

Application of Rule against Hindrance of Evidence Adduction in IP Cases:

Comments on Joyoung Corporation and Wang Xuning v. Shuaijia Corporation¹

Zhang Guangliang

This case involves a dispute arising from infringement of the patent right for the invention of an intelligent automatic household soya-bean milk maker (i.e. patent ZL 99112253.4). Wang Xuning filed an application for the patent on 1 June 1999, and was granted the patent on 5 December 2001.

On 8 December 2001, Wang Xuning exclusively licensed said patent to the Shandong Joyoung Small Household Electric Appliances Corporation (hereinafter referred to as Joyoung), with the term of the licensing contract being the same as that of said patent and the royalties fixed at RMB 3,000,000 yuan.

In April 2006, Joyoung discovered that the Jinan Zhengming Trading Co., Ltd. (hereinafter referred to as Zhengming) marketed four-types of Xibeile brand soya-bean milk makers suspected of infringing its patent right. After obtaining the relevant evidence, Joyoung and Wang Xuning sued Zhengming and the manufacturers for infringement of the patent right.

First-instance hearing

During its hearing, the court preserved the evidence of

the four types of soya-bean milk makers provided by the plaintiff, and determined, according to the indications on the package of the products, that the manufacturers of said soya-bean milk makers were the Shanghai Shuaijia Electronic Science and Technology Co., Ltd. (hereinafter referred to as Shuaijia) and the Cixi City Xibeile Electronic Appliances Co., Ltd. (hereinafter referred to as Xibeile). During the court hearing, Shuaijia and Xibeile admitted that their four-types of soya-bean milk makers were identical in structure and technical features, and they were the same as the technical solution defined in claim 1 of said patent.

During the first-instance trial, Joyoung and Wang Xuning requested preservation of the evidence of the account books of the alleged infringing products made and marketed by Shuaijia and Xibeile, and the first-instance court granted the evidence preservation under the law. When the court delivered the ruling to this end to the two defendants and enforced the evidence preservation, the two defendants refused to provide the account books.

The court of first instance held that the dispute between

the interested parties were focused on three points:

1. whether the court needed to suspend the court hearing or procedure until the relevant authority determined the inventiveness of the patent in suit.

For this, the court took the view that it was the power of the patent administrative authority under the State Council to grant a patent right or to examine its validity, and the court had no power to evaluate the effect or validity of the patent right granted. But, under the Supreme People's Court's relevant judicial interpretations, the court may not suspend its hearing of a case of dispute arising from infringement of an invention patent it accepted where the defendant requested invalidation of said patent right in the time for defence.² The court preliminarily examined the reference on the basis of which Shuaijia requested to declare the patent right in suit invalid, and believed that it was not sufficient to affect the validity or effect of the patent right, so it did not support the request of Shuaijia and Xibeile for suspension of the case.

2. Whether Shuaijia and Xibeile's technology of the alleged infringing products came or was derived from the existing technology, namely whether the two defendants' prior art defence was tenable.

The court held that the evidence on the basis of which Shuaijia and Xibeile made their prior art defence were six Chinese patent documents which the State Intellectual Property Office (SIPO) disclosed before the date of filing of Wang Xuning's patent in suit. Under the Chinese Patent Law, the substantive examination was required for a patent to be granted to an invention, and the patented invention should possess novelty, inventiveness and practical applicability. Wang Xuning's invention was patented after it was substantively examined. This showed that no identical invention or utility model was published in publications in and outside China, nor publicly used, nor otherwise made known to the public in China, and said patented technology had its substantial feature and represented notable progress compared with any technology existing before the date of filing. As far as Wang Xuning's patent in suit was concerned, the technology as stated in the six patent documents used by Shuaijia and Xibeile was obviously an existing technology. The two were different, and Wang Xuning's technology had its substantial features and represented notable progress. Therefore, Shuaijia and Xibeile's claim that the technology of the alleged infringing products came or was derived from the existing technology was not tenable, and their prior art defence was rejected.

3. About the issue of the amount of damages

The court held that Joyoung and Wang Xuning claimed damages amounting to RMB 3,000,000 yuan from Shuaijia and Xibeile, and Shuaijia and Xibeile's defence against the claim was factually baseless. Under the Supreme People's Court's relevant judicial interpretation, where there is evidence showing that a party holds evidence, but it refuses to present it without justification, if the other party claims that the withheld evidence is unfavourable to the evidence holder, it may be assumed that said claim is tenable.³ In the lawsuit, the court decided to preserve the evidence of the account books of the alleged infringing products made and marketed by Shuaijia and Xibeile, but the two defendants refused to provide them; hence, the court assumed that Joyoung and Xibeile's claim for the damages amounting to RMB 3,000,000 yuan from Shuaijia and Xibeile was tenable, and supported the claim.

The first-instance court supported Joyoung and Wang Xuning's litigant claims for ceasing the infringement and for damages, but did not support their request to destroy the defendants' production moulds, unfinished products and their parts or components on the ground that the invention patent in suit was an improvement of the existing technology, and the production moulds and unfinished products were not used solely for making the infringing products. The court decided that Zhengming, Shuaijia and Xibeile immediately cease their infringement of the patent ZL 99112253.4 for the invention of the intelligent automatic household soya-bean milk makers; and Shuaijia and Xibeile jointly pay Joyoung and Wang Xuning RMB 3,000,000 yuan in compensation of their damages within ten days from the day on which the court ruling took effect.

Second-instance hearing

Dissatisfied with the first-instance ruling, Shuaijia and Xibeile jointly appealed, requesting to reverse the first-instance ruling and reject Joyoung and Wang Xuning's litigant claims. Regarding the amount of damages, the appellants argued that in the present case, the two appellees based their claim for damages on the patent licensing royalties, and the evidence of the patent licensing contract and the recordal thereof did not have any evidential force. It was erroneous to have assumed in the first-instance ruling that the two appellees' claim for the damages was tenable. The two appellees had based the claim on the licensing royalties, not on the profit the appellants made because of their infringement, therefore, the preservation of the appellants' account books

was irrelevant to their claim.

Upon hearing of the case, the second-instance court held that while it fell outside the scope of court's hearing of cases of civil dispute arising from infringement of the patent right to determine the validity of a patent, the court, when examining a party's request for suspension of the court procedure, may compare a disclosed technical document furnished by a party with the patented technology in suit, determine the possibility for the patent in suit to be declared invalid by the Patent Reexamination Board (PRB) of the SIPO, and finally decide on whether to approve the party's request for suspension. This possibility determination had no fundamental impact on the validity of the patent right.

In the present case, the appellants requested the first-instance court for the suspension, adduced evidence in the form of references to show that the patent in suit did not possess inventiveness. It was not undue for the first-instance court to have not suspended the procedure under Article 11 of the Supreme People's Court's Provision on Several Issues Relating to Application of Law to Trial of Cases of Dispute over Patents.

The second-instance court also held that the known technology or prior art defence meant that the technology used by the accused infringer was identical with or closer to a known technology. As the present case showed, the appellants' technology used for making their products was exactly identical with the patented technology in suit, rather than closer to the one disclosed in the reference they presented. Besides, the appellants' prior art defence made by separating and/or grouping the technologies shown in the references was not tenable, either.

As regards the issue of whether the amount of damages as determined by the first-instance court was due or not, the second-instance court held that the patented technology was the technical achievement made by the appellee Wang Xuning through years of R&D, with his great efforts and investment in terms of man power and material resources. As for the appellee Joyoung, the patented technology in suit was its corporate core and key technology on which it depended for survival and development, and main sources of its corporate profit. As for the two appellants, the illicit benefits they made by using the patented technology in suit was obvious and tremendous. Such a conclusion could be drawn from its publicised one-year business turnover on its own website (with the annual volume of production and sales of more than RMB 70 million yuan). Also, though the appellants raised op-

position to the patent licensing contract between the appellees, there was no evidence showing that such a contract and the amount of the royalties were not something objective. In addition, the appellants refused to present the account books required by the first-instance court, which could not prove the statement that they did not obtain any benefits. Taking all these factors into consideration, it was not undue for the first-instance court to have deemed the appellees' claim for damages amounting to RMB 3,000,000 yuan was tenable under the Supreme People's Court's relevant interpretation, and this amount of damages as determined was not too high. The appellants argued that this amount as determined by the first-instance court was undue, but failed to furnish any relevant evidence during the second-instance trial. Therefore, their appellant claim in this aspect was not tenable, either, so was not supported by the second-instance court.

The second-instance court held that the first-instance court had clearly ascertained the facts, applied the right law provisions, and its ruling was due, so it should be upheld. The two appellants' appellant claim should be rejected under law for lack of evidential and law support. It ruled to have rejected the appeal and upheld the first-instance ruling.

Comments and analysis

The issues of the dispute in the present case are relatively explicit, namely the following three issues:

- 1) whether the court hearing should be suspended in the case involving determination of the inventiveness of the patent in suit;
- 2) whether the two defendants' prior art defence is tenable; and
- 3) how much the damages should be.

As regards the first issue, the first-instance and second-instance courts elaborated, at length and in a convincing manner, on why the hearing was not suspended. This writer always holds the view that, in a case of patent infringement, where a defendant requests invalidation of the patent right in suit and his or its request is accepted by the PRB, whether the hearing should be suspended or not is entirely at the judge's discretion. When the judge exercises his discretion, the certainty of the validity of the patent right should be an important factor to be considered. The judge should try to find out whether the patent right in suit would be invalidated according to the grounds and evidence (i.e. references) on the basis of which the defendant filed his request with the PRB for invalidation of said patent, and then decide whether to

suspend the court hearing of the infringement case. As for the second issue, namely the one concerning the prior art defence, the first-instance court's process of reasoning is open to question. While an invention patent is granted upon examination as to substance, it is impossible to prove that the Patent Office has searched all technologies existing before the date of filing, and that the invention patent is doubtlessly valid. According to the logic underlying the first-instance judgement, in respect of an invention patent, an accused infringer should not make his prior art defence, or his or its prior art defence should not be supported even if it is made. The second-instance court takes a step forward in its view on the prior art defence. For it at least believes that the prior art defence may be made in relation to an invention patent. But whether a prior art defence is tenable or not is examined or reviewed still along the line of thinking of whether the alleged infringing article (product or process) is closer to the patent or to the known technology. This way of hearing is hard to practice, and negated by relevant experts in theory. When reviewing whether the prior art defence is tenable or not, what is necessary for the court to do is determine whether the alleged infringing article is identical with, or close to, a known technology in respect of which the defendant adduces evidence, but unnecessary for it to determine whether it is "closer to" a known technology or the patent in suit.⁴ The first and second issues are not to be further commended on for they are not the important points here. The following discussion will be focused on the issue relating to the application of the rule against hindrance of evidence adduction to the present case.

It is provided in Article 75 of the Supreme People's Court's Several Provisions Relating to Evidence in Civil Procedure (No. Fashi 33/2001) that where there is evidence showing that a party holds evidence, but it refuses to present it without justification, if the other party claims that the withheld evidence is unfavourable to the evidence holder, it may be assumed that said claim is tenable. This provision is jurisprudentially the "rule against hindrance of evidence adduction".

In the present case, the plaintiffs claimed damages of RMB 3,000,000 yuan on the basis of the royalties under the patent licensing contract concluded between the patentee Wang Xuning and Joyoung. In the procedure, Joyoung and Wang Xuning applied for preserving, as part of the evidence, the account books of the alleged infringing products made and marketed by Shuaijia and Xibeile, and the first-instance

court granted the evidence preservation under the law. The two defendants refused to furnish the account books when the first-instance court delivered, to them, and enforced the ruling. After the first-instance court ruled to order them to bear the unfavorable consequence, the two defendants argued, in their appeal that the plaintiffs had based the claim on the licensing royalties, but not on the profit the defendants' made because of the infringement, therefore, the preservation of the appellants' account books was irrelevant to the plaintiffs' claims. In other words, even if the two defendants refused to do as the court evidence preservation ruling required, they should not have to be held liable for the damages of RMB 3,000,000 yuan.

This writer believes that the two defendants' argument was not tenable for these reasons:

First of all, the two defendants held the account books. After the court ruled on the evidence preservation, they should have presented them to the court when they were not justified not to do so, or they would bear the unfavorable legal consequences under Article 75 of the Supreme People's Court's Several Provisions Relating to Evidence in Civil Procedure.

Second, the two defendants' counterclaim was not tenable that their failure to present the account books was irrelevant to the calculation of the amount of the plaintiffs' claimed damages. According to the two defendants' logic, the plaintiffs chose to base the calculation of the amount of the damages on the royalties for licensing the patent in suit, so their account books were irrelevant at all to the calculation of the amount of the damages; hence, they did not have to present them to the court. It is known that in patent infringement lawsuit, the patentee is under the burden of proof in connection with the calculation of the amount of the damages. While several methods for calculation of damages for infringement of the patent right are provided for in the Patent Law and the Supreme People's Court's judicial interpretation, according to one of them, it is calculated on the basis of the patentee's injury inflicted because of an infringement, the infringer's illicit benefit made because of the infringement, or with reference to the multiplication of the licensing royalties. But these methods for calculation of damages require relevant evidence that is hard for the patentee to get hold of. For that matter, a rightholder often uses one method to arrive at an amount of the damages. If he gets some evidence more in his favour, he still has the right to modify his litigant claims before the court hearing is held, including changing the method for cal-

calculation of damages or asking for more damages. For example, in the present case, if the two defendants had done as the court effective ruling on evidence preservation required, and presented the court their account books, and the account books fully showed the volume of production of the infringing products made and marketed by them, the rightholders may calculate their damages caused because of the infringement by multiplying the volume of sales of the infringing products with the benefit they made from each single product that was legitimately made thereby. If any one of the amounts of damages was in excess of RMB 3,000,000 yuan, the rightholders may modify their litigant claims. Therefore, the two defendants claimed that the account books were irrelevant at all to the calculation of the amount of the damages is untenable.

Finally, in an IP infringement lawsuit, people more and more depend on the court's evidence preservation for obtaining much of their key evidence, which usually consumes a lot of judicial resources. Furthermore, where an accused infringer does not work cooperatively to implement the court's ruling on evidence preservation, the court has to take compulsive measures to obtain the relevant evidence. "Serious confrontation" between an accused infringer and judicial officials is by no means rare on the site of enforcement, which would affect the stability of the society. For that matter, when the court delivers its ruling on evidence preservation, it should, under the rule against hindrance of evidence adduction, make it clear to the accused infringer that he would bear the legal consequences if it refuses to implement the court ruling on evidence preservation, and the above issue may be properly resolved. In the present case, the court did not take compulsive measures when the defendants refused to hand out their account books. It then ordered the defendants to bear the unfavourable legal consequences under Article 75 of the Supreme People's Court's Several Provisions Relating to Evidence in Civil Procedure. This way of handling the matter is praise worthy.

For any system to work, there should an institutional guarantee to prevent it from being abused. In the present case, if the royalties under the licensing contract between the plaintiffs were RMB 10 million yuan or if the defendants refused to present their account books and the plaintiffs raised their damages to that amount, how should the court decide on the amount of the damages in the case? This would be another issue that would put the judges' wisdom to test. ■

The author: Faculty member of the China University of Political Sciences and Law

¹ For the parts on the facts of the case and the court judgement, see Shandong Provincial Higher People's Court's Civil Judgement No. Luminanzhongzi 38/2007 on the ipjudgementnet.

² See Article 11 of the Supreme People's Court's Several Provisions Relating to Application of Law to Trial of Cases of Dispute over Patent (No. Fashi 21/2001).

³ See Article 75 of the Supreme People's Court's Several Provisions Relating to Evidence in Civil Procedure (No. Fashi 33/2001).

⁴ Yin Xintian, Protection of Patent Right, the Publishing House of Intellectual Property, 2005, P.495.