2019 Study Question

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IP damages for acts other than sales

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I. Current law and practice

Please answer all questions in Part I on the basis of your Group's current law.

1 **What non-sales infringing acts, i.e. infringing acts which do not involve sales, are recognised in your jurisdiction?**

1. Infringing acts under patent law which do not involves sales.

Article 11 of the *Patent Law of P.R.C.* stipulates the acts of manufacturing, using, offering for sale, and importing into China, aside from selling, patented products, without the licensing of the patentee, are infringing acts (for a design patent, using the patented products is not an infringing act).

2. Infringing acts under trademark law which do not involves sales.

Article 57 of the *Trademark Law of P.R.C.* stipulates the infringing acts against a registered trademark, and the following acts could be considered as non-sales infringing acts:

- Use of a trademark identical to a registered trademark on the same type of commodities without license by the trademark owner;
- Use of a trademark similar to a registered trademark on the same type of commodities without license by the trademark owner, or use of a trademark identical or similar to the registered trademark on similar commodities which easily causes confusion;?
- Without authorization, forging or manufacturing labels of other's registered trademark;
- Replacing a registered trademark with a new mark and putting the products bearing such a replaced mark on the market without consent of the trademark owner;
- Purposefully facilitating infringement of others' trademarks, assisting others in implementation of infringement of other's trademarks, in which pursuant to *the Implementation Regulations for the Trademark Law,* such assisting acts include provision of warehousing, transportation, postage, printing, concealment, business premises, online commodity trading platform etc.

3. Non-Sale Infringement under the Copyright Law

The *Copyright Law of P.R.C.* defines specific classes of copyright, according to which the copyright holder is entitled to prohibiting others from conducting such acts. The *Copyright Law of P.R.C.* specifies sixteen rights, among which four are moral rights, including the right of publication, right of authorship, right of revision and right of maintaining integrity of works. Violations of moral rights do not directly relate to sales activities. In addition, the *Copyright Law of P.R.C.* also prescribes twelve economic rights, including right of reproduction, right of distribution, right of renting, right of exhibition, right of performance, right of screening, right of broadcasting, right of information network dissemination, right of making productions, right of adaptation, right of translation and right of compilation, of which the right of reproduction, right of making productions, right of adaptation, right of translation and right of compilation may not directly involve the sale activity, but the infringement upon these rights is usually accompanied with sale of infringing works.

4. Other Non-Sale Infringements

In addition, there are indirect infringement acts under the Chinese law. Different from the behaviors that are explicitly stipulated in the *Trademark Law* and the *Implementing Regulations of the Trademark Law*, assisting others to infringe upon a registered trademark (such as providing warehousing, transportation, mailing, printing, concealing, business premises, and online commodity trading platform) constitutes infringement. Even though corresponding provisions are absent from the *Patent Law* and *Copyright Law*, where two or more persons have committed a tortious act jointly and caused others to suffer damages, they shall bear joint liability pursuant to Article 8 of the *Tort Law*. Where two or more persons jointly commit infringement for patent or trademark infringement, the persons, who have committed non-sale acts (e.g. warehousing, transportation) purposefully, shall be deemed to have committed infringement.

2

Please explain how damages are quantified, under the laws of your Group, in relation to infringing acts which do not involve sales of infringing products.
(If the laws of your Group provided for different quantification of damages for different IP rights, please explain how damages are quantified for each type of IP right.)

The methods to calculate damages for infringement of patents, trademarks and copyrights are basically the same under Chinese law, and no obvious distinction is made between sales activities and non-sales activities. The following table sets out the methods for calculating damages in view of actual losses of the right holder, benefits obtained by the infringer, a reasonable multiple of the royalties and statutory damages. In practice, the court will exercise its discretion to decide damages within the limit of statutory damages in most scenarios. Article 70 of the *Patent Law* provides that a party using or offering to sell an infringing product without knowledge of its infringement does not have to assume liability for damages provided it proves that the product was legitimately acquired. Article 64 of the *Trademark Law* also provides similar stipulations. In addition, the *Trademark Law* expressly provides that one to five-time punitive damages could be applicable to malicious infringement.

1. The Patent Law (2008)

- Actual losses of the right holder

The compensation amount for infringement of a patent shall be determined according to the actual losses suffered by the holder of the patent due to the infringement.

- The amount of the defendant's illegal proceeds

Where it is difficult to determine the actual losses, the compensation amount shall be determined according to the gains derived by the infringer out of the infringement.

- A reasonable multiple of the royalties

Where it is difficult to determine the losses of the patent holder or the gains derived by the infringer, the compensation amount shall be determined reasonably according to a multiple of the royalties of such patent.

- Statutory compensation

Where it is difficult to determine the losses of the patent holder, the gains derived by the infringer and the royalties of the patent, a People's Court may determine a compensation amount ranging from RMB10,000 to RMB1 million according to the type of patent rights, the nature of infringement and the circumstances, etc.

- Discretionary power of the court

For the cases that it is difficult to prove the specific amount of infringement damage or the infringement profit, but there is evidence that the aforesaid amount obviously exceeds the maximum amount of statutory compensation, we shall, by comprehensively considering the evidence of the whole cases, reasonably determine the amount above the maximum amount of statutory compensation [1].

- Punitive damages

There is no such stipulation in the current law, but the latest draft of the *Patent Law* to be amended also provides the punitive damages (1-5 times), which is the same as the *Trademark Law*.

In practice, if the compensation is calculated based on a reasonable multiple (greater than 1) of the license fee, such compensation shall be considered as punitive damages.

2. The Trademark Law (2019)

- Actual losses of the right holder

The compensation amount for infringement of a trademark shall be determined in accordance with the actual losses suffered by the right holder due to the infringement.

- The amount of the defendant's illegal proceeds

Where it is difficult to determine the actual losses, the compensation amount may be determined in accordance with the gains derived by the infringer out of the infringement.

- A reasonable multiple of the royalties

Where it is difficult to determine the losses of the right holder or the gains derived by the infringer, the compensation amount shall be determined reasonably with reference to the multiples of the royalty of the said trademark.

- Statutory compensation

Where it is difficult to determine the actual losses suffered by the right holder due to the infringement or the gains derived by the infringer from the infringement or the licensing fee of the registered trademark, the People's Court shall determine a compensation amount of no more than RMB 5 million based on the extent of the infringement.

- Discretionary power of the court.

The same as the stipulation of the *Patent Law*.

- Punitive damages

For malicious infringement of a trademark, in serious cases, the compensation amount shall be determined based on one to five times of the determined amount.

3. The Copyright Law (2010)

- Actual losses of the right holder

The infringer shall make compensation based on the actual losses of the right holder.

- The amount of the defendant's illegal proceeds

Where it is difficult to compute the actual losses, the compensation shall be made based on the illegal gains of the infringer.

- A reasonable multiple of the royalties

N/A

- Statutory compensation

Where it is impossible to determine the actual losses of the rights holder or the illegal income of the infringer, a People's Court shall determine a compensation of no more than RMB 500,000 in accordance with the extent of the infringement act.

- Discretionary power of the court.

The same as the stipulation of the *Patent Law*.

- Punitive damages

N/A

4. Precedents

In practice, purely non-sale conducts are not common. The courts usually determine the amount of damages with reference to various factors in precedents relating to purely non-sale infringement. In a few precedents, the court rules not to support the damages claim of the right holder because the infringer has not gained any profits out of non-sale conducts and the plaintiff has not suffered any losses, but to support the reasonable disbursement of the plaintiff. We hereby provide a brief introduction of some relevant precedents and the court's opinion thereof for your reference.

For example, in a precedent[2] ruled by Guangdong High Court, the court decides that even if the plaintiff could not prove its actual losses or the infringer's illegal profits out of infringement because the infringer only offered to sell the infringing product, the patentee must have lost some business opportunities by offer for sale of the infringer, and thus grants damages of RMB 50k to the patentee. Such a reasoning has been widely adopted by courts in Guangdong province. On the other hand, in a precedent [3] ruled by Beijing High Court, the court only supports the reasonable disbursement of the plaintiff where the defendant committed offer for sale only.

Footnotes

1. ^ *Cf. Article 16 of theOpinions of the Supreme People's Court on Several Issues concerning Making IPR-related Trials Serve the Overall Objective under the Current Economic Situation, FA FA [2009] No.23 .*

2. ^ *Case (2017) Yue Min Zhong No. 3140.*

3. ^ *Case (2009) Gao Min Zhong No. 4011.*

3 **Please explain what approach your current law takes in relation to "franking": if damages are paid in relation one infringing act (e.g. manufacturing) for specific infringing goods, can those goods then be circulated freely subsequently, or does their subsequent circulation amount to a fresh infringement in relation to which an injunction or damages may be available?**

Generally speaking, the Chinese court will support both damages and an injunction as claimed by the right holder when infringement is found. That being said, the infringing products will not be further circulated on the market even if the damages are paid. However, an injunction is not granted if national interests or public interests could be prejudiced and instead, the court will order the defendant to pay reasonable compensation for its continued use of the infringing product, according to Article 26 of Patent Judicial Interpretations II. In practice, there are a few precedents in which the right holder is not ordered to stop infringement for "public interest" considerations in alleged patent infringement cases.

For example, in an SPC precedent[1] involving a desulfurization facility installed at a thermal power plant, the court finds infringement but does not order the user-defendant to stop infringement, and orders the user to pay annual compensation, in terms of royalty, to the patentee after balancing the interest of the patentee and public interests – the public interests will be largely prejudiced as a lot of people have already benefited from the thermal power plant.

Footnotes

1. ^ *(2018) Min San Zhong No. 8.*

II. Policy considerations and proposals for improvements of your Group's current law

4 **Are there aspects of your Group's current law or practice relating to the quantification of damages for non-sales infringements that could be improved? If YES, please explain.**

Yes

Please Explain

According to the foregoing stipulations and precedents, the methods to calculate damages for non-sales infringements have not been brought to the forefront in the legislation and practice of Chinaare mainly made in view of a number of factors, including nature, duration and scale of infringement as well as faults of the defendant, and the calculation methods, e.g., based on losses of the right holder or illegal gains of the infringer, are mostly applied against mainly relate to sales infringement. In other words, the methods to calculate damages for non-sales infringements are the same as those for sale infringements. Based on the characteristics of non-sales infringements, we consider that the calculation methods of damages as a result of non-sales infringement could be improved in the following ways.

- First, the method for determining whether non-sales infringements have caused damage shall could be specified. For example, the law shall harmonize about whether the loss of a right holder's potential transaction opportunities and deterioration of market reputation caused by non-sales infringing acts shall be included in the scope of the right holder's losses.

- Second, a more appropriate method for calculation of damages for non-sales infringements should be explored to establish. If the damages arising out of non-sales infringements are determined by exercising discretion of the court - which is usually adopted by courts currently, it is required to specify the main factors to be considered when determining the amount of damages, such as the scale of infringement, the infringer's estimated benefits as a result of the infringement, the right holder's estimated losses, the bad faith of the infringer and the like. Or the lower limit of damages for non-sales activities needs to be stipulated, so as to deter non-sale infringements more effectively.

- Third, we should make a distinction among different non-sales infringements. For example, manufacturing and importing generally involve infringement acts on a large scale and in a more serious nature. Although the infringer has not gained direct profits yet, the nature of the infringement is more serious than that of use and offer for sale, and higher damages shall be granted in general.

5 **What policy should be adopted generally in relation to non-sales infringements?**
Should:

Both damages and an injunction should be available.

Please Explain

We tend to consider that the plaintiff is entitled to claiming both injunction and damages simultaneously. The injunction relief is mainly for future infringements. The law should also provide a value orientation and take the function of deterrence, and under such circumstances, it is helpful to punish the infringer and warn potential infringers by imparting to the right holder the right to damages.

6 **What policy, in relation to franking, would best promote a uniform recovery of damages in relation to infringements in a number of jurisdictions in relation to the same goods?**

The court shall support both damages and an injunction as claimed by the right holder when infringement is found. That being said, the infringing products will not be further circulated on the market even if the damages are paid.

7 **Are there any other policy considerations and/or proposals for improvement to your Group's current law falling within the scope of this Study Question?**

III. Proposals for harmonisation

Please consult with relevant in-house / industry members of your Group in responding to Part III.
For the purposes of this div III, please assume that the following acts are infringing acts, even if they are not infringing acts under the current laws of your Group:
(a) Manufacturing;
(b) Selling;
(c) Offering whether for sale otherwise;
(d) Importing; and
(e) Keeping and warehousing.

8 **Do you believe that there should be harmonisation in relation to damages for non-sales IP infringement?**

Yes

Please Explain

If YES, please respond to the following questions without regard to your Group's current law or practice.
Even if NO, please address the following questions to the extent your Group considers your Group's current law or practice could be improved.

9 **Manufacturing of patented products: How should damages be quantified in relation to the manufacturing of infringing products?**

If the infringer only manufactures the infringing products which have not been put on the market yet, the infringer does not gain any profits from the infringement acts. The right holder may claim that the manufacturing has caused loss of its potential market share and derogation of its market reputation so that the court shall comprehensively determine the amount of the damages by taking the infringement scale, the subjective bad faith and other factors into consideration. If the infringing products are produced for the infringer's personal use in whole or in part, as the infringer "sells" the infringing products (to itself) as a matter of fact and causes losses to the right holder (the right holder fails to sell the patented products), the damages can be determined based on such manufacturing amount.

10 **Should the subsequent export and sale of manufactured infringing goods change the quantification of damages?**

Under the circumstance that the infringer exports and sells the infringing products after manufacturing them, the amount of damages for exportation and sale shall be calculated directly without any additional consideration about calculation of the damages arising out of the manufacturing act. However, if the patented products are purely for the purpose of exportation, because of the territorial feature of intellectual property rights and the limited impact of the exporting act on the patentee's interests within the domestic market, the damages for the acts of "manufacturing + exporting" shall be less than those for the acts of "manufacturing + selling".

11 **Importing and warehousing of patented products: How should damages be quantified in relation to importing and keeping or warehousing?**

Importing is an act analogous to the act of manufacturing, since both acts involve first appearance of the products in China. It is suggested that the damages may be calculated with reference to the above-mentioned act of manufacturing in respect of a pure importing act.

Keeping and warehousing acts are usually associated with sales acts. If some entities have engaged in such acts while others have engaged in sales acts, the entities carrying out the keeping and warehousing acts and the entities carrying out the selling act shall be jointly liable for the damages provided joint infringement is found among the entities, i.e., the entities are found to collude or under the same control. Where the actual sale has not yet occurred, the amount of damages may be determined comprehensively based on the scale of the aforesaid factors including the infringement scale, the estimated gains of the infringer or estimated losses to the right holder caused by the infringement, the subjective bad faith of the infringer and other factors.

12 Series of infringements in relation to patented products: In the situation where there is a series of infringing acts, such as manufacturing, followed by warehousing, followed by a sale, should damages be quantified, for each individual infringing product:

12.a On the basis of a sale alone, if that infringing product was eventually sold?

Yes

Please Explain

If the infringing products are sold finally, damages shall be calculated based on the sales act.

12.b On the basis of each infringing act in the chain?

No

Please Explain

The damages of patent infringements also should be calculated according to the relevant stipulation of the *Tort Law* and the *General Principles of Civil Law.* In respect to the series of infringements, the provisions of joint infringement, induce infringement and joint liability should be applied, so as to determine the damages according to the entire infringement acts as a whole rather than determine the corresponding damages of each infringement acts.

12.c If the infringing product was never sold?

Yes

Please Explain

If the product has not been sold, the amount of damages may be determined comprehensively based on the foregoing factors such as the scale of infringement, the infringer's estimated profits as a result of the infringement, the right holder's losses and the subjective bad faith of the infringer. Usually, the amount of damages for an ordinary manufacturing act shall be higher than that for a warehousing act.

12.d On some other basis?

13 Services/operating patented processes: please explain how damages should be quantified in relation to infringements that consist of carrying out infringing processes. e.g. a patented manufacturing process?

The compensation for the damages caused by infringing on a process patent can be calculated according to actual losses of the right holder, profits obtained by the infringer, multiples of reasonable license fees and statutory compensation, among which profits of the infringer and multiples of reasonable royalties would be the most appropriate to quantify the damages.

14 **Please explain how damages should be quantified for subsequent post-manufacturing activities in relation to the products of a patented process, e.g. the offering for sale of a product made using a patented process?**

If there is subsequent sale after manufacturing the products out of a patented process, the amount of damages shall be calculated based on the sales. If there is subsequent non-sale infringing act, like offering for sale or warehousing, which is carried out by the manufacturer also, the damages could be calculated mainly with reference to the manufacturing act as discussed above. Additionally, when the subsequent non-sale infringing act is implemented by an entity other than the manufacturer, the entity engaged in subsequent non-sale infringing act shall not be liable for damages unless that is held jointly liable with the manufacturer.

15 **Simultaneous single infringing acts: In the situation where there is a single act, such as an offer for sale on the internet, which amounts to an infringing act simultaneously in a number of jurisdictions, how should damages be quantified in each of those jurisdictions? For example, one single offer to sell products is made on the internet and that single offer is considered to infringe by the courts of two jurisdictions A and B. If court A awards damages for that single act which compensate for the loss suffered by the right holder, should court B also award damages and how should those damages be quantified so as to eliminate or reduce double recovery?**

If such jurisdictions belong to the same country of judicial sovereignty, double recovery shall not be allowed.

If the jurisdictions belong to different countries and the infringer intends to offer to sell the infringing product to more than one country or region via internet, we tend to consider that the damages should be calculated separately. In light of the territoriality of intellectual property rights and doctrine of comity, the right holder should be entitled to asserting different IP rights granted by authorities of different countries. A court trying the case shall only consider the IP rights in its country and calculate the damages, e.g., based on the right holder's losses (i.e., loss of business opportunities) in its country.

16 **Franking: If damages have been paid in relation to goods that have been manufactured but the further circulation of those goods has not been restricted by injunction, should the infringer (or the acquirer of the goods) be liable again for damages if those same goods are subsequently sold?**

Yes

Please Explain

We tend to consider that those who subsequently sell the infringing products should bear additional damages to fully compensate for the patentee's loss.

16.a **If the answer to Question 16 is NO, does that mean that the right holder can recover twice in relation to the same goods?**

No

Please Explain

If the manufactured infringing products can be circulated further on the market, so that the right holder suffers further loss. Therefore, we tend to consider that those who subsequently sell the infringing products should bear additional damages to fully compensate for the patentee's loss.

16.b **If the answer to Question 16 is YES, does that mean that the infringer has a de facto licence to sell the manufactured infringing goods?**

Yes

Please Explain

It means that a compulsory license regarding the patent is granted to the manufacturer as a matter of fact.

17 **Please comment on any additional issues concerning any aspect of quantification you consider relevant to this Study Question.**

18 **Please indicate which industry sector views provided by in-house counsel are included in your Group's answers to Part III.**

We give our sincere appreciation to in-house counsels Yajun Bai, who is the Head of IP at Siemens Healthcare China, and Jeff Li, who is a senior IP counsel at Medtronic IP, for our comments on Sections 15 and 16.