, paragraph one¹¹ of the Draft Interpretation provides that

when determining the benefits an infringer has obtained because of an infringement, the court shall limit the amount of benefits to what the infringer has made because of the infringement of the involved patent *per se*; where its or his benefits are jointly generated due to other factors, the benefits obtained because of said other factors shall be excluded from the benefits obtained because of the infringement. In other words, in determining infringement profits, account must be taken of the “extent of contribution” of the patented technology to the gross profits made from the infringing products.

It is worth noting that the Draft Interpretation was issued just two months after *Chint v. Schneider* was settled. To the great surprise of the industry, the first-instance judgment in the case was made on 26 September 2007 with damages determined at such a high amount of RMB 330 million yuan (roughly \$ 50 million). In the judgment, it was decided that the “infringement profits” were the entire profits made from the infringing product, without identifying the extent of contribution made by the patented technology, which caused wide debate in and outside China. It seems that, in some aspects, Article 21 of the Draft Interpretation may be understood as a rectification the Supreme People’s Court made of the method of the “infringement profits” taken as the whole profits made from infringing products.

Additionally, while the varied specific calculation methods are mentioned in the Patent Law and the Supreme People’s Court’s judicial interpretations, in practice, it is very difficult to determine the amount of damages with the methods of “infringement damage” and “infringement profits” for a variety of reasons. For example, the method of “infringement damage” requires the presence of direct causality between reduced sales of a patented product and an infringement. But in practice, sales of patented product may be reduced for many reasons. For instance, an economic crisis may result in an inadequate market demand, some new alternative product is made or the ways of consumption of the public have changed. It is impossible to attribute reduced sales of a patented product entirely to an infringement. Besides, it is rather difficult to find out exactly what role (or extent of contribution) infringement has had in all these factors. For still another example, for the method of “infringement profits”, it is difficult to ascertain the sales of, and profits from, an infringing product, especially when the infringer is a small business without standardised management; it is also an arduous task to obtain the data of the nature.

For that matter, the courts have come up with some flexible methods for damages calculation as follows¹²:

(i) To multiply the total of the infringer’s sales by the profits of patentee’s product in the case where it is impossible to find out the profits made from the infringing product;

(ii) To multiply the total of the sales of the infringing product by the profits of the relevant product in the industry in the case where it is impossible to find out the profits made from the infringing product or the patentee does not make the product;

(iii) To multiply the number (of multiplying the patentee’s reduced sales by n%) by the profits made from the patentee’s product in the case where the sales are reduced not solely because of an infringement;

(iv) To multiply the number (of multiplying the patentee’s lowered sales by n%) by the profits made from the infringing product in the case where the profits of the infringing product is higher than that of the patentee’s product;

(v) To multiply the infringer’s total sales by the number (of multiplying the profits made from the infringing product by n%) in the case where only some parts of the infringing product infringe the patent involved;

(vi) To multiply the patent license royalties by the number (derived from the time of the infringer’s production divided by the time of the patent license) in the case of relatively short time of production of the infringing product; and

(vii) The number (from patent license royalties 1 plus patent license royalties 2 plus ... plus patent license royalties n) divided by n in the case of multitude of patent licenses.

While these flexible methods of damages calculation are not incorporated in the Supreme People’s Court’s judicial interpretations and cannot be directly used as legal basis in practice, use of the methods may be considered where it is indeed impossible to apply the standard methods as provided for in the Patent Law and the judicial interpretations. It is possible for the court to accept it in the presence of support with sufficient evidence¹³.

II. Ways of statistics and data

In order to better understand the adjudication practice of the court, we have brought together the patent infringement cases closed between 2007 and 2008 as made accessible in the Fabao Legal Database¹⁴ prepared by the Peking University. For our research the cases chosen are all heard by courts in the above mentioned five provinces and municipalities directly under the Central Government, where relatively more cases are heard. Besides, we have also classified the

cases according to the years of the cases, regions, classes of the patent in suit, countries of the interested parties involved for the purpose of our study, with a detailed analysis made respectively of the rate of cases won by the rightholders, distribution of the amount of damages, methods of damages calculation, and “reasonable costs”.

In order to more accurately show the practice of the courts in determination of the amount of damages and help interested parties better predict the judicial outcome of their pursuit of the entire lawsuits against or involving patent infringement, this article only focuses on a scrutiny of the judgments or rulings of the court there, excluding from the study the cases withdrawn or settled since the amount of damages in the mediation awards were generally results from the encountering and bargaining between plaintiffs and defendants, which are not true manifestation of the courts' view.

In some cases, the involved vendors' infringement was constituted, but they were not held liable for damages since they did not know what they marketed were infringing products and they were able to show the legitimate sources of their products in suit. Cases with zero damages involved are excluded from our statistics of the average and median value, which may result in the phenomenon where the total number of the cases with damages involved is smaller than that where the rightholders win in our statistics.

For simplicity in our method of our statistics, cases of first instance and second instance of trial involving the same infringement allegation are separately counted. If the trial of them is closed within the same year, they have possibly been separately counted, so numerical difference may exist in this regard. Besides, in some associated cases, a rightholder institutes multiple suits against one defendant on the basis of multiple claims or sues multiple defendants on the basis of one patent right. The circumstances of the associated cases are often very similar, and the judicial outcome thereof is substantially the same. In our statistics, these associated cases are all separately counted, which may also cause statistical difference. To evaluate the effect of these cases on the data of the present statistics, when computing the average or median value of the amount of damages, we first include the amount of damages of all the cases in our corpus of data for the computation of such valuations; we then remove parts of the identical data of the associated cases, keep one of the data for the computation, and calculate the average and median value after the adjustment is made. As the results showed, these cases do not have much effect on the final

statistic results.

III. Rate of cases won by rightholders

For rightholders (interested parties, such as patentees and exclusive licensees having the right to bring patent infringement litigation), whether it or he wins a lawsuit is a matter of vital importance. If it is impossible to win a lawsuit, it or he will lose a great deal in the market value of their patent rights. For that reasons, the rate of cases in which the rightholders are the winners in patent infringement litigation is a matter of general concern. For the statistics in this regard see Table 1.

As a whole, rightholders won about 70% of the cases (in which infringement was found) in these regions. As for the nationality of the rightholders, foreign rightholders (or rightholders involving foreign elements) won more or less the same number of cases as domestic rightholders, both amounting to about 70%. There was a slight regional variation in this aspect; in some regions, the percentage was extraordinarily high or low due to the relatively small number of cases of one kind or small samples of the cases in our corpus of data.

It is worth noting that the total number of judgments made in lawsuit involving dispute arising from infringement instituted by foreign rightholders in Beijing and Shanghai was obviously larger than that in other regions (with altogether 77 cases involving foreign rightholders, taking up 80% of the total)¹⁵, which showed that foreign rightholders prefer to sue in the courts in the two cities. This might have something to do with relatively rich experience and high level of proficiency of the judges in the courts in Beijing and Shanghai. In patent infringement litigation, rightholders were often reluctant to sue in the courts of place where infringing products are made or where the defendants are domiciled for fear of local protection¹⁶. Many rightholders got the chance to sue in a given region by accusing an unimportant vendor based there as a co-defendant. As the statistics shows, interested parties prefer to sue in the courts in Beijing. In many cases, the plaintiffs and main defendants were both based outside the region of Beijing, but the plaintiffs chosed, by way of suing “stawman” vendors, to bring action in the court there though this meant that they would be fatigued by the journey. The court system accepted the practice, believing that this showed the interested parties' own choice of place to sue, it is good for handling patent infringement cases in a just and timely manner, and was in line with the demand for enhanced intellectual property protection.¹⁷

We have also noted that the total number of judgments made in cases of dispute arising from infringement of invention patent in Beijing was obviously more than those in other regions (with altogether 53 cases involving invention patent infringement, taking up 51%)¹⁸ in the past two years. These cases involve considerable financial interests at stake and are difficult to deal with. Concentration of cases of the nature in the courts in Beijing showed, to an extent, the rightholders' acceptance of the courts there.

IV. Distribution and methods of determination of amount of damages

As was shown in Table 2, the average and median value of damages in the regions in the recent two years were approximately around RMB 100,000 yuan (about \$15,000). Damages of RMB 300,000 yuan or less are imposed in most cases (taking up 94%). Cases with damages of RMB one million yuan (about \$150,000) or more imposed were few, only two cases (taking up 0.5%). In the five regions in recent two years, the largest amount of damages ever imposed was RMB 1.05 million yuan (about \$150,000)¹⁹, and the smallest RMB 3,100 yuan (roughly \$400).

The amount of damages decided in cases involving in-

vention patent is higher than those involving utility model and design patents.

There is no obvious difference in the amount of damages imposed in these regions. Generally, the amount of damages imposed in Beijing and Shanghai were slightly higher than in the other regions (the average amount of damages were RMB 142,000 and RMB 137,000 respectively). There were also relatively more cases involving large amount of damages imposed in the two cities (there were five out of six cases in which damages in excess of RMB 1 million yuan were imposed).

On the whole, in patent infringement cases is imposed relatively small amount of damages in China, which seems rather insignificant compared with the damages amounting to several hundred million US dollars imposed frequently in the U.S. and European countries. In some cases, the amount of the imposed damages was so small that they could not cover the litigation costs²⁰. For that reason, there stood little chance for seeking large amount of damages in lawsuit in the absence of especially sufficient evidence to support one's claim. In this case, the significance in winning a patent infringement lawsuit mainly lies in cessation of the infringement.

Table 1: Rate of Cases Won by Rightholdersⁱ in Patent Infringement Litigationⁱⁱ (2007–2008)

P1: Invention Patent P2: Utility Model Patent P3: Design Patent Σ: Subtotal

Region/Class of Patents	Beijing				Shanghai				Guangdong				Jiangsu				Zhejiang				Total
	P1	P2	P3	Σ	P1	P2	P3	Σ	P1	P2	P3	Σ	P1	P2	P3	Σ	P1	P2	P3	Σ	
Total Judgments	53	48	79	180	17	20	28	65	5	23	59	87	14	21	102	137	14	43	68	125	594
Cases involving foreign rightholders ⁱⁱⁱ	31	0	20	51	12	2	12	26	3	1	4	8	1	0	2	3	2	0	6	8	96
Cases won by foreign rightholders	22	0	16	38	9	0	8	17	3	0	1	4	1	0	0	1	2	0	6	8	68
Winning rate %	71	--	80	75	75	0	67	65	100	0	25	50	100	--	0	33	100	--	100	100	71
Cases involving domestic rightholders	22	48	59	129	5	18	16	39	2	22	55	79	13	21	100	134	12	43	62	117	498
Cases won by domestic rightholders	11	23	43	77	4	6	10	20	0	16	43	59	7	17	94	118	6	32	50	88	362
Winning rate %	50	48	73	60	80	33	63	51	0	73	78	75	54	81	94	88	50	74	81	75	73
Cases won by rightholders	33	23	59	115	13	6	18	37	3	16	44	63	8	17	94	119	8	32	56	96	430
Total winning rate %	62	48	75	64	76	30	64	57	60	70	75	72	57	81	92	87	57	74	82	77	72

ⁱ "Cases won by rightholders" means that infringement was found. The "rightholders" here include plaintiffs in the patent infringement litigation and defendants in the litigation for disclamatory judgement.

ⁱⁱ "Patent infringement litigation" here also includes litigation for disclamatory judgement, apart from patent infringement litigation in general sense.

ⁱⁱⁱ By the "foreign rightholders" here is meant that at least one of the rightholders who claim their rights in a case has a foreign background, such as pure foreign business or businesses of sole foreign investment or joint ventures.

products sold by vendors, number of and fees paid by dealers²⁵; patent license royalties²⁶ (it is worth noting that where damages are claimed on the basis of patent royalties, evidence, such as proof of payment or invoices, is required to show the execution of a patent license); the subjective fault of the defendant and the facts of continued infringement after the patent administration made a Patent Infringement Dispute Treatment Decision²⁷; facts of exporting to a plurality of nations and regions the infringing products advertised on the defendant's website²⁸; and the defendant's statements of loss, profits, debts, and performance, and fees paid for patent license.²⁹ Statements of the nature will greatly help a judge get to know about the facts of a case and duly determine the amount of damages, and, as well, make larger amount of damages more likely.

V. Reasonable costs

The "reasonable" costs a rightholder pays in a case often include investigation and evidence collection expenses, translation fees, notary fees, payment for buying infringing products, travel expenses, documents reproduction fees, fees for communications, appraisal fees, and lawyer's fees, patent attorneys' fee, consultants' fees, warehouse fees, rents, and expenses paid for security matters.

The costs may roughly be divided into two categories: investigation and evidence collection expenses, and service fees.

The investigation and evidence collection expenses, such as notary fees, translation fees, fees paid for converting DV to DVD, documents reproduction fees, travel expenses and payment for buying infringing products, are an interested party's necessary actual costs or expenses, and usually of a relatively small amount, and the reasonability of these expenses is often a matter of little contraversion. Hence, in the presence of sufficient evidence, the court often supports recovery of these costs.

The courts often treat the service fees, such as lawyer's fees, attorney's fees and warehouse fees, in a more careful manner. Much varied rates of fees are charged in different regions or in the same region for lawyers of varied level of professional proficiency, patent attorneys and other professionals. There is much disagreement on the reasonability of fees for a level of service³⁰. As the specific cases show, the determined lawyer's fees or attorney's fees under the item of "reasonable costs" often amount to several thousands RMB yuan (about hundreds of US dollars), mostly not exceeding RMB 20,000 yuan (about \$3,000). Case of more RMB 50,000

yuan (about \$7,000) are quite few. In cases involving foreign interested parties, the determined amount of damages is trivial compared with the thousands of US dollars paid for the lawyers fee. As the warehouse fees, while they should be taken as the necessary expenses, much disagreements exist as to how large a rented warehouse is "reasonable". Cases of full supports from the court are quite few.

Besides, it is worth noting that the "official fees" paid to the court for case acceptance and expert appraisal sometimes may be as much as over RMB 100,000 or even several hundred thousands yuan, or even in excess of the total amount of damages decided in some cases. And these official fees are not to be covered by the damages due from the other party as part of the "reasonable costs".

VI. An overview of typical cases

Now, let's look at some typical cases selected from those closed in the recent two years, commending on them from a practical perspective to help our readers better understand the courts' specific practice in hearing patent infringement lawsuits and realise the importance of adduction of sufficient evidence for the sake of claiming larger amount of damages.

1. Beijing Duolaiming Medical Treatment Science and Technology Co., Ltd. v. Jiang Quantao, a case of appeal involving patent infringement dispute, in which the Beijing Higher People's Court made the Civil Judgment No. Gaom-inzhongzi 971/2008

Jiang Quantao, the patentee, sued the Beijing Duolaiming Medical Treatment Science and Technology Co., Ltd. (Duolaiming) for infringing his invention patent (200410036125.6).

In the procedure, Jiang Quantao furnished the Goldrath Manual accepted by Duolaiming, in which it was stated that the fees charged for joining the business chain by a self-managed chain store was RMB 28,000 yuan. Jiang Quantao also presented the Contract No. JM-106 A (57001) for Joining the Business Chain as sealed by Duolaiming. Under the contract the fee charged for joining the business chain was RMB 28,000 yuan. During the court session before the first-instance court, Duolaiming stated that it began to make the three models of the thermal eye-sight therapeutic instruments, which were identical in structure, from July 2007, and had made altogether 2,500 sets of the instruments by the time of first-instance procedure. There were 13 member stores in the business chain. An instrument was sold to the chain dealer at the price of RMB 315 yuan a set. Calculated on the basis of the unit price, the gross profit was roughly 35% when the

dealer sold it at the retail price of RMB 915 yuan a set.

The court determined the amount of profits made by Duolaiming because of its infringement, on the basis of the factors, such as volume of production, price of the products sold to its chain retailers and the gross profits as it stated before court, with account taken of the mode of sales by Duolaiming of the products in suit, the price at which the retailer sold the products, the number of such chain retailers and fees for joining the business chain. Together with the notary fees of RMB 4,655 yuan, the lawyers fee of RMB 6,000 yuan, and the surety fee of RMB 5,000 yuan Jiang Quantao had paid, the amount of damages totaled more than RMB 300,000 yuan.

In the case, the plaintiff provided relatively sufficient evidence, and the court had decided on a relatively large amount of damages in the case.

2. Beijing Tianweiheng Electric Co., Ltd. v. Beijing Dianke Siwei Electric Power Technology Co., Ltd., a case involving patent infringement dispute, in which the Beijing No. 2 Intermediate People's Court made the Civil Judgment No. Erzhongminchuzi 15968/2006.

The Beijing Tianweiheng Electric Co., Ltd. (Tianweiheng) sued the Beijing Dianke Siwei Electric Power Technology Co., Ltd. (Siwei) for infringement of its utility model patent (99201400.X).

The plaintiff Tianweiheng provided the proofs as to the defendant Siwei's statements of loss, profits, debts and performance in 2004 and 2005 to show the benefits the defendant had obtained because of its infringement. The plaintiff also furnished proofs of the agreement it concluded with the Jiangsu Jinke Mutual Inductor Co., Ltd. and the Dalian Mutual Inductor Co., Ltd. on assignment of the patented technology to prove the amount of fees due to it for assigning the patented technology at the amount of RMB 1.5 million yuan and 600,000 yuan respectively.

On account of the nature and scale of the defendant's infringement, price of the products in suit, the normal market profits and the plaintiff's license royalties, decided on RMB 1 million yuan as the damages due to the plaintiff and on RMB 27,000 yuan as the reasonable costs the plaintiff paid for the lawsuit.

In the case, the defendant's statements of loss, profits and debts, and statement of performance provided by the plaintiff were all relatively solid evidence, from which a lot of specific data were directly gathered for evaluating the benefits obtained because of the infringement. With such relatively

sufficient evidence adduced, the court decided on the damages at the amount of RMB 1 million yuan, in excess of the upper limit of the statutory damages at the amount of RMB 500,000 yuan provided for in the Judicial Interpretation of 2001. It was a rather large amount of damages decided in recent two years.

3. Honda v. Lifang Industrial Group Co., Ltd., a case involving patent infringement dispute, in which the Shanghai No. 2 Intermediate People's Court made the Civil Judgment No. Huerzhongminwu (zhi) chuzi 89/2004

The plaintiffs, Honda and Wuyang-Honda Motorcycle (Guangzhou) Co., Ltd. sued Lifang Industrial Group Co., Ltd. (Lifang) and Shanghai Wenan Motorcycle Co., Ltd. for infringement of their invention patent (95104356.0).

According to the facts that the State Machinery Bureau publicised Lifang's LF125T-2D motorcycle in May 2000, and that Lifang stopped its production of the motorcycles in 2004 owing to the lawsuit and resumed its production after the PRB held the plaintiff's patent right invalidatable, the court decided that the periods of infringement were between May 2000 and December 2003, and between January 2005 and November 2007.

According to the information of the volume of production of the motorcycles recorded with the Quality Certification Information Administration as designated by the State Development and Reform Commission, the court decided that Lifang made 17,617 LF 125T-2D-model motorcycles in the periods of infringement.

As for the profits made from the infringing products, Lifang insisted that it made a very small amount of profits and even lost money from its production of the motorcycles in suit, without presenting any financial evidence to prove it. The plaintiff Honda furnished the proof showing the rate of profits from Lifang's motorcycles business in the market in Japan and the rate of profits made by Lifang over the years as calculated from the information taken from the Composite Information of China's Automobile Industry (Motorcycles Part). The court held that the damages of the infringement lawsuit should be calculated on the basis of the relevant information of the market in China, and did not accept the Honda's evidence of the rate of profits Lifang made from its relevant products in Japan. Reference might be made to the relevant data from the Composite Information of China's Automobile Industry (Motorcycles Part) though they did not show the profits of a particular model of motorcycle made. The court determined that the average rate of profits of motorcycles was at

3% after taking account of the factors, such as the scale of production, main business, and the characteristics of the motorcycles in suit.

Besides, according to the factory price of the motorcycles as provided by Lifang in the years from 2005 to 2007 and on account of the market factors, the court decided that the average price of the motorcycles in suit sold by Lifang was at RMB 4,000 yuan.

It was possible to calculate on the basis of the ascertained facts that Lifang made a profit of RMB 2.114 million yuan from the motorcycles in suit it had made and sold.

Account was taken of the fact that Honda made its claim for damages on the basis of its design and invention patents in the present case and in another case (see Shanghai No.2 Intermediate People's Court Judgment No. Huerzhongminwu (zhi)chuzi 225/2003). In the latter case, the court, when determining the amount of damages, considered the value that the patent took up in the products. For that reason, the court decided, when determining the amount of damages in the present case, would determine Lifang's profit made because of the infringement also on the basis of the value of the patent. The court decided that the rate of value that the patent took up in the products of the motorcycles in suit was at 1:5 or 20% on the basis of the factors, such as the class of the patent, content of technology, market value and contribution to the production of a motorcycle as a whole. Accordingly, it was calculated that Lifang made a profit of RMB422,800 yuan from its infringement of the patent in suit.

Regarding the reasonable costs in the lawsuit, the court support the claim for full recovery of RMB 19,800 yuan as part of the reasonable costs the plaintiff had paid for buying the infringing product and for notarisation for the purpose of ceasing the defendants' infringement. While the rent was part of the reasonable costs, according to the site inspection, the presumed 360m² of the warehouse for the motorcycle in suit was obvious too large, so the court supported the claim for recovery of the relevant fees of RMB 20,000 yuan. Besides, the court decided on the recovery of RMB 150,000 yuan on account of the factors, such as the circumstances of the case, the schedule of the relevant fees charged, and the actual work the lawyer had done. To sum up, Lifang should pay the two plaintiffs RMB 612,600 yuan in compensation of their financial damage, their reasonable costs included.

This case is one of the rare cases where the amount of damages was determined on the basis of the "profits made because of the infringement". The case will thus serve as a

very valuable frame of reference. To prove the profits made because of the infringement, the plaintiff provided a lot of evidence. Interested parties should refer to the practice and do a better job in adducing evidence. The final amount of damages of RMB 1.035 million yuan was a relative large amount determined in the cases closed in the recent two years. But it seemed that the amount of damages was still not enough to cover all the lawyer's fee of RMB 956,000 yuan, rent of RMB 70,000 yuan and the security fee of RMB 81,000 yuan as claimed for by the plaintiffs.

4. Chint Group Ltd. v. Schneider Low-Voltage (Tianjin) Co., Ltd., a case involving patent infringement dispute³¹, in which the Zhejiang Wenzhou City Intermediate People Court made the Civil Judgment No. Wenminsanchuzi 135/2006

The plaintiff Chint Group Ltd. (Chint) sued the Ningbo Tariff Protection Zone Sida Electric Equipment Co., Ltd. (Sida), its Yueqing Branch (Sida Branch) and Schneider Low-Voltage (Tianjin) Co., Ltd. (Schneider) for infringement of its utility model patent (ZL 97248479.5).

The court invited an account public to audit the Schneider at the request of Chint. Since Schneider did not make its account books accessible, it was impossible to directly determine the business profits made from selling the infringing products. For this reason, the court decided that the average business profits as the audit revealed of the products sold by Schneider was the business profits made from selling the infringing products, and then multiplied it by the amount of the sales of the products. It was decided that the business profits of the infringing products was RMB 356 million yuan, even more than the amount of damages of RMB 335 million yuan claimed by Chint. The first-instance court supported the full amount of damages claimed, and decided that Schneider was to pay RMB 335 million yuan (about 50 million US dollars).

VII. Conclusion

As the statistics showed, Chint v. Schneider is just one of the very few cases in which several hundred million RMB yuan was imposed as the determined damages. It did not change the scenario of the small amount of damages awarded in patent infringement cases. Except the case, of all the sample cases closed in the five regions under our study, the largest amount of damages decided by the court was RMB 1.05 million yuan, and the amount of damages was relatively small in most other cases.

Debates are still going on in the community as to whether all the three methods (infringement damage, infringement

profits and appropriate multiple of royalties) for calculating infringement damages have followed the “fill-in” doctrine. For some scholar, only the “infringement damage” has³² while it is possible for the amount of damages as calculated with the latter two methods to exceed a rightholder’s actual injury or damage. After the ruling was rendered in the Chint case, the debate was the hottest. Some scholars argue that an infringing product involves a plurality of technologies, contribution made by an involved patented technology to the total profits made should be identified, it is an over-evaluation and contrary to the “fill-in” doctrine to attribute the total profits from selling the infringing products to the patented technology alone. It seems that Article 21 of the Draft Judicial Interpretation recently issued for comments has been formulated in direction to the case, and brought the debate along the line back on the track of the “fill-in” doctrine again. It is predicted that determination of the amount of damages on the basis of total profits from sales of an infringing product is unlikely to be the mainstream practice in the future. ■

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¹ See Zhejiang Province Wenzhou City Intermediate People’s Court Civil Judgment No. Wenminsanchuzi 135/2006 in Chint v Schneider.

² For example, in the U.S., triple damages would be imposed for willful infringement.

³ Part 4 of the Judicial Interpretation of 1992: Imposition of the damages caused because of patent infringement should follow the principle of fairness, so that the injury actually sustained by the patentee because of the infringement may be duly compensated.

The amount of damages to cover the losses caused because of an infringement of a patent may be calculated with the methods as follows:

(1) the actual economic injury done to the patentee because of the infringement is deemed to be the amount of damages. The method of calculation is: where the sales of the patented product of the patentee is decreased by the sale of the infringing product of the infringer (including the products made with a patented process of another person) in the market, multiply the product of the total of the decreased sales by the profit made from each patented product to get the actual economic injury of the patentee;

(2) the total profits made by the infringer because of the infringement is deemed to be the amount of damages. The method of calculation is: the profits made by the infringer from each infringing product (including the product made with a patented process of another person) multi-

plied by the total sales in the market to get the total profits made by the infringer; or

(3) a reasonable amount not less than the patent license royalties is deemed to be the amount of damages.

The people’s court may choose one of the three methods of calculation depending on the different circumstances of a case.

Where interested parties agree to calculate the amount of damages with another method, the people’s court may allow it provided that it is fair and reasonable.

⁴ Article 60 of the Patent Law as of 2000: The amount of compensation for the damage caused by the infringement of the patent right shall be assessed on the basis of the losses suffered by the patentee or the profits made by the infringer because of the infringement. If it is difficult to determine the losses which the patentee has suffered or the profits which the infringer has made, the amount may be assessed by reference to the appropriate multiple of the amount of the exploitation fee of that patent under contractual license.

⁵ The logic system of calculation of damages for patent infringement, http://www.gmfalv.cn/Html/?1354_1.html visited on 15 August 2009.

⁶ Article 20 of the Judicial Interpretation as of 2005: Where the people’s court imposes liability for damages on the infringer under the provision of Article 57, paragraph one, of the Patent Law, it may, at the request of the rightholder, determine the amount of damages according to the injury done to the rightholder because of an infringement or the benefits obtained by the infringer because of the infringement.

The the injury done to a rightholder because of an infringement may be calculated by multiplying the total sales of the infringing products with the reasonable profits made from each infringing product. Where it is difficult to determine the total of the reduced sales by the rightholder, the total sales of the infringing products multiplied by the reasonable profit made from each infringing product may be deemed to be the injury done to the rightholder because of the infringement.

The benefits obtained by the infringer because of the infringement may be calculated by multiplying the sales of the infringing products with the reasonable profits of each infringing product. The profits made by the infringer because of the infringement is generally calculated according to the business profits made by the infringer. As for the infringer who solely engages in infringement as its or his entire business, the profits may be calculated on the basis of its or his sales profit.

⁷ Article 21: Where it is difficult to determine the injury done to the infringer or the benefit obtained by the infringer, the people’s court may, where reference may be made to the patent license royalties, determine the reasonable amount of damages according to the class of the patent right involved, the nature and facts of the infringement by the infringer, the amount of the patent license royalties, the nature, extent and time of

the patent license with reference to one to three times the patent license royalties; in the absence of the patent license royalties to be referred to or in the case of obviously unreasonable license royalties, the people's court may, according to the factors, such as class of the patent right, the nature and facts of the infringement, determine the amount of damages of more than RMB 5,000 yuan and less than RMB 300,000 yuan, but not in excess of RMB 500,000 yuan at the most.

⁸ In Beijing and Zhejiang, the method of statutory damages were applied in all the patent infringement judgments.

⁹ Article 22: The people's court may, at the request of the rightholder or depending on the specific circumstances of a case, include the reasonable costs paid for investigation or for ceasing the infringement in the amount of damages.

¹⁰ Article 65 of the Patent Law as of 2008: The amount of damages for the infringement of the patent right shall be determined on the basis of the losses actually suffered by the patentee, or the profits which the infringer has earned through the infringement if it is difficult to determine the above losses. If it is difficult to determine the losses which the patentee has suffered or the profits which the infringer has earned, the amount may be assessed with reference to the appropriate multiple of the amount of the royalties of that patent under contractual license. The monetary damages shall include the reasonable costs incurred for ceasing the infringement.

If it is difficult to determine the losses which the patentee has suffered and the benefits which the infringer has earned, or the patent license royalties, the people's court may award damages no less than RMB 10,000 yuan and no more than RMB 1,000,000 yuan depending on the factors, such as the type of the patent right, the nature and gravity of the infringing act.

¹¹ Article 21: When determining the benefits an infringer has obtained because of an infringement under Article 65, paragraph one, the people's court shall limit the amount to the benefits the infringer has made because of infringement of the involved patent *per se*; where its or his benefits are generated also owing to other factors, the benefits obtained because of said other factors shall be excluded from the benefits obtained because of the infringement.

¹² Supra Note 5.

¹³ See Shanghai No. 2 Intermediate People's Court's Civil Judgment No. Huerzhongminwu (zhi) chuzi 89/2004 made in Honda v. Lifang.

¹⁴ See <http://vip.chinalawinfo.com/> visited on 15 August 2009.

¹⁵ The cases withdrawn or settled were not included. Their inclusion would change the percentage.

¹⁶ See the Supreme People's Court's Reply (dated 8 March 1994) to the Reports for Directions on How to Determine the Regional Jurisdiction in Patent Infringement Lawsuit.

¹⁷ Supra Note 16.

¹⁸ Supra Note 15.

¹⁹ As the case, Chint v. Schneider, was not included in the Fabao Legal Database, it was not calculated in our statistics.

²⁰ Supra Note 13.

²¹ Supra Note 13.

²² See Beijing Tianwei Ruiheng Electric Co., Ltd. v. Beijing Dianke Siwei Electric Co., Ltd.. The court decided on the statutory damages at the amount of RMB one million yuan plus reasonable litigation costs amounting to RMB 27,000 yuan (see Beijing No.2 Intermediate People's Court's Civil Judgment No. Erzhongminchuzi15968/2006; in Honda v. Hebei Xinkai Automobile Manufacturing Co., Ltd., the court decided on an amount of RMB 1.05 million yuan for the statutory damages plus the reasonable litigation costs (see Beijing Higher People's Court's Civil Judgment No. Gaominchuzi 1472/2004).

²³ See Shuangxiang Weiye Mining Equipment (Beijing) Co., Ltd. v. Li Xingbing, (see Beijing Higher People's Court's Civil Judgment No. Gaominchuzi1379/2008).

²⁴ See Guangzhou Maipu Science and Technology Co., Ltd. v. Epson (Beijing Higher People's Court's Civil Judgment No. Gaominchuzi1004/2008).

²⁵ See Beijing Duolaimi Medical Technology Co., Ltd. v. Jiang Quantao (see Beijing Higher People's Court's Civil Judgment No. Gaominchuzi 971/2008).

²⁶ See Shanghai Henghao Glass Technology Co., Ltd. v. Beijing Meitong Shijia Building Materials Co., Ltd. (see Beijing No.2 Intermediate People's Court's Civil Judgment No. Erzhongminchuzi 9615/2007).

²⁷ Shanghai Fupei Trading Co., Ltd. v. Ningbo Fuda Electric Appliance Co., Ltd. (see Shanghai Higher People's Court's Civil Judgment No. Hugaominsan (zhi)zhongzi 47/2008).

²⁸ Wenzhou Ridian Electric Appliance Co., Ltd. v. Philips (see Shanghai Higher People's Court's Civil Judgment No. Hugaominsan (zhi)zhongzi 80/2008).

²⁹ Beijing Tianwei Ruiheng Electric Co., Ltd. v. Beijing Dianke Siwei (See Beijing No. 2 Intermediate People's Court's Civil Judgment No. Erzhongminchuzi 15968/2006).

³⁰ Supra Note 13.

³¹ The case is not included in the Fabao Legal Database, what has been stated here is based on the relevant reports.

³² Supra Note 5.