

## **Damages for Patent Infringements: The Chinese Perspective**

**Bashar Malkawi**

As a country, China is the biggest player in the global patent market. In 2019, approximately 4.381 million patent applications were submitted to the China National Intellectual Property Administration (CNIPA)<sup>1</sup>. Furthermore, 452,804 patents were granted, dwarfing the country in second place, the United States, with 354,430 patents granted, and the European Patent Office at only 137,782.2 In addition, China is part of the World Intellectual Property Organization (WIPO), having joined in 1980, as well as the Paris Convention in 1985, and a member of both the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) and the Patent Cooperation Treaty (PCT). The recent changes in approach by China to patent damages are, therefore, of high significance.

### **Chinese Patent Law: A Multi-layered Approach to Damages**

China's Patent Law (CPL) was enacted in 1985 and amended in 1992, 2000 and 2008. Importantly, on 17 October, 2020, a new review was passed, with the amendments due to take effect on 1<sup>st</sup> June, 2021.<sup>3</sup> Compensation for patent infringement is one of the key areas of focus. Because of the enormous pace of growth in recent years, and the country's preeminent position highlighted above, China recognized that reforms were needed to make the law sufficiently robust to tackle the demands of the rapidly expanding market and create a better playing field for

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<sup>1</sup> CNIPA Department of Strategic Planning, Intellectual Property Statistics Briefing 2019, Issue 28, January 3, 2019, 1.

<sup>2</sup> Statista, 'Ranking of the 20 national patent offices with the most patent grants in 2019', Statista Research Department, (Dec 7 2020, London UK) <[www.statista.com/statistics/257152/ranking-of-the-20-countries-with-the-most-patent-grants/](https://www.statista.com/statistics/257152/ranking-of-the-20-countries-with-the-most-patent-grants/)> accessed: 8th March 2021)

<sup>3</sup> CNIPA, 'Revised Law to Come into Effect in 2021', (News, Media Perspective, 3rd November 2020) <[https://english.cnipa.gov.cn/art/2020/11/3/art\\_1347\\_154539.html](https://english.cnipa.gov.cn/art/2020/11/3/art_1347_154539.html)>, accessed 8th April 2021

both designers and investors.<sup>4</sup> The aim, therefore, of the new CPL is to improve patent quality and strengthen patent protection,<sup>5</sup> by ramping up law enforcement and increasing damages for IPR infringements to act as a deterrent.

Rather like the legal approach in the U.S. and EU, the traditional framework for calculating patent damages in cases of infringement in China is multifaceted and founded on actual compensation. However, in practice, China utilizes statutory damages in place of assessed compensatory damages. According to research at Zhongnan University, 97.25% of all patent infringement judgments are awarded statutory damages,<sup>6</sup> thus making it nigh on impossible to analyze any judicially imposed royalty rates. Despite statutory levels not existing in U.S. law, the 25% ‘rule of thumb’ rule “is, in fact, not meaningfully different from a statutory damages rule”,<sup>7</sup> and their use in China is for similar reasons, namely the benefit of simplicity and clarity.<sup>8</sup> As Llewellyn writes, when using a traditional approach to assess damages, “a court is almost inevitably forced to engage in speculation about what might have been: rarely is it merely a matter of looking at how much profit did the plaintiff lose as a result of the defendant's infringing activity and awarding such a sum as damages”.<sup>9</sup> This adds a great degree of uncertainty as well as introducing complicated evidential problems. A fixed royalty rate circumvents this problem, as do statutory damages (assuming the discretionary range is not too great). However, in

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<sup>4</sup> *ibid*

<sup>5</sup> Can Huang, ‘Recent Development of the Intellectual Property Rights System in China and Challenges Ahead’, (2017) 13 (1) *Management and Organization Review*, 13(1), 39, 41

<sup>6</sup> Zha

ng Wei, ‘The overall amount of compensation for intellectual property infringement is low’, China Court Network (18th April 2018) <[www.chinacourt.org/article/detail/2013/04/id/948907.shtml](http://www.chinacourt.org/article/detail/2013/04/id/948907.shtml)> accessed 8th March 2021, citing Intellectual Property Research Center, ‘Report on Empirical Study on the Damage Awarded in the IP-infringement Cases’, (Zhongnan University of Economics and Law, 2012)

<sup>7</sup> Erik Hovenkamp & Jonathan Masur, ‘How Patent Damages Skew Licensing Markets’, (Coase-Sandor Working Paper Series) (2016) 774 *Law and Economics*, 31

<sup>8</sup> Robert P. Schweihs, ‘The Rule of Law Overrules the Rule of Thumb’, 2016, *Economic Damages Insights*, 86, 87

<sup>9</sup> Gordon Ionwy David Llewellyn, ‘Assessment of Damages in Intellectual Property Cases: Some Recent Examples of “the Exercise of a Sound Imagination and the Practice of a Broad Axe”?’ (2015) 27, *Singapore Academy of Law Journal* (Research Collection School Of Law), 480 (paragraph 52)

financial terms, China's statutory damages were of a significantly lower order of magnitude to the pre-*Uniloc* 25% rule approach.<sup>10</sup> This received much criticism from scholars and practitioners<sup>11</sup>, with patent infringement awards being generally substantially lower in China than in the U.S.<sup>12</sup> Following pressure to address the problem; this gap has been reduced in the recent change of law, as highlighted below.

### **Actual Damages**

The starting point in China is that compensation will be calculated based off the actual losses, calculated as the benefits accrued to the infringer, the losses suffered by the patentee or a multiple of an assessed licence fee. Article 65 of the 2008 Patent Law states that: “the amount of compensation for the damage caused by the infringement of the patent right shall be assessed on the basis of the actual losses suffered by the right holder because of the infringement”.<sup>13</sup> If difficult to assess, Article 65 goes on to state that profits earned because of the infringement can be used as the basis (effectively, a disgorgement argument). If this also proves difficult, the “amount may be assessed by reference to the appropriate multiple of the amount of the

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<sup>10</sup> The “Rule of Thumb” envisaged and disapproved of by them consists simply of a fixed ratio of 25:75 for determining a baseline royalty, related respectively to the licensor and the actual or potential licensee, which then requires no further analysis to arrive at a “reasonable royalty”. trial courts to consider “[t]he portion of the realizable profit that should be credited to the invention as distinguished from non-patented elements, the manufacturing process, business risks, or significant features or improvements added by the infringer.” This factor is the embodiment of the Classic 25% Rule. See Robert Goldscheider, ‘The Classic 25% Rule and the Art of Intellectual Property Licensing’, (2011) 006 *Duke Law and Technology Review* 1, 5, 11.

<sup>11</sup> Yieyie Yang, ‘A Patent Problem: Can Chinese Courts Compare With the U.S. in Providing Patent Holders with Adequate Monetary Damages’, (2014) 96, *J. PAT. & TRADEMARK OFF. SOC’Y* 140, 142

<sup>12</sup> Patricia E. Campbell, & Michael Pecht, ‘The Emperor's New Clothes: Intellectual Property Protections in China’, (2012) 7 *J. Bus. & Tech. L.* 69, 100

<sup>13</sup> CCPIT Patent and Trademark Law Office, ‘Patent Law of the People’s Republic of China (2008)’, (Beijing 100031, China) <[www.ccpit-patent.com.cn/node/1068/1129](http://www.ccpit-patent.com.cn/node/1068/1129)>, accessed 9th March 2021

exploitation fee of that patent under a contractual license”.<sup>14</sup> As in US law, there is no fixed, statutory royalty rate.

However, the problem with actual damages is an evidential one. Ni Xiang explains that many Chinese companies fail to keep transactional documents (either because of poor administrative practices or deliberately for tax evasion purposes)<sup>15</sup>. This is exacerbated by the fact that China does not currently have a discovery process as they do in the US. Moreover, many right holders are reluctant to disclose the necessary evidence because it can reveal sensitive business information. Irregular licence agreements also make it difficult to prove if licence fees have been paid or not, rendering the royalty rate method ineffective.<sup>16</sup>

### **Statutory Damages**

Because of these problems, Chinese courts rely heavily on statutory damages. Although not an option in most Western systems, Chinese law specifically enables this: Article 65 states that if the first three methods of assessing actual damages already listed are too ‘hard to determine’, the court may award statutory awards instead, with the current range being from 10,000 yuan to 1 million yuan (approximately \$1,490 to \$148,950).<sup>17</sup> In theory, therefore, statutory damages are the fourth and last resort method in the hierarchy. Despite being considered by some to be ‘inadequate’ and ‘one size fits none’,<sup>18</sup> statutory damages have become the standard remedy.

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<sup>14</sup> *ibid*, article 65

<sup>15</sup> NI Xiang, ‘New Developments in Statutory Damages for Patent Infringement in China’, [2019] *Peking University School of Transnational Law Review*, <<https://stllawreview.com/index.php/2019/04/29/new-developments-in-statutory-damages-for-patent-infringement-in-china/>> accessed 9th March 2021

<sup>16</sup> *ibid*

<sup>17</sup> Order of the President of the People's Republic of China No.8, ‘Patent Law of the People's Republic of China’, <[www.wipo.int/edocs/lexdocs/laws/en/cn/cn028en.pdf](http://www.wipo.int/edocs/lexdocs/laws/en/cn/cn028en.pdf)> accessed 9th March 2021, article 65

<sup>18</sup> Xiaowu Li & Don Wang, ‘Chinese Patent Law's Statutory Damages Provision: The One Size That Fits None’, (2017) 26 Wash. L. Rev. 209, 210

However, this has a self-fulfilling effect because, with exceptionally few awards being based on actual losses, unfair profits or a multiple of royalty rates, many lawyers and industry specialists do not even consider these as options.<sup>19</sup>

Although case law shows a move towards higher patent damages claims,<sup>20</sup> in practice many are settled prior to judgment,<sup>21</sup> and political pressure is also a factor,<sup>22</sup> making it difficult to discern a consistent legal thread. Moreover, the Supreme Court's 2016 Judicial Interpretation shows that, for increased awards, the primary focus is on the first two methods of calculation, i.e. proof of actual losses and profits, rather than royalty rates.<sup>23</sup> The result is that royalty rate assessments are broadly overlooked as a calculation method.

## **The New CPL 2021**

### **Punitive damages**

As a significant step to further the deterrent principle, the 2021 reforms in China will introduce punitive damages for the first time. Despite reservations by certain scholars over litigation abuse and innovation suppression,<sup>24</sup> the CNIPA explained that this is part of the move towards a more prescriptive, stricter approach to compensating patent infringements.<sup>25</sup> From

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<sup>19</sup> NI Xiang, n. 106

<sup>20</sup> *General Protecht Jiangsu Co, Ltd. v Bull Group Co. Ltd*, 4 March 2019, Nanjing Intermediate People's Court. GP claimed approx. 1 billion RMB for Bull's alleged patent infringement.

<sup>21</sup> In April 2019, Qualcomm and Apple resolved their extensive litigation in China (over 20 patent infringement lawsuits), as reported in: Camilla Hodgson, 'Apple and Qualcomm sign peace deal to end litigation', *Financial Times*, (17th April 2019)

<sup>22</sup> GP, n1. The Chinese Patent Office declared the patents invalid.

<sup>23</sup> China Patent and Trademark Law Office, 'Interpretation Of The Supreme People's Court On Several Issues Concerning The Application of Law In The Trial of Patent Infringement Cases (Ii)(effective as of April 1, 2016)' <[www.ccpit-patent.com.cn/node/3219/3218](http://www.ccpit-patent.com.cn/node/3219/3218)> accessed 9th March 2021

<sup>24</sup> Zhu Li, 'Punitive Damages Under Patent Law: Where Should We Go After Halo?', (2017) 1 *China Patents & Trademarks*, 25, 33

<sup>25</sup> CNIPA, 'Revised Law to Come into Effect in 2021'(3rd November 2020) <[China National Intellectual Property Administration IPR Special Revised Law to Come into Effect in 2021 \(cnipa.gov.cn\)](http://China National Intellectual Property Administration IPR Special Revised Law to Come into Effect in 2021 (cnipa.gov.cn))> accessed 9th November 2021

June 2021, Chinese law will allow the judge to award up to five times the original compensation (the benefits of the infringer or the losses of the patentee) in punitive damages if he/she deems that the infringement has been severe, wilful and/or persistent.<sup>26</sup> This obviously mirrors the US remedy of ‘enhanced damages’ allowed under the 2009 Patent Act<sup>27</sup>. However, although considerable, US enhanced damages are only on a multiple of three, not five. Chinese courts, therefore, now have very significant deterrent powers.

### **Increased Statutory Damages**

The fourth revision of the Chinese Patent Law also includes an increase in statutory damages. The maximum will be five times higher, with statutory damages being raised from a range of 10,000 yuan to 1 million yuan (\$1,490 to \$148,950) to a new range of 30,000 to 5 million yuan. However, based on the current statute, there is only very general guidance given to courts to gauge the assessment within this range.<sup>28</sup> With a wider range, and significantly higher maximum, the problems of a significant discretionary element will continue.

Accordingly, it is clear that, although permitted, a calculated reasonable royalties approach is very rarely used by Chinese courts to assess patent infringement damages. The new reforms of 2021 will not alter this position.

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<sup>26</sup> Jian Xu, ‘Ten Highlights of China’s New Patent Law’ (Gowling WLG, 21 October 2020) <<https://gowlingwlg.com/en/insights-resources/articles/2020/ten-highlights-of-china-s-new-patent-law/>> accessed 9th March 2021

<sup>27</sup> U.S. Patents Act 2009, 35 U.S.C. § 284

<sup>28</sup> CPL, 2008, Article 65, states that factors include ‘the type of patent right, nature of the infringement and seriousness of the case’.