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Patents/Damages

China Improves Remedies as IP Protection Improves

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China's intellectual property landscape is being shaped by recent political decisions, judicial practices, industry reforms and wider influences. From the inception of a number of specialized IP courts and tribunals to the promulgation of much-needed laws and regulations, China's IP jurisprudence is improving and becoming more public and transparent.

Several recent decisions issued by the Beijing Intellectual Property Court show that the IP environment is becoming friendlier to rights owners. The judges understand the importance of stopping IP infringement and this can be seen in their approach to remedies. The judges are no longer shy about exercising their powers to collect evidence directly from the infringers. And they are more willing to go beyond statutory damages and spend time to calculate actual damages and even award attorneys' fees.

These echo a slogan repeatedly promoted in the judges' public speeches - "giving teeth to the IP law." It is hoped that this trend will continue and deliver an unequivocal message that IP infringing, squatting and free riding will no longer be left in the shadows and will be condemned justly, adequately and firmly.

This article takes a closer look at some of the most significant IP cases where considerable monetary damages were levied against the infringers. Each case provides useful guidance helping IP owners navigate through the dynamic IP landscape in China.

Calculating and Increasing Damages

Over the years, foreign IP owners have been hesitant to step into China's IP regime. One main reason is the notoriously limited remedies, especially inadequate compensation. Other factors make this an even bigger problem, such as the lack of discovery under China's procedural laws, the court's general tolerance for defendants withholding evidence and the insufficient statutory damages.

The judicial system has been striving to address the problem of inadequate compensations. Some recent cases and judges' publicized speeches signal such a trend toward more diligently calculated damages and higher monetary remedies.

Big Damages and Time-Based Fees

One eye-opening case is *Watchdata Co. v. Hengbao Co.*, (2015) Jing Zhi Min Chu Zi No. 441 (Beijing IP Court), the "50 million yuan case" issued by the Beijing IP Court. The court awarded monetary damages totally 50 million yuan (\$7.25 million) for the patent owner, including 49 million in civil compensation and 1 million for attorney's fees, both of which are the highest awards issued by the court ever.

In *Watchdata*, the court made adverse inferences based on the defendant's repeated refusals to submit its own accounting information, and calculated the actual damages based on the plaintiff's evidence and collected by the court during judicial investigation. Second, the court—for the first time—applied time-based billing to calculate attorney's fees.

The plaintiff Watchdata Co. is a Chinese company holding a method and product patent covering a physical authentication method and the electric device that performs the method, such as a USB key. The defendant Hengbao Co. is another Chinese company that manufactured and sold a USB key product, and used such product to perform physical authentication during online banking transactions. The court found that both the defendant's USB key and its authentication method infringed the plaintiff's patent.

The plaintiff asked for 49 million yuan in damages.

First, the court conducted judicial investigations at Bank of China and other banks, and uncovered the actual amount of infringing products sold by the defendant to 12 banks nationwide. Since the defendant refused to reveal its actual profit margin for the infringing products, the court, by making adverse inference, admitted the reasonable profit calculated by the plaintiff for its patented products. Citing the Supreme People's Court judicial interpretation on patent litigation, the court multiplied the number of sold infringing products by the reasonable profit attributable to the patent, arriving at about 48.1 million yuan of actual damages.

Moreover, the court also confirmed that the defendant had sold the infringing products to three other banks, but could not ascertain the actual amount through judicial investigation. The defendant once again refused to produce its relevant accounting information. The plaintiff alleged that the defendant's profits made for the infringing products sold to these banks was more than 2 million yuan, based on industry norms. Accordingly, the plaintiff contended 858,000 was attributable to the patent. The court again made an adverse inference based on the defendant's refusal and supported plaintiff's pleading in its entirety. Adding the two portions together, the court awarded 49 million RMB as civil compensation to the plaintiff.

Second, the court surprised IP lawyers by applying time-

based billing to calculate an attorneys' fees award. Under Article 65 of the Patent Law, the losing defendant shall bear the reasonable expenses, including attorneys' fees, incurred by the plaintiff to stop the infringement. It is not uncommon for courts to award attorneys' fees, but the amounts are usually very low, often thousands or perhaps tens of thousands yuan per case.

In *Watchdata*, however, the Beijing IP Court held that, in the current legal service market, time-based billing is a normal and legal way of calculating attorney's fees, and thus can be used as the basis to calculate the plaintiff's reasonable expenses.

In awarding the 1 million yuan fees award, the court considered such factors as the necessity to retain an attorneys, the complexity of the case, the actual efforts contributed by the attorneys and other factors. The court concluded that the plaintiff's requested amount was reasonable, and awarded the full amount.

This is unprecedented in China according to the best of our knowledge. This ruling excited China's IP legal society for it evidenced the court's recognition and approval of the value contributed by the IP legal service providers.

Enhanced Damages for Copyright Case

Soon after *Watchdata*, the Beijing IP Court issued another verdict with big damages. In *Zhang v. Sursen Digital Library Software Technology Co.*, (2016) Jing 73 Min Zhong No. 302 (Beijing IP Court), the court upheld the lower's court's finding of copyright infringement and also increased the awarded damages by almost tenfold.

Sursen Digital concerned infringement of literary works. Courts typically calculate the monetary damages based on the standard author's remuneration, usually dozens of yuan per 1,000 characters, subject to the handling judge's discretion. Here, the first instance court calculated the damages in the same way and awarded 30 yuan per 1,000 characters.

On appeal, however, the Beijing IP Court increased the amount by 10 times. Citing the Copyright Office's rules on damages, which provides a range of 80 to 300 yuan per 1,000 characters, the court awarded the top rate of 300 yuan.

Though the award here is smaller than in *Watchdata*, the message is the same, awarding the highest lawful damages possible. Previously, appeals courts rarely amended the lower court judgments solely because the monetary damages were inadequate. However, this judicial norm has been broken here – if the trial court award is inadequate, the second instance court can make it right.

Pre-Litigation Evidence Preservation

Not only is the court more willing to grant increased damages after trials, but it is also prepared to, even before litigation, collect evidence including infringer's account books, under the existing evidence preservation mechanism.

In *Tsinghua University v. Junhe Xinda Technology Co.*, (2017) Jing 73 Zheng Bao No. 1 (Beijing IP Court), the

Beijing IP Court granted Tsinghua University's petition for pre-litigation evidence of the defendant-to-be's infringement and illegal gains.

Pre-litigation evidence preservation is available under Section 81 of the Civil Procedural Law and Section 61 of the Patent Law. In *Junhe Xinda*, the Beijing IP Court considered, (1) whether the petitioner for evidence preservation was the right owner or an interested party; (2) whether the court had jurisdiction; (3) whether the circumstance was urgent, *i.e.*, the evidence was likely to be lost or become difficult to collect; and (4) whether the petitioner had posted a bond.

Finding all factors in the petitioner's favor, the court granted the pre-litigation evidence preservation request, and preserved relevant evidence from the defendant-to-be's headquarters and subsidiary.

Among the preserved evidence were Junhe Xinda's account books, which might contain the key to prove the infringer's illegal gains. This piece of evidence effectively addressed the patent owner's difficulty of proving damages.

Judicial evidence preservation was encoded to soften the problem of letting the plaintiff carry the burden of proof without the much-needed tools, *e.g.*, discovery or production order.

Accordingly, *Junhe Xinda* shows that, in daily practice, the court is implementing evidence preservation, evidencing its determination to reinforce IP protection and give teeth to IP laws.

Trend Toward Increased Damages

These judgments issued by the Beijing IP Court are not sporadic, but exemplify the court's endeavor of enhancing remedies in IP cases. Chief Judge Chi Su recently made several speeches which clearly reflected this. On several public occasions, Su said that, "[courts should act] to reinforce judicial remedies and increase monetary damages," and that "if the IP attorneys are not properly valued, the IP judges' value will be lessened as well."

He also said that "judges would rather make the infringer suffering than leave the right owner grieving," and, in a statement in line with *Sursen Digital*, that "if the first instance award is inadequate, the second instance should correct it resolutely."

"IP is to be valued by the courts," he said.

The Beijing IP Court is not the only court reinforcing IP remedies, increasing damages, and striving for adequate IP protections. Many other courts have handed out IP judgments with high damages. The Fujian High People's Court, for example, awarded 30 million yuan in a recent patent infringement case. The Shanghai Pudong Basic People's Court in a copyright infringement case involving Disney characters, ordered the defendant to cease infringement and to compensate Disney of 1.35 million yuan, including 350,000 yuan in attorneys' fees and legal expenses.

These cases show that the judicial system is beginning to realize that the damages in the past were so inadequate that innovation was impaired and the society's developments encumbered.

Breaking the Cycle

Of course, the commentaries are mixed. Some questioned whether the trend will endure. Some believed that it is going from one extreme to another. It is true that each case has its unique fact pattern, and monetary damages should be based on the specific facts. More importantly, to be compensated adequately, the right owner should ground his pleadings on solid and competent evidence, which requires the right owner to deploy all kinds of legal means and measures. It will be futile for the right owners to just rely on the court's willingness to increase damages, if he does not carry his burden of proof diligently.

From this perspective, there used to be a "deteriorating circle" – rights owners and attorneys were unwilling to make the effort to prepare good damages evidence because of the low awards and without such evidence, the courts could not award the actual damages and had to go with the usually lower statutory damages.

Now, this cycle is being broken by the improved damages awards. In one respect, the courts are more willing to employ judicial evidence-collecting measures, such as evidence preservation and judicial investigation orders. Furthermore, the rights owners, incentivized by the increased compensation, are striving to collect better evidence to substantiate their damage claims.

Attorneys are further encouraged by the enhanced awards of attorneys' fees are taking more time and efforts preparing the cases. It is hopeful that this is the initiation of a "virtuous circle," leading China's dynamic IP regime into the right and brighter direction.

Conclusion

For IP rights owners, these cases should be encouraging. Proactive and effective evidence preservation, more reasonable adverse inferences against evidence-withholding defendants, and judges prepared to do the math based on spreadsheets all pave the way for IP owners to protect their rights and to acquire more reasonable and fair compensation. For IP attorneys, these cases prove that work is valued. The IP regime is getting more rational. Litigation rewards attorney's hard work and well-crafted legal arguments, rather than frivolous "strategies" and bad sportsmanship.

Adequate compensation is a critical question that underlies all IP regimes. Since courts have not paid careful attention when calculating and evaluating damages claims, they have indirectly allowed the infringers to escape the IP law's condemnations in socially undesirable ways. A more diligent focus on the calculation and proof of IP damages, as shown in the above cases, will lead to better decisions, strengthening IP protections and increasing the costs borne by infringers.