

Determination on Liabilities for Damages Caused by Malicious Prosecution and Preservation Measures

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Although patentees are encouraged to file lawsuits to safeguard their rights and it is also legal to do so, there are also so-called patentees that misuse the administrative patent grant system to apply for design patents for products that have been disclosed and make use of such patents to combat competitors in business operations. Here is a typical dispute over liabilities for infringement damages caused by the utilization of patent infringement dispute to combat peers in the same industry.¹ The judges in this case finally determined that the patentee's acts had constituted subjective malice based on the analysis of a series of acts of the patentee in the patent infringement lawsuit and related lawsuits, clarified the scope of actual damages resulting from litigation and property preservation measures, and awarded a reasonable amount of damages. This case is valuable as reference for adjudication of cases of this kind.

Case brief

In December, 2013, KaiCong Co. sold in public surveillance camera products described as "1080 Line; High Definition; Surveillance Camera; Surveillance Video Recorder; Night Vision Monitor; Probe; 421C KaiCong" on Taobao.

com. On 9 January, 2014, Zhang, the shareholder and legal representative of KaiCong Co., applied for the patent for design with the filing number of 201430006661.6 and title of "Surveillance Camera (S421C)" with the China National Intellectual Property Administration (CNIPA), and patent was granted on 25 June, 2014. In January, 2014, KaiCong Co. sued Joan Co. for unfair competition in the Shanghai Yangpu District People's Court after three customers bought surveillance cameras from its online shop and left negative reviews. Shanghai Yangpu District People's Court later issued the Civil Judgment No. Yangmingsan(zhi)chuzi 161/2014 (hereinafter referred to as "lawsuit No. 161"), rejecting all the claims of KaiCong Co. in January, 2016. Zhang filed a design patent infringement lawsuit with the Shanghai Intellectual Property Court on the grounds that Joan Co. infringed its aforementioned design patent. After the case was placed on file, Zhang filed a property preservation request. The Shanghai Intellectual Property Court froze RMB 10,000,000 inside the bank account and Alipay account of Joan Co. on 3 and 5 February, 2016. Then, Joan Co. entrusted a lawyer to respond to the lawsuit, filed a request for invalidation against the design patent in suit, and paid the corresponding attorney fees, notarization fees, and the like.

《<專利法>及<專利法實施細則>第三次修改專題研究報告》(中卷),知識產權出版社2006年版,第1167頁。

¹ 劉淑華、彭本輝:“標準專利權濫用的反壟斷法限制”,《蘭州學刊》,2006年第7期。

² 劉君博:“財產保全救濟程序的解釋與重構”,《清華法學》,2018年第5期,第187頁。

³ 蔡偉、歐群山:“知識產權訴訟中財產保全錯誤申請的認定”,《人民司法》,2017年第8期,第97頁。

⁴ 朱啓騫、王和平:“制約與平衡——財產保全申請錯誤的損害賠償責任認定”,《廣西政法管理幹部學院學報》,2015年第11期,第57頁。

On 29 July, 2016, the Shanghai Intellectual Property Court issued the Civil Judgment No. Hu73minchu 18/2016 (hereinafter referred to as “lawsuit No. 18”), rejecting Zhang’s claims. The original Patent Reexamination Board of the CNIPA issued, on 22 September, 2016, the Invalidation Decision No. 30118 to declare the patent No. ZL201430006661.6 wholly invalid.

In consideration of the above facts, Joan Co. instituted a lawsuit, asserting that though having a clear knowledge of the public sale of surveillance cameras 421C on Taobao.com, Zhang, as the legal representative of KaiCong Co., still applied for a design patent and filed a patent infringement lawsuit against Joan Co. with a request for property preservation, in order to combat business rivals in the disguise of safeguarding patent right, which caused huge economic losses to Joan Co. For this reason, Joan Co. respectfully requested the court to rule that: 1) the two defendants, Zhang and KaiCong Co., shall jointly and severally pay RMB 1,000,000 to Joan Co. for economic losses; and 2) the two defendants shall post their apologies in a prominent position on their official Chinese website (www.kaicong.net), the homepages of Sina, Sohu and NetEase, and the first page of Shenzhen Special Zone Daily, Legal Daily and China Intellectual Property News for seven consecutive days, so as to eliminate the negative effects.

The two defendants, Zhang and KaiCong Co., jointly argued that first, at the time when the lawsuit No. 18 was instituted and during the trial of the case, Zhang was the patentee of the design patent in suit and the design patent in suit was still in force, so the patent infringement lawsuit was filed by Zhang on legitimate right basis and factual grounds with no subjective malice. Second, even if the design patent in suit was disclosed before the grant of the patent, Zhang as the patentee was ignorant of the disclosure, and the disclosure occurred within six months prior to the filing date of the patent application, so the novelty of the patent was not spoiled and Zhang did not apply for the patent maliciously. Third, the amount of damages claimed by Joan Co. was over-high and obviously exceeded the actual losses it suffered. Fourth, KaiCong Co. was not the party concerned in the lawsuit No. 18 and there was no hotchpot between KaiCong Co. and Zhang. Therefore, KaiCong Co. shall not be jointly and severally liable in the case. To sum up, the two defendants requested the court to reject all the claims of the plaintiff.

Focal issues

Upon examination, the Shanghai Intellectual Property Court held that the focuses of disputes in the case lie in: 1) whether the filing of the lawsuit No. 18 by the defendant Zhang constituted subjective malice; 2) whether the defendant Zhang shall be liable for damages as a result of his request for property preservation made in the lawsuit No. 18; and 3) the assumption of liabilities for damages in the lawsuit No. 18.

In regard to the first focal issue, the Shanghai Intellectual Property Court held that the lawsuit No. 18 lacked basic factual and legal bases, and was filed by the defendant Zhang maliciously for the reasons as follows: 1) according to the facts ascertained in the lawsuit No. 161 and the evidence such as the snapshots submitted by the party other than involved in the case (Zhejiang Taobao Network Co., Ltd.) to the court, the defendant, KaiCong Co., sold in public KaiCong surveillance cameras 421C, which were substantially similar to the design patent in suit, in its Tmall online shop before the filing date of the design patent in suit. The defendant Zhang as the then legal representative of the defendant, KaiCong Co., should have a clear knowledge of the above facts, but still applied for a patent for the disclosed product design, which violated the principle of good faith and belonged to malicious application for patent. 2) Pursuant to the provisions of the China’s Patent Law, a design can be granted a patent right without undergoing substantive examination, that is to say, the design patent right *per se* is quite unstable. The defendant Zhang, as the right holder, should be aware of this fact, but he still filed a lawsuit against the plaintiff for infringement, and claimed damages of up to RMB 10,000,000. 3) The defendant, KaiCong Co., and the plaintiff are peer competitors, so the filing of the lawsuit by the defendant Zhang was intended to combat competitors. In summary, though knowing that the design patent right in the lawsuit No. 18 was unstable, the defendant Zhang still brought a patent infringement lawsuit to the court to cause the plaintiff to suffer from economic losses, which belonged to the abuse of litigious rights and constitutes malice in intellectual property litigation.

In regard to the second focal issue, pursuant to the provisions of Article 105 of the Civil Procedure Law of the People’s Republic of China, if a property preservation request is made wrongfully, the requestor shall compensate the respondent for any losses incurred as a result of property

preservation. The cause of action of this case arose from a dispute over infringement liabilities, so the principle of fault-based liability shall apply. When examining whether the party's act is faulty, decision shall be made by taking into account the party's acts to file a lawsuit and a property preservation request, as well as the judging results. The defendant Zhang, though having a clear knowledge that the design patent he applied was a disclosed prior art design, abused his right to maliciously file the lawsuit No. 18 against the plaintiff, with whom he had a competitive relationship, and, in the meantime, applied for freezing RMB 10,000,000 inside the plaintiff's bank account and Alipay account, which obviously exceeded the amount of damages normally awarded for design patent cases. For these reasons, the defendant Zhang shall owe the duty of care to the plaintiff in property preservation, i.e., account shall be taken of whether the property preservation request is indeed necessary, whether the amount of property is obviously over-high and whether unnecessary losses may be caused to the plaintiff. However, the existing evidence proved, in no way, that the defendant Zhang fulfilled its duty of reasonable care, and the defendant Zhang finally lost the lawsuit No. 18. In view of all the above factors, the Shanghai Intellectual Property Court concluded that the defendant Zhang's property preservation request was faulty and caused economic losses to the plaintiff, so Zhang shall be liable for damages.

In regard to the third focal issue, the Shanghai Intellectual Property Court held that, in the absence of legitimate right basis and factual grounds, the defendant Zhang maliciously filed the lawsuit No. 18, which resulted in that the plaintiff suffered economic losses due to payment of attorney fees and notarization fees, etc., so damages shall be awarded. Since the plaintiff submitted the Contract of Attorney Entrustment and relevant invoices, the court fully supported the plaintiff's claim for damages in this regard. The plaintiff's claim for expenses in the invalidation proceedings, however, was not supported by the court, because the expenses were not directly incurred by the lawsuit No. 18. The court did not support the plaintiff's claim for expenses arising from the realization of creditor's rights due to lack of legal support.

The Shanghai Intellectual Property Court held that the interest losses arising from the plaintiff's loan were not directly incurred by property preservation, and the annual interest rate of 24% was factually and legally ungrounded. As

for the losses incurred by the plaintiff's frozen account, the court awarded the damages of RMB150,000 to the plaintiff at its discretion according to the amount of money frozen inside the account in February 2016, the amount of money when the account was defrosted in August 2016, and the difference between the loan interest rate and the demand deposit interest rate, and ordered the defendant Zhang to assume liability for damages.

In view of the foregoing, the Shanghai Intellectual Property Court decided: first, the defendant Zhang shall pay the plaintiff, Joan Co., RMB 254,000 for economic losses within ten days after the judgment came into effect; and second, other claims of the plaintiff shall be dismissed.

After the first-instance judgment was issued, Zhang appealed to the Shanghai High People's Court, and the second-instance court dismissed the appeal and upheld the original judgment.²

Analysis and comments

Over recent years, in the context of nationwide movement to strengthen intellectual property protection and boost innovation-driven development, China has witnessed an upsurge in the number of patent infringement lawsuits and patent holders feel a strong sense of achievement in lawsuits for right protection. In the meantime, there are also some patent holders trying to gain illicit commercial benefits through litigation, which causes damages to others. Therefore, judges need to discriminate between right holders' intent to file a lawsuit in view of case details and under clarified judging criteria. This is a dispute over malicious litigation and interim measure of property preservation. The focal issues in the case are centered on the judgement of the patentee's subjective intent and further on the determination as to whether the lawsuit was filed maliciously and whether the property preservation was granted erroneously.

I. Abuse of rights is the basis for examining the subjective requirements of malicious patent infringement litigation

Abuse of rights is the exercise of rights by a right holder in a way that goes beyond the restrictions, improperly expands the rights the right holder enjoys, and harms the interests of others and the society. In civil law countries, the principle of prohibition of abuse of rights is surely the contents of the principle of good faith, or, in other words, the negative norm of the principle of good faith, that is to say, the exercise of rights that violates the principle of good faith is

considered as abuse of rights.³ Acts of abusing a patent right refer to that the exercise of a patent right by the patentee goes against the aim of granting the patent right, which includes not only the public value orientation of the Patent Law, such as “boosting technological progresses and innovations”, “stimulating inventions, and the disclosure and application of inventions” and “protecting others’ interests”, but also the public value orientation of the Anti-Monopoly Law, such as “maintaining a good competition order”.⁴ The constituent elements of abuse of a patent right include: 1) the actor enjoys the patent right; 2) the actor exercises the patent right within the scope of protection of the patent, which goes against the aim of granting the patent right; 3) damages to the public interest or the interest of others; and 4) the actor is subjectively malicious. In judicial practice, however, it is really difficult to judge the subjective state of the actor. Some objective judging criteria are often introduced to presume the subjective state. The objective standards shall be severer if the degree of fault is higher. Since patent right is a substantive right, it when impaired must be protected by means of litigation; or otherwise, the substantive right will not be placed under protection. Thus, one of the major manifestations of abuse of patent rights is the filing of groundless litigation against competitors by making use of the ambiguity and uncertainty of the scope of patent rights. The only purpose in doing so is to combat peer competitors at litigation costs in pursuit of unfair market interests. In other words, patent holders sue peer competitors using “malicious patents” or “junk patents” to drag them into long-drawn litigation until collapse, which is considered as abuse of patent rights.

Malicious litigation refers to that a party concerned willfully institutes a lawsuit that is factually and legally groundless for the purpose of obtaining illegal or unjustified interests and makes the opposing party suffer losses from litigation. The constituent elements of the liability for damages caused by malicious intellectual property litigation include: 1) one party concerned raises a claim by way of filing an intellectual property lawsuit or makes a threat by raising a claim; 2) one party concerned that files a lawsuit is subjectively malicious; 3) the lawsuit causes actual damages to the other party; and 4) there is a causal relationship between the filing of the lawsuit and the damages. Among them, the judgment on the subjective state of the party concerned is most controversial and worthy of study. We shall consider the malicious filing of patent infringement lawsuit

as a crucial part of abuse of patent rights. Especially in the judgment on subjective state of the party concerned, we shall first examine whether abuse of rights exists in the patent grant phase, and then distinguish the right holders owning different patents in terms of the duty of care and degree of fault, so as to have a more comprehensive understanding of the right holder’s intent in litigation.

In this case, the court held that the defendant applied for a design patent for products sold in public by making use of the provision of the patent system that a patent can be granted for a design without undergoing substantive examination, which belongs to the act of right abuse in itself by malicious patent application. He also claimed the damages of up to RMB 10,000,000 in the patent infringement lawsuit for the purpose of combating peer competitors, rather than safeguarding his patent right. There was also a view that since the general public has difficulty in cognition of the patent system, an individual who applies for a patent for products sold thereby should not be imposed with heavy duty of care, and the determination of subjective malice should not be overly severe. The court, however, eventually concluded that the defendant, as a legal person engaged in business relating to the products in suit for a long time and with certain litigation experience, is expected to have a deeper understanding of the product appearance and the patent system as compared with the general public. The defendant is a commercial entity, rather than an ordinary person, in an industry, and therefore shall assume a higher duty of care, and higher standards shall be applied in presuming a subjective fault. In addition, the court also took into account other two reasons: 1) this case involves a design patent. In comparison with utility model or invention patents which are required to undergo substantive examination, it is easier for the public to decide whether various product appearances constitute sameness or similarity through comparison. If less cognitive capabilities are required, more information will be acquired and accordingly more duty of care shall be assumed. Accordingly, it can be determined that the defendant was malicious in applying for the patent in suit, and the subsequent patent infringement litigation was factually and legally groundless due to a major flaw in the right basis. 2) From the perspective of litigation costs, the defendant’s claim for damages in the patent infringement lawsuit was too high to win full support from the court. That is to say, if it is almost impossible to succeed in litigation so that the litigation costs cannot be recovered, it can

also prove that the patentee had the subjective motive for filing the malicious litigation.⁵

To sum up, in consideration of objective facts including, among other things, the right basis, the facts on which the defendant's claims are based, specific acts in litigation, and the defendant's performances in related cases, the court presumed the subjective intent of the defendant, finding that the defendant had the intent to harm the interests of others or seek illegitimate interests for himself, and the defendant's filing of the lawsuit was evidently inappropriate and in violation of the principle of good faith.

2. Subjective presumption of wrongful property preservation in patent infringement lawsuit

In light of the relevant provisions of Articles 100 and 105 of the Civil Procedure Law of the People's Republic of China, in the event that the judgment on the case may become impossible to enforce or such judgment may cause damage to a party because of the conduct of the other party in the case or because of any other reason, the people's court may, upon the request of the said party, order the preservation of the property of the other party If a request is made wrongfully, the requestor shall compensate the respondent for any loss incurred as a result of property preservation. Since the above provisions seem to be too sketchy if used as a basis for claiming damages resulting from the wrongful property preservation, there have been disputes over whether fault-based liabilities or liabilities without fault shall apply when "a request is made wrongfully". In judicial practice, however, most precedents decide that the wrongful property preservation request is infringement in a general sense, and shall be subject to the principle fault-based liabilities, that is, the respondent shall bear the burden of proving that the requestor is subjectively faulty and causes damages to the respondent, and the constituent elements of the wrongful property preservation request include: the party who requests property preservation commits infringement, the requestor's act causes damages to the respondent, there is a causal relationship between infringement and losses, and the requestor is subjectively faulty.⁶ What remains quite controversial is how to presume that a party concerned is subjectively faulty or fails to fulfill the duty of reasonable care through his objective acts.

In a dispute over liability for damages arising from property preservation request in a patent infringement lawsuit, the following factors are often taken into consideration in presuming the subjective fault of the right holder, i.e., the

requestor who requests property preservation:

(1) Patent stability. Generally speaking, the right holders of design and utility model patents that are not required to undergo substantive examination, i.e., having a lower patent grant threshold, shall bear a higher duty of care for the property preservation request. Views are divided as to whether the fact that a patent, which was in force at the time of filing a patent infringement lawsuit, is invalidated shall be a factor for judging a "wrongful request". One view is that if a patent right is stable when a patent infringement lawsuit is filed, the right holder has the right to prosecute and request property preservation according to law. The act of prosecution itself is legitimate, and the property preservation request is the exercise of right in a legitimate manner. There is nothing illegal or subjectively faulty. Even if the patent is declared invalid, it cannot be inferred therefrom that the property preservation request is wrongful.⁷ The other view is that although the patent is in force during infringement litigation, the right holder, who has a clear knowledge of the patent being substantively invalid, still requests property preservation and fails to take remedial measures in time. Under such circumstances, the right holder fails to fulfill the duty of reasonable care and shall be presumed to be subjectively faulty. In this case, the court adopted the latter view, holding that since the right holder was found to be malicious in applying for a patent in a dispute over liabilities for damages caused by filing a malicious intellectual property lawsuit, the subjective fault of the right holder, i.e., having a clear knowledge of the instability of the patent right in suit, shall be taken into account. However, it shall be noted that, in similar cases where no patent application is filed maliciously, since the patent system *per se* is uncertain to some extent, it should not be definitely presumed that the right holder's prior property preservation act is subjectively faulty even if the patent is declared invalid later, so as not to hinder patent holders from safeguarding their rights in a rightful manner.

(2) The amount of preserved property. If the amount of property requested for preservation is too high, it will be presumed that the property preservation request is illegal. There are also two different views as to the reference used for the amount of property requested for preservation: one is to make reference to the amount as claimed by the party concerned, i.e., if the amount of property requested for preservation does not significantly exceed the claimed amount, illegality is excluded; and the other is to make refer-

ence to the amount finally decided by the court, i.e., if the amount of property requested for preservation significantly exceeds that amount, the property preservation request is illegal.⁸ In this case, the latter opinion was adopted, that is to say, the final judgment of the court is taken as the reference for deciding whether the amount of property requested for preservation is too high. The right holder in the case requested the preservation of property amounting to RMB 10,000,000. According to the usual judging criteria, the court would not award such large amount of damages in a dispute over design patent infringement, which is quite clear to the right holder. Thus, the court concluded that the requestor's property preservation request had exceeded the necessary legitimate protection of rights and the requestor may be presumed to have the intent to harm the interests of others.

(3) Judgments. Where the requestor loses or withdraws the lawsuit, it can also be presumed that the requestor is subjectively faulty unless evidence is provided to the contrary. In judicial practice, a majority of disputes over damages due to wrongful property preservation arise from the failure of the requestor in the previous lawsuit. Judgment in the previous case may indeed render the preservation measures unnecessary, and the guarantee provided by the property preservation requestor is mainly to compensate for the losses caused by the preservation to the respondent. Thus, although the failure of the requestor in the lawsuit is not the only factor that determines the subjective fault committed by the requestor, it is a premise factor, that is to say, in this case, the failure of the defendant in the infringement case is an important factor for the court to presume that the defendant is subjectively faulty. ■

The author: Judge of Shanghai Intellectual Property Court

¹ See the Civil Judgment No. Hu73minchu 379/2017.

² See the Civil Judgment No. Huminzhong 139/2019.

³ Ji Guanglin (September 2002). Tentative study on the principle of prohibition of abuse of rights. Retrieved from <http://learn.tsinghua.edu.cn>.

⁴ Guo He, *et al.* Legal regulations on abuse of patent rights. Symposium on Third Amendments to Patent Law and Implementing Regulations thereof (Vol. II) (2006 edition, p. 1167) compiled by the Department of Treaty and Law of the CNIPA. Intellectual Property Publishing House.

⁵ Liu Shuhua and Peng Benhui (2006). Limitations on abuse of standard essential patents under the Anti-Monopoly Law. *Lanzhou Jour-*

nal, 7.

⁶ Liu Junbo (2018). Interpretation and reconstruction of remedial procedures for property preservation. *Tsinghua University Law Journal*, 5, 187.

⁷ Cai Wei and Ou Qunshan (2017). Determination on wrongful property preservation in intellectual property lawsuits. *People's Judicature*, 8, 97.

⁸ Zhu Qiqian and Wang Heping (2015). Check and balance - Determination on liabilities for damages caused by wrongful property preservation request. *Journal of Guangxi Administrative Cadre Institute of Politics and Law*, 11, 57.

香港正式推行可申請最長20年 專利的新專利制度

香港特區政府宣佈，新專利制度於2019年12月19日正式推行，在新制度下，專利申請人可在香港直接申請最長為期20年的標準專利保護。為配合新制度的實施，新設的電子處理系統亦同步於19日開始運作，提供專利檢索和申請的電子服務。

新專利制度主要引入原授專利制度，為專利申請人開闢直接途徑，在香港尋求最長為期20年的標準專利保護，是現行“再註冊”途徑以外的另一選擇。原授專利申請必須經註冊處進行實質審查，以決定有關發明是否符合資格註冊為專利。

知識產權署署長黃福來表示，實施原授專利制度顯示特區政府有決心提昇香港專利制度，使之與國際社會主流專利制度的做法看齊。新制度亦有利促進香港的創科發展。

新專利制度的另一特點是，容讓短期專利擁有人或對該項專利的有效性具正當利益的第三方，可向註冊處提出要求，對該項專利進行實質審查。此項就獲批專利新設的機制，既可增強現時短期專利制度的公信力，也可維持其整體成本效益。

在新專利制度下，某些與專利從業人員資格有關並具混淆性或誤導性的名銜或描述，亦禁止在香港使用。

(來源：中國新聞網)