

Review & Analysis on IP Infringement Cases with High Damages Awards

- Damages determination method and evidence production

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I. Introduction

In the process of building an innovation-oriented country and fostering innovation-driven transformation and upgrading, China is seeing an unprecedented concern and enthusi-

asm for reinforcement of intellectual property protection among various circles of society. The vigor of IP protection reflects a country's underlying attitude and overall strategy toward IP, and this will eventually act on the creation and exploitation of IP in the country. At present, the strength of Chi-

na's IP protection is manifested mainly through judicial enforcement, which is in agreement with its national strategy of leveraging the judicial channel as the primary means of IP protection. However, a prevailing conception among the general public is that infringement damages awarded by the Chinese courts tend to be low, which can neither do justice to the true value of IP assets nor curb IP infringement ultimately, and hence judicial IP protection wants further strengthening. While this view appears to have a reason and conforms to the general conditions of IP infringement cases in the country, a detailed look into the situation will find that it cannot be regarded as representing the whole picture, as there have been actually a number of IP infringement cases in which the rightholders were awarded generous damages. Is such a discrepancy in damages awards a matter of individual judges' discretion or is it the fruit of the interested parties' litigation strategies and capability in evidence production? This is a topic worth studying in itself. In fact, over recent years the Chinese courts have been positive and progressive in matters of stepping up IP protection and improving infringement damages awards. The Supreme People's Court is also supportive of the courts at various levels in bringing down the cost of safeguarding IP rights, lifting the price of the infringers to pay for infringement, and pursuing well-rounded ways to facilitate the improvement of damages awards,¹ so that the damages are commensurate with the market value of IP assets and the contribution of IP assets to profit related to infringing acts.² We can say that against the backdrop of China's implementing the national innovation-driven development strategy, there is now few substantial obstacles – whether legally, institutionally, or conceptually – to get in the way of strengthening judicial IP protection, in particular of elevating infringement damages.

II. Relevant cases

In respect of the prevalent view that IP infringement damages awarded by the Chinese courts tend to be low, the writer has reviewed domestic civil IP infringement cases of recent years and found that there were actually many cases in which the rightholders were awarded damages far exceeding the statutory damages.

[Case 1] In this case with a ruling issued in 2014, Shanghai Xuanting Entertainment Information & Technology Co., Ltd filed a lawsuit against a company for unlicensed dissemination of its online novel, thus infringing the information net-

work dissemination right of the work. The plaintiff claimed damages of RMB 12 million based on a formula which reads: Plaintiff's claimed damages = defendant's proceeds from payout by mobile reading stations + plaintiff's loss as calculated by number of clicks multiplied by charges on plaintiff's website + defendant's proceeds from authorising others' access to infringed work. The court did not accept the plaintiff's method of calculating the damages, but held that the defendant's gains from the payout provided by mobile reading stations might serve as important reference, and even though it was impossible to ascertain both the plaintiff's actual losses and the defendants' infringement gains, there was evidence to prove that the defendant's gains should have exceeded RMB 500,000, the statutory damages ceiling as stipulated in the Copyright Law of China. The court finally decided on an award of discretionary damages for economic loss of RMB 3 million to the plaintiff, after taking into consideration such factors as the number of clicks, subjective malice, and duration of the offence.³

[Case 2] In this case of 2012, ESTsoft Corp. filed a lawsuit against a company for infringing its copyright in computer software, by continuing to operate the online game CABAL Online beyond the licensed period. The plaintiff claimed damages close to RMB 8.23 million, representing the compensation for the period from February 2009 until February 2010 as calculated by an average gross sales revenue of RMB 632,858.61 per month based on the sales revenues recorded in the defendant's General Payment Letter for Tax Revenue. The court opined that the plaintiff only relied on three of the defendant's tax payment letters to derive the claimed damages, without furnishing any solid evidence in support of his estimate of cost in relation to the defendant's gross revenue, and hence accepted neither the calculation method nor the claimed amount of damages put forward by the defendant. Nevertheless, it regarded the royalty schedules for the period from 27 October 2006 to 2 March 2009 provided by the plaintiff as important reference for damages determination. Moreover, the defendant failed to tender any evidence in support of his claim that no profit had been made since February 2009. Given that neither the plaintiff's actual losses nor the defendant's gains could be ascertained but evidence was available to support that the amounts obviously exceeded the statutory ceiling on infringement damages, the court after overall consideration of all evidences decided on an award of RMB 3 million, a figure higher than the maximum statutory damages, to the plaintiff for

economic loss, including reasonable costs.⁴

[Case 3] In this case of 2010, Microsoft Corporation filed a lawsuit against an insurance company for copyright infringement in computer software by installing and using without authorisation the Microsoft Servers software series, in respect of which the plaintiff claimed damages for economic loss of close to RMB 1.17 million. Upon the plaintiff's request, the court conducted evidence preservation at the defendant's business premises regarding the defendant's use of the software in suit. It was found that among the 11 spot-checked servers in the defendant's computer room, Microsoft Windows Server 2003 standard edition (RMB 4,600 per unit) was used on 2 servers, Microsoft Windows Server 2003 enterprise edition (RMB 20,756 per unit) on 5 servers, Microsoft Windows Server 2008 enterprise edition (RMB 22,237 per unit) on 1 server, Microsoft SQL Server 2000 enterprise edition (RMB 213,600 per unit) on 1 server, and Microsoft SQL Server 2005 enterprise edition (RMB 255,548 per unit) on 2 servers. The court deemed that although the defendant confessed the use of Windows Server software series on 27 of its servers, the actual number of software used could not be ascertained, and therefore the plaintiff's economic loss was unable to be determined. In consideration of such factors as business scope of the defendant, selling price of the software in suit, confessed number of the software in suit used by the defendant, evidence preservation conditions, type of IP works in suit, seriousness of subjective malice of the infringer, as well as means, circumstances, duration and scope of the infringement, the court decided on a discretionary damages award for economic loss of RMB 1.1 million.⁵

[Case 4] In this case of 2012, Symantec Corporation filed a lawsuit against a Mr. Ma and other defendants for copyright infringement in computer software by copying without authorisation a huge number of antivirus software onto CDs for sales, in respect of which the plaintiff claimed damages for economic loss of RMB 10 million. The finding in a relevant criminal case was that the defendants sold 677,000 pirated CDs online from July 2003 to February 2007, thereby reaping an illegal turnover of USD 10.48 million plus as well as remittances of close to USD 5.45 million. In the absence of evidence to prove both the specific amount of infringement gains by the defendants and the actual losses of Symantec Corporation, the court granted a discretionary damages award for economic loss of RMB 9.9 million.⁶

[Case 5] In this case of 2013, Rotork Corporation filed a lawsuit against a company for trademark infringement by us-

ing Rotork's registered trademark without licensing, in respect of which the plaintiff claimed damages of RMB 2 million for economic loss, which was computed by: number of infringing actuator products sold by the defendants, such as electric valve actuators, electric actuating mechanisms and intelligent electric actuating mechanisms, multiplied by profit per unit of the products. The calculation method was accepted by the court. By taking the customary profit margin of 10% for industrial and mineral products, the average profit of RMB 1,837 per unit of the infringing products was derived, and according to the data from the defendant's promotional materials, at least 20,775 units were sold. This translated to a total profit of over RMB 37 million, a figure far exceeding the plaintiff's claimed damages of RMB 2 million. Accordingly, the court fully supported the claimed damages of the plaintiff.⁷

[Case 6] In this case of 2014, HiTrend Technology (Shanghai) Co., Ltd. filed a lawsuit against a company for infringing the exclusive rights to integrated circuit layout designs. The plaintiff claimed damages for economic loss of RMB15 million, which was calculated on the basis of: i) number of infringing chips taken as 10 million pieces, with reference to a sales volume of over 10 million pieces of RN8209 chips as of September 2010 in accordance with disclosure on defendant's website; ii) selling price per piece of infringing chips taken as RMB 4.5, with reference to the unit selling price of said chips ranging from RMB 4.5 to RMB 4.8 by September 2010; iii) sales profit ratio of infringing chips taken as 50%, with reference to said ratio being above 50%. Using the above bases of calculation, a sales profit by the defendant of RMB 22.5 million was derived, which was higher than the plaintiff's claimed damages. The opinions of the court were that: i) As regards the sales volume, the defendant, despite declaring on its company website a sales volume of exceeding 10 million pieces for chips RN8209 by September 2010, denied such figure in trial, while at the same time declined an audit and refused to provide any financial information. In these circumstances, the court referred to the sales volume stated on the defendant's website as the basis of damages calculation. ii) As regards the selling price and sales profit, it showed from some of the preserved value-added tax invoices of the defendant that chips RN8209 were sold at a price ranging from RMB 4.1 to RMB 4.6 per piece by September 2010. While the plaintiff asserted that the defendant attained a sales profit ratio of 50% and the defendant alleged that the sales profit was about RMB 1 per

piece, neither party furnished any evidence to support their own statements. iii) As the layout in suit occupied only a small area of a RN8209 chip and did not play a core role or function in it, it was improper to calculate damages by reference to the defendant's total profits from the chips. Based on the foregoing analysis, the court decided on a damages award of RMB 3.2 million for economic loss to the plaintiff.⁸

[Case 7] In the invention patent infringement case of Netac Technology Co., Ltd. v. Beijing Watertek Information Technology Co., Ltd., et al. (2015), the patent in suit pertained to flash memory technology and the infringing products were USB Keys, which were regularly used by the banks. The plaintiff claimed damages for economic loss of RMB 60 million, based on the gross profits for said products over recent three years of RMB 11.7129 million, RMB 21.4174 million, and RMB 31.3731 million respectively, as reported in an announcement issued by the defendant as a listed company, and thus gains from the infringing products by the defendant of not less than RMB 60 million. Given that the total gross profits of the infringing products over recent three years were RMB 64.5034 million, as explicitly stated in the company announcement of the defendant, and taking into overall consideration such factors as nature of infringement, scale of operation, duration of offence, type of patent in suit, as well as sales scope, selling price, and profit of the infringing products, the first-instance court granted a discretionary damages award of RMB 40 million to the plaintiff for economic loss.⁹

III. Underlying causes of low damages awards

In China where the courts predominantly adhere to statutory limits for damages determination, the awards of the above seven cases are extraordinary, unlike those of the US, where millions to dozens of millions or even hundreds of millions of US dollars are frequent. In general, it is difficult for domestic IP infringement cases to reap awards that go beyond the statutory damages ceiling.

Regarding the methods of damages determination under the Chinese legislations for various types of IP, they follow rather similar patterns. In case of copyright infringement, damages are determined according to the rightholder's actual losses; where such losses are difficult to determine, damages may be determined by the illegal gains of the infringer. Failing to determine both, the court may decide on an award

of not more than RMB 500,000, depending on the circumstances of the infringing act.¹⁰ In case of trademark infringement, damages are determined according to the actual losses of the rightholder; where such losses are difficult to determine, damages may be determined by the gains of the infringer. Failing to determine both, damages may be based on a reasonably multiplied amount of the trademark licensing royalties. For serious malicious infringement, damages may be one to three times the amount derived from the aforesaid methods. In the latest revision of the Chinese Trademark Law, remedies for spoliation of evidence have been introduced, thereby entitling the court to order the infringer to submit account books and information related to an infringing act, if such account books and information are still largely in the hands of the infringer after the rightholder's best efforts in evidence production. Upon the infringer's refusal to submit such information or his submission of a false version thereof, the court may determine the damages with reference to the rightholder's claim and evidence rendered. Where the actual losses of the rightholder, the gains of the infringer, and the licensing royalties are difficult to determine, the court may decide on an award of up to RMB 3 million, depending on the circumstances of the infringing act of the case.¹¹ In case of patent infringement, damages are determined according to the actual losses of the rightholder. Where such losses are difficult to determine, damages may be determined according to the gains of the infringer. Failing to determine both, damages may be based on a reasonably multiplied amount of the patent licensing royalties. Where the actual losses of the rightholder, the gains of the infringer, and the licensing royalties are difficult to determine, the court may, on the basis of such factors as type of patent in suit, nature of the infringing act, and circumstances of the case, decide on an award within the range from RMB 10,000 to RMB 1 million.¹² In case of unfair competition, damages are first determined according to the losses of the infringed operator. Where it is difficult to determine such losses, damages may be determined by the gains from the infringement.¹³ In case of trade secret-related infringement, damages may first be determined by reference to the calculation method for patent infringement or trademark infringement. Where the infringing act results in disclosure of a trade secret, damages should be determined according to the commercial value of the trade secret, which in turn is calculated by such factors as cost of research and development, revenue from the exploitation of the trade secret and attributable gains, as well as

time span in sustaining competitive advantage.¹⁴ As a sum-up of the above legal provisions, damages for IP infringement in China are determined basically according to the order of actual losses, gains from infringement, licensing royalties, and statutory amounts. These methods and order of damages determination are based on objective facts with a view to protecting the legitimate rights and interests of the rightholders while warding off extra gains from infringement by the infringers. They are regarded as reasonable by achieving due introduction of punitive damages for malicious infringement on the basis of the conventional principle of compensatory damages.

Obviously, the court will first determine damages according to the actual losses of the rightholder, followed by the gains of the infringer from infringement. However, in practice the actual amounts are difficult to pin down. Apart from cases 3, 4 and 7 above where damages determination was somewhat based on actual losses or infringement gains, in the rest of the cases, the courts issued a higher amount than the statutory ceiling at discretion only on condition that there was evidence to support the damages being higher than the statutory limit. This at least tells the fact that statutory limit is not unsurpassable, but at the same time it should not be surpassed arbitrarily. Only when there is conclusive evidence in support of the losses or gains exceeding the statutory limit may the court opt for such an award. It can thus be seen that low damages awards are not results of conservative judicial concepts, law enforcement, or inadequate protection. Without adequate evidence from the plaintiff, the court may only adhere to damages within the statutory limit, which is in fact one of the underlying causes for the common phenomenon of low damages awards. In judicial practice, it is rare to see that the rightholders claim high damages accompanied by sufficient evidence. For the majority of cases, the plaintiffs have no evidence to prove the specific amount of actual losses or infringement gains, and are therefore confined to assertion of applicable statutory damages. This explains why they are subject to the restraint of statutory limits.

IV. Evidence production for damages

All in all, both the establishment of infringement and the determination of damages hinge on the production of evidence by the plaintiff. As the saying goes, “a legal battle is a battle over evidences”. Where damages are modest, it may largely relate to the rightholder’s lack of momentum in evi-

dence production; on the other hand, substantial awards typically have the support of solid evidence. As illustrated by the above-cited cases, the rightholders, with proper production of evidence, will have a chance of substantively achieving the effect of having the actual losses or infringement gains proved, so that their awards will not be subject to the restraint of statutory limits.

1. Criteria for admissibility of evidence

The basic criteria for admissibility of evidence in civil lawsuits are authenticity, legality and relevance. “Authenticity” means the evidence *per se* is not forged and may reflect the actual situation of a case; “legality” means the evidence is not obtained by illegal means, and evidence obtained by illegal means is excluded; and “relevance” means the evidence is objectively associated with the fact to be proved and capable of proving the occurrence or existence of such fact. Specifically for the evidence in support of infringement damages determination, the plaintiff, when claiming damages based on actual losses, infringement gains, or licensing royalties, should be able to convince the judge with evidence that the claimed amount represents his actual losses or the defendant’s gains from infringement. In respect of losses, a rightholder cannot suffer from direct losses in IP infringement because IP rights are intangible and no direct impairment can be inflicted upon. Instead, the losses should be indirect, such as in the manner of decreased market share caused by infringement, in other words, they are losses of unactualised due profits. Hence, damages determined based on actual losses of the rightholder or a reasonably multiplied amount of royalties practically refer to the due profits of the rightholder.

In judicial practice, it is a tough job to prove actual losses, whereas the authenticity of royalties is not easy to be ascertained. As such, the most frequently used evidence to determine the amount of damages is infringement profits of the defendant. For the above-mentioned seven cases, the courts relied on infringement profits as the major reference for damages determination due to their easy availability from such data as the number of clicks on works, sales volume of infringing products, and industry average profit ratio. In case the defendant is a listed company, relevant data can often be located directly from company announcements. The announcements of a listed company have substantial probative value given their legal status and their acceptance as evidence of admission in civil lawsuits.

2. Plaintiff’s evidence production strategies

The cases mentioned in this article share several common features: i) The rightholders have provided evidence in support of their actual losses or the defendants' infringement gains, so that at least such basic figures as sales volume or total profit could be computed to serve as the basis for subsequent deliberation. ii) Almost none of the cases determined the damages directly according to the plaintiff's actual losses or the infringer's profits. Rather, the courts generally first arrived at the conclusion that such losses or gains had surely exceeded the statutory limit, and afterwards decided on an amount higher than the statutory limit by discretion, as it was difficult to determine the infringed IP's ratio of contribution to the infringement profit. In some sense this can be regarded as an alternative way of damages determination developed by the courts from practical experience, which transcends the statutory limits and at the same time is not based on actual losses or infringement gains. Necessarily it involves the courts' discretion by taking into consideration circumstances of individual cases to arrive at the amounts of the awards. If we have to categorise such method of damages determination, we would say it still falls within damages determination according to actual losses or infringement gains, only that such losses or gains can hardly be pinned down, and thus require the court's discretion to consider circumstances of individual cases, with the principal factor of discretion being the ratio of contribution of the infringed IP to the actual losses or infringement gains.

In brief, how much the rightholder gets from damages awards depends on the adequacy of evidence he is capable of producing. The rightholder should therefore try his best in evidence production, rather than placing hopes on the court to take the initiative to investigate the case or lay down rules and regulations to govern the inference of damages. As the burden of proof rests primarily with the rightholder as the plaintiff, the court as adjudicator of the case is not expected to play a proactive role in civil lawsuits. In civil litigation, the immediate purpose of the plaintiff's proof of evidence is to convince the collegial panel. As long as the facts can be restored and convincing chains of evidence established, the manners of proof are not subject to legal constraints. As such, the plaintiff should not confine himself in ways of evidence collection, and instead should actively obtain evidence through various legitimate means, such as public information survey, on-site investigation, notarisation of evidence, or request for evidence preservation.

As to strengthening the proof of evidence to the benefit

of the amount of damages, the writer suggests that the rightholder may tackle the matter using the following approaches: i) Pinpoint the gains of the defendant from infringement. It has been proved in practice that this is an easy, albeit only relatively speaking, target to aim at because a significant proportion of IP infringements involves enterprises, which, for management purposes, have a practice of keeping massive written evidence, including account books, warehouse records, invoice books, tax payment receipts, and company announcements. These materials offer solid basis for computing profits gained by enterprises. It is worth noting, however, that what the plaintiff can provide is usually the total profit of the defendant, whereas in proofing gains from infringement, what is required is the evidence pertaining to the ratio of the infringed IP's contribution to the enterprise's operating profit. Such evidence may be presented in the forms of industry association attestation, authoritative research reports, and expert testimony. ii) Devote efforts to the construction of chains of evidence. In litigation, isolated evidence is not preferred, as the admission thereof is considered a high risk. The rightholder should take a holistic view in devising strategies for evidence production, by associating the evidence for infringing act with that for determining damages including infringement gains, actual losses, and royalties for overall consideration. Besides, such evidence as production scale, sales volume, market scope, and profit margin of the infringing products should be mutually corroborated. As for evidence types, they can be a combination of the defendant's statement, common knowledge, industry consensus, and expert testimony. iii) Take heed of the legitimacy of the means of evidence collection. While it is viable for the party concerned to collect evidence by himself, notarisation is a more recommended source of evidence with its strong probative value and less likelihood of being overturned. In case even collection of notarised evidence encounters obstacles, preservation of evidence should be seriously considered. Theoretically speaking, with proactive conduction of preliminary investigation and by assisting the court in well-targeted evidence preservation, the plaintiff should be able to cope with most of the difficulties he may come across in production of evidence.

V. Remedy mechanism for evidence spoliation

In face of the issue of difficulty in evidence production,

prevailing academic opinions advocate the introduction of remedy mechanism for evidence spoliation. In the latest revised version of the Trademark Law of China, rules related to remedies for spoliation of evidence have been incorporated, whereas the draft amendments of the Patent Law also see the incorporation of similar remedies.¹⁵ Nevertheless, does it mean that with the introduction of a remedy mechanism for evidence spoliation, the current situation will be improved? It is not necessarily so.

First, in respect of evidence for damages determination, the burden of proof is on the plaintiff, and such liability is not supposed to be readily shifted. Second, the essence of the remedy mechanism for evidence spoliation lies in its attempt to determine the profit gained by the infringer, and is therefore still a method for determining infringement gains, only that inference or inversion of burden of proof is employed as the means of determination. It is inaccurate to say that the mechanism represents an independent method for determining the amount of damages. Third, even though such materials as the infringer's account books have been presented before the court, it is still difficult for the judge to directly quantify the damages according to the identified operating profit of the infringer, because an infringing act is an occurrence in the course of production or sales, during which not only the value of IP is realised, but also the inputs of capital, human resources, and materials as well as the efforts of operation and management are involved. It is therefore hard to say that the operating profit is completely derived from or attributed to the infringing act, nor is it easy to determine a ratio of contribution of the infringed IP to the identified operating profit of the infringer. At the end, the court still has to determine the specific amount of damages by discretion. Having said that, in judging whether the infringement gains should have been higher than the statutory damages, the mechanism does have a role to play. If by means of the mechanism it is found that the infringement profit definitely exceeds the statutory limit, the court may exercise discretion to decide on an amount going beyond the statutory limit, and accordingly the rightholder has the chance of obtaining generous award.

Although it is not likely that the remedy mechanism for evidence spoliation would bring about fundamental changes, it is positive in helping the rightholders improve their situation. The Supreme People's Court also encourages active use of the mechanism, and has indicated that Article 63 of the Trademark Law may be referred to in adjudication of other types of IP cases.¹⁶ However, as far as the judicial prac-

tice to date is concerned, few courts in judicial practice have, in cases where the infringers declined to provide such materials as account books, applied the remedies provided in that article to directly support the trademark rightholders' assertion for damages. In light of this, one should not hold unduly high expectations on the remedy mechanism for evidence spoliation as a solution of the issue of difficulty in evidence production. ■

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¹ Tao Kaiyuan. Speech at Symposium on Strengthening Judicial Protection of Intellectual Property Rights. China IPR Judicial Protection Yearbook (2014), June 2015, 1st edition, p. 30, Law Press China.

² Ibid, p. 20.

³ Shanghai No. 2 Intermediate People's Court's Civil Judgment No. Huerzhongminwu(zhi)chuzi 191/2013, which has come into effect.

⁴ Shanghai Higher People's Court's Civil Judgment No. Hugaominsan(zhi)zhongzi 104/2011, which has come into effect.

⁵ Shanghai Pudong New District People's Court's Civil Judgment No. Puminsan(zhi)chuzi 128/2009, which has come into effect.

⁶ Shanghai Higher People's Court's Civil Judgment No. Hugaominsan(zhi)zhongzi 88/2011.

⁷ Shanghai Higher People's Court's Civil Judgment No. Hugaominsan(zhi)zhongzi 119/2012, which has come into effect.

⁸ Shanghai Higher People's Court's Civil Judgment No. Hugaominsan(zhi)zhongzi 12/2014, which has come into effect.

⁹ Guangxi Zhuang Autonomous Region Nanning Intermediate People's Court's Civil Judgment No. Nanshiminsanchuzi 59/2012. The defendant of the case is Beijing Watertek Information Technology Co., Ltd., which is a listed company. The company has indicated an intention to appeal in its announcement dated 26 June 2015.

¹⁰ Article 49 of the Copyright Law of China.

¹¹ Article 63 of the Trademark Law of China.

¹² Article 65 of the Patent Law of China.

¹³ Article 20 of the Anti-Unfair Competition Law of China.

¹⁴ Article 17 of the Interpretation of the Supreme People's Court on Several Issues Concerning the Application of Law in Trial of Civil Cases Involving Unfair Competition.

¹⁵ Song Jianbao (2015). Application of Evidence Spoliation System in Patent Infringement Cases. *People's Judicature*, 1.

¹⁶ See supra note 2.