

Chinese IP Court Hands Down Groundbreaking Damages Award; Boon to U.S. Companies with IP Interests in China

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On December 8, 2016, the Beijing IP Court, in a patent infringement case, found in favor of plaintiff patentee Watchdata System Company Ltd., and ordered defendant Hengbao Company, Ltd. to pay an unprecedented amount of \$7.1 million (or, in Chinese currency, CNY 49 million) in damages for infringing Watchdata's single patent on data encryption technologies. In addition, the court awarded attorneys' fees—a rare grant of its kind—in the amount of \$145,000 (CNY 1 million) to Watchdata.

The Beijing IP Court's decision has sent shockwaves across China. Chinese courts are often reluctant to award high fees. Awards of total damages and costs in patent cases are generally low, averaging around \$12,000 (CNY 80,000), and sometimes as low as a few hundred U.S. dollars. Similarly, Chinese courts usually award attorneys' fees in a range of \$1,450 – \$4,350 (CNY 10,000 – 30,000), but not based on hourly rates. The December decision is noteworthy because it marks the highest damages ever awarded by the Beijing IP Court since its inception in 2014. It further marks the first time a court awarded attorneys' fees computed based on hourly rates.

Beijing IP Court's decision demonstrates the increased willingness of the Chinese court system to enforce IP rights in China through assessing relatively high penalties on patent infringers. The Chief Judge of the Beijing IP Court, shortly after his appointment in 2014, reportedly said that his court would assess high damages, "to deter infringers into ceasing infringing acts and to provide reasonable and sufficient compensations to patentees." The recent decision is in line with his forewarnings.

The significance of the court's groundbreaking decision to award these substantial damages and attorneys' fees can be better appreciated in light of the Chinese legal system and Chinese courts' historical reluctance to rule this manner.

The Chinese legal system does not provide a discovery procedure that is similar or comparable to that in the U.S., thus making damages claims hard to sustain. In general, "[i]t is the duty of a party to an action to provide evidence in support of his aggregation." (Article 64 Civil Procedure Law of P. R. China.) The burden of proof and of providing supporting evidence, therefore, typically lies on the patentee which alleges patent infringement and makes damages claims. An accused infringer usually has little obligation to produce evidence in its possession in response to patent owner's, or even to a court's, evidentiary production requests. As a result, it is often difficult to collect evidence to support damage claims. In fact, to assess damages in a patent infringement case a patent owner often has to jump through many, often difficult, hoops—a process generally described by the relevant statutory provisions of the Chinese Patent Law:

The amount of compensation for patent right infringement shall be determined according to the patentee's actual losses caused by the infringement. If it is hard to determine the actual losses, the amount of compensation may be determined according to the benefits acquired by the infringer through the infringement. If it is hard to determine the losses of the patentee or the benefits acquired by the infringer, the amount of compensation may be determined according to the reasonably multiplied amount of the royalties of that patent. The amount of compensation shall include the reasonable expenses paid by the patentee for putting an end to the infringement.

If the losses of the patentee, benefits of the infringer, or royalties of the patent are all hard to determine, the people's court may, on the basis of the factors such as the type of patent right, nature of the infringement, and seriousness of the case, determine the amount of

compensation within the range from 10,000 yuan to 1,000,000 yuan. (Article 65)

In part because discovery in a patent infringement case is limited, damages available under the system are also limited. Damage estimation provides a prime example. In principle, damages may be estimated in different ways: based on actual losses of the patentee, profits of the infringer, or royalties. In practice, however, the necessary information or some of the approaches may not be available or applicable and the estimation can be complicated by many factors. For example, assessment of actual losses can be complicated by the market, competitors' products, and varying stages during the life cycle of patentee's own products at issue. The assessment may be further complicated by the fact that a patentee's revenues may actually increase, despite the presence of infringing products. In cases where the damages estimates cannot be supported, the statutorily available compensatory damages are determined by the court at its discretion and are typically limited to CNY 10,000 (\$1,450) to 1,000,000 (\$145,000).

At least in part due to those reasons, in the current case, Watchdata alleged but failed to establish actual loss as a result of infringement. However, in a sign that the court took damage issues seriously, the court sided with Watchdata and made evidentiary rulings in favor of Watchdata.

First, the court granted Watchdata's motion to subpoena evidence from third-parties under Article 64 of Civil Procedure Law ("[i]f ...a party and his agent ad litem are unable to collect the evidence by themselves or if the people's court considers the evidence necessary for the trial of the case, the people's court shall investigate and collect it"). As a result, Watchdata was able to obtain evidence such as sales figures from the defendant's client banks, which formed part of basis for damage calculation.

Then, with regard to evidence such as sales figures that defendant withheld, the court made its damages determination based on Watchdata's claims and showing that defendant had but refused to produce such evidence. The court did so by relying on a statutory provision in light of the recent interpretation by the Supreme People's Court, the highest court in China. The statute provides, in relevant part,

In case the actual loss suffered by the patentee is difficult to determine, the patentee shall provide evidence to prove the profit made by the infringer. When the patentee supplied preliminary evidences and account books and information related to the infringement activities are under the control of the infringer, the court can order the infringer to provide such account books and information. If the infringer refuses to comply with the request by the court, the court can determine the profit made by the infringer based on the patentee's claim and evidences. (Article 27, Judicial Interpretation of Supreme Court Concerning the Applicability of Relevant Law Pertaining to Patent Infringement Cases, effective April 1, 2016)

Notably, despite the current discovery procedure in China, there are available procedural tools. These are empowered by newly implemented judicial interpretations, which, when fully utilized as in this case, may still provide meaningful remedies to a party deprived of the evidence unreasonably withheld by the opposing party.

For companies that have business and IP interests in China, this case is a much welcomed relief, as low compensatory awards have been a facet of the discouraging and challenging realities of life that companies have to grapple with to advance business interests and protect IP rights in China. Coincidentally, this decision came in the same week as the U.S. Supreme Court rendered its decision in *Samsung Electronics Company v. Apple Inc.*, tossing out Apple's \$399 M damages award. (Read our alert on the case here).

It may still be too early to say whether Beijing IP Court's decision is an isolated ruling or if there will be more outcomes like this on the horizon. However, the IP trend over the past two years in China certainly has offered some hopes for innovator companies. At the top level, the Executive and Judicial branches have reiterated the State's overarching commitment and actions to strengthen and enforce IP rights in China. Against the background of increased number of patent infringement cases filed in China each year, wherein

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discovery has been historically challenging and compensatory awards typically low, *Watchdata v. Hengbao* represents a significant development: not only in courts' rulings on evidential issues and awarding high damages and attorneys' fees, but also in its willingness to break away from the judicial precedents. This perspective is consistent with the growing overall trend in China to value and protect IP rights.

If you have questions or would like additional information on this topic, please contact Feng Xu (xuf@whiteandwilliams.com; 212.714.3060) or another member of our Intellectual Property Group.

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