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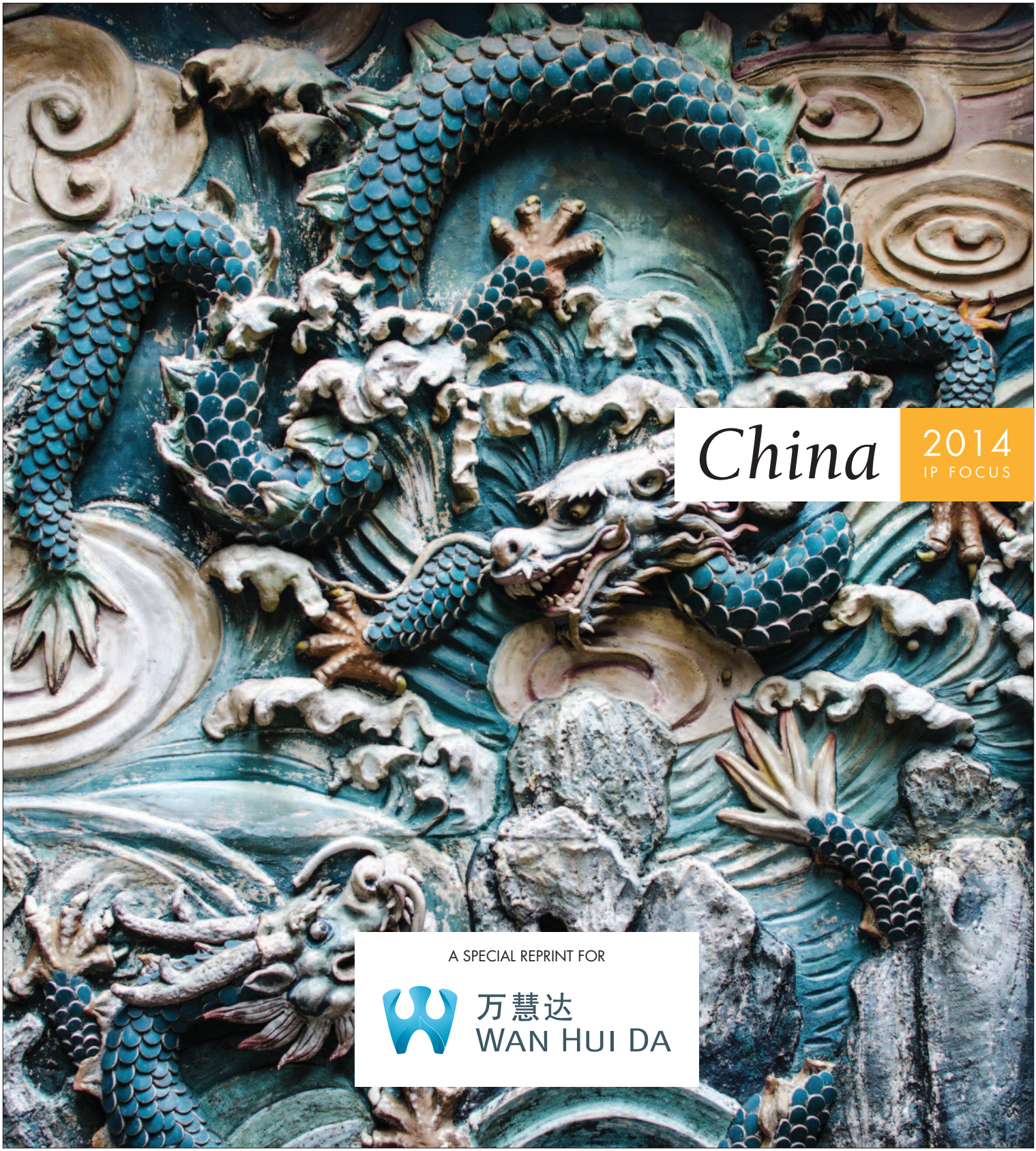
INFRINGEMENT DAMAGES

GETTING THE MOST OUT OF DAMAGES



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INFRINGEMENT DAMAGES

Getting the most out of damages

Shuhua Zhang and Paul Ranjard of Wan Hui Da Law Firm & IP Agency **analyse exemplary cases that show how to obtain adequate monetary compensation from infringers (and explain how not to pay over the odds as a defendant)**

For decades, IP owners have complained that in China, the damages awarded by the courts are too low to deter infringers and discourage repeat infringement. According to Guangdong High Court, from 2008 to 2011, over 98% of the decisions awarded statutory damages, and two thirds of the decisions awarded less than 50% of the plaintiff's claim.

In the past few years, the Supreme Court has addressed this problem on various occasions, and given recommendations to courts to increase the amount of damages. This article analyses a few exemplary cases made during recent years, showing how to obtain adequate monetary compensation from the infringers. Reversely, in some high profile IP lawsuits with foreigners as defendants the foreign parties were ordered to pay heavily. We will also briefly analyse how to avoid being liable to high damages.

Claims beyond statutory damages

Statutory damage is the maximum amount fixed by the law. The Supreme Court has encouraged lower courts to award damages higher than statutory damages, when the losses are obviously

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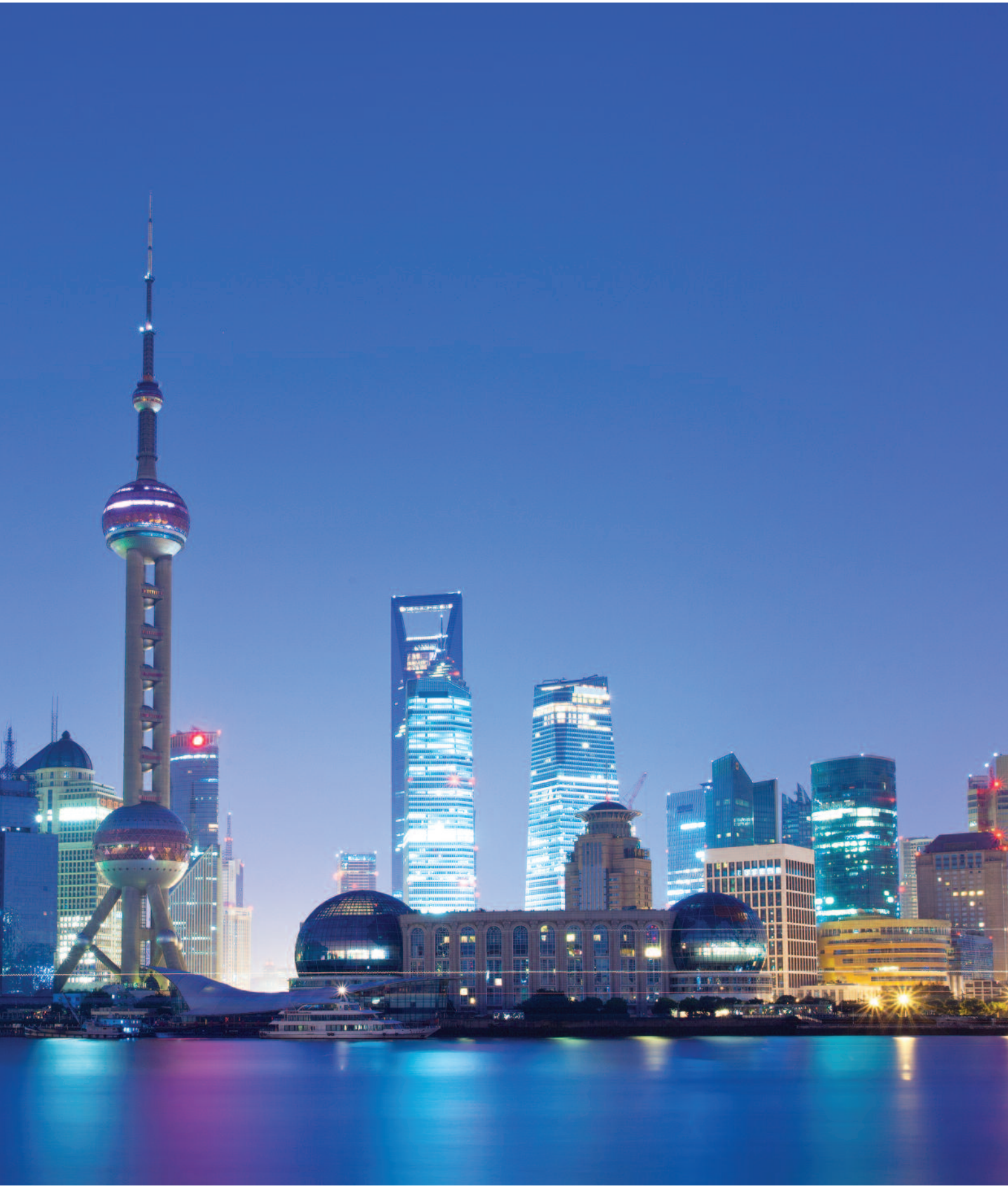

Judges award damages based on all the circumstantial evidence

higher than the statutory limit, but there is no evidence to quantify them.

The Patent Law (2008) provides statutory damages up to Rmb1 million ($163,000); the Copyright Law (2010) and the Trade Mark Law (2001) provide up to Rmb500,000. The new Trade Mark Law, effective on May 1 2014, has raised the maximum to Rmb3 million.

In order to be free of the statutory limit as fixed by the law, the plaintiff needs to provide, in the following order: (i) the amount of its losses; and if this is not possible, (ii) the amount of the illegal gains obtained by the infringer; and again if this is not possible, (iii) a calculation by reference to a reasonable royalty fee. But in the end, judges award damages based on all the circumstantial evidence.

In practice, it is very difficult for the IP owner to prove the accurate amount of its loss or the defendant's profit as a result of the infringement, even though the IP owner has tried all means available to collect such evidence. Under such circumstances, the Supreme Court in its judicial opinion 2009/23 has recommended that, when the loss appears "obviously greater than the statutory amount" the court is free to determine an amount over the limit.

In a high-profile unfair competition case (*Tencent v Qihu* 2013), Guangdong High Court awarded Rmb5 million, taking into account: the rapid expansion of infringement in the internet environment (at least 10 million downloads of the infringing software QQ Bodyguard); the goodwill of the plaintiff's trade mark and the market value of the reputation; the bad faith of the defendant; and, the plaintiff's reasonable costs in stopping the infringement. On February 24 2014, the Supreme Court maintained this decision after a public hearing.

In a trade mark infringement and unfair competition lawsuit (*Volkswagen v Changchun Dazhong* 2007), Changsha Court awarded damages of Rmb800,000 because the court found that the defendant had distributors in almost every province of China to sell the trade mark infringing lubricating oil, although the exact amount of the oil sold by the defendant was nowhere to be found.

Punitive damages or liquidated damages

The newly amended Trade Mark Law of China, effective since May 1 2014, (article 63.1) adopts, for the first time, the concept of punitive damages "in cases of bad faith infringement where the circumstances are serious". The amount of compensation calculated according to the law may be multiplied by three (maximum).

In the past, the courts have already considered the bad faith of the infringer as an important factor in awarding damages exceeding the statutory limit. For example, in the trade mark infringement and unfair competition lawsuit between BMW and Shi Ji Bao Chi (2011), Beijing Intermediate Number Two Court awarded Rmb2 million, after considering the defendant's obvious bad faith and mass infringement with broad scope.

The parties may also settle a case by agreeing upon an amount of punitive damages that the infringer will have to pay if they are caught again in a future infringement. When a second case of infringement occurs, the claim to the court is to liquidate the agreed amount and force the repeat offender to pay the agreed price. This kind of liquidated damages amounts to punitive damages. Unless the amount of liquidated damages goes far beyond fairness, the courts tend to support the IP owner's request.

In the civil lawsuit Grohe lodged against the repeat trade mark infringer Ji Tai (2008), the Ningbo Intermediate Court enforced the previous undertaking and multiplied the average sales price of the plaintiff's genuine shower sets (over Rmb1,100 per set) by the amount of the trade mark infringing shower sets found in the repeat infringement (1,904 sets). This amounted to Rmb3.5 million, the highest amount of damages for IP infringement in the history of the Ningbo Court.

On December 7 2013, the Supreme Court affirmed the effect of liquidated damages on repeat infringement, overruling the decisions of both the first and second instance, and supporting the design patentee's request that the defendant pay Rmb500,000 as liquidated damages for its repeat infringement. The Supreme Court held that the mediation agreement had been legitimately reached and should be legally binding.

In December 2013, Zhongshan Court of Guangdong Province made a similar decision to support the patentee's claim of Rmb500,000 based upon the mediation document issued in a prior patent infringement dispute.

Obstruction of evidence collection

China has not adopted the discovery system used in the American Civil Evidence Rules, but follows the principles established by TRIPs (article 43) in cases of obstruction to evidence collection. According to article 75 of the Supreme Court's Provisions on Evidence in Civil Lawsuits (2011), the defendant's obstruction of evidence collection can lead to serious consequences : "if the other party alleges that the content of such evidence is adversary to the evidence holder, the court may deduce that the allegation is tenable".

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Paul Ranjard

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The courts have used this article, and awarded high damages due to the infringer's obstruction of evidence collection. For example, in the patent infringement lawsuit between Gree and Midea (2009), the plaintiff claimed that three other types of the defendant's air conditioners also infringed Gree's patent, as found in the first type produced as evidence. Midea claimed that they were different, but failed to provide corresponding evidence, even after the court explained the consequences of non-cooperation. Zhuhai Intermediate Court deduced that the other types of air conditioners also exploited the plaintiff's patent, and awarded Rmb2 million as damages.

In a copyright infringement (*Microsoft v Fu Ji Rong Tong*, 2011), the plaintiff asked for an amount calculated on the basis of the number of computers using the pirated software multiplied by the number of employees. During the hearing, the court ordered the defendant to confirm the number of employees, but the defendant refused. Nevertheless, in the previous evidence preservation procedure, the court had drawn the defendant's employee chart and found its formal employee number was 675, which was similar to the number stated on the defendant's website. So the court adopted this number, and awarded damages of Rmb 2.4 million.

The new Trade Mark Law (article 63.2) incorporates this judicial practice, by providing that the court may order the infringer to provide its account books or material evidencing the scale of infringement. If the infringer refuses, the court may determine the amount of compensation on the basis of the claim and the evidence submitted by the infringed.

Reasonable costs and lawyers' fees

Article 65 of the Patent Law, article 49 of the Copyright Law and article 63 of the Trade Mark Law all provide that the damages should include the IP owner's reasonable costs in stopping the infringement. But there has been inconsistency in judicial practice as to whether such costs should be included in the statutory damages, or whether the IP owner may claim the compensation separately.

The Supreme Court's judicial opinion of 2009/23 specifically addressed this issue, and confirmed that "unless otherwise provided by law, in applying statutory damages, (the court) shall additionally calculate the reasonable costs for the IP protection".

A new requirement of the Law: no use, no compensation

The IP owner's "reasonable costs" for stopping the infringement can be quite high. In the trade mark and unfair competition lawsuit between China's number one soy sauce supplier Hai Tian and the infringer Wei Ji (2012), the latter ran into a quality problem, which caused a serious crisis for Hai Tian, who had to invest Rmb3 million to urgently clarify that it had no relationship with Wei Ji. In the subsequent lawsuit, the court supported the full recovery of this advertisement fee plus the lawyer's fee from the infringer.

Mitigating damages for foreign defendants

Recent statistics show that the vast majority of IP civil litigation is Chinese versus Chinese. The foreign-related cases amount to approximately 2%, and most of them are foreign plaintiffs versus Chinese defendants. However, the reverse situation sometimes occurs.

The examples cited above may send a chill down the spine of a foreign company if they are sued for IP infringement in China. In particular, it is well known that foreign companies do keep accurate and open records of their activities (which is rarely the case for Chinese infringers). Therefore, the task of proving illegal profits is much easier when a foreign defendant is involved.

This does not mean, however, that a foreign defendant should be deprived of any defence arguments.

The defendant should make the plaintiff abide by the legal rule of proving the prejudice, in the order established by the law: first, the exact amount of its loss. The plaintiff must be required to show their accounting books, to show whether there is a decline in the sales of the involved product. If there is such a decline (assuming it is moderate) the total amount might be controlled. The plaintiff should also be asked to prove its use of the infringed trade mark (a new requirement of the Law: no use, no compensation).

The defendant should keep detailed records of the exact contribution of each item in the overall turnover derived from selling the product. Each product may be composed of many devices, and it is necessary to show the relative contribution of each.

If the defendant is just a distributor of the infringing products without knowing the product is involved in infringement, then its liability is limited to stopping the distribution.

Evidence collection reaps rewards

By carefully studying Chinese case law, IP owners will have a better chance of obtaining higher damages. But firstly, the IP owner should do their best to collect as much evidence as they can by themselves. As they say, 'no pain, no gain'. Evidence collection in China can be painful, but the IP owner may be paid handsomely for such work.

As to infringing Chinese IP… the recommendation is: don't!


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