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China refines how to determine patent damages

China's patent law was promulgated in 1984 and amended three times prior to 2020 (in 1992, 2000, and 2008). On October 17, 2020, the National People's Congress adopted the Fourth Amendment to the People's Republic of China Patent Law. The Amendment takes effect June 1, 2021.¹ The Fourth Amendment includes significant changes to China's patent law, such as creation of a system for drug patent disputes modeled on Hatch-Waxman litigation in the US; a longer patent protection period; and an increase of the damages limit.

In this *Insights*, we highlight the changes related to economic damages.

Background

Available remedies for patent infringement under China's patent law include the patent holder's actual loss, the infringer's benefits from patent infringement, the patent license fee (royalty), and statutory damages. In practice, the award to patent owners was often based on statutory damages,² and compensation to patent owners for infringement was low compared to some other countries, such as the US.

According to the 2019 China Patent Investigation Report issued by China National Intellectual Property Administration,³ for 84% of patent infringement cases during 2014-2019, compensation (including damages determined by the court or settlement between the parties) was either zero or below RMB 500,000 (approx. USD 75,000); and for only 6% of the patent infringement cases, patent owners received compensation over RMB 1 million (approx. USD 150,000). In comparison, the median US patent award in 2017 was over USD 10 million.⁴

¹ See Decision of the Standing Committee of the National People's Congress on Amending the "Patent Law of the People's Republic of China," October 17, 2020, at https://www.cnipa.gov.cn/art/2020/10/18/art_2197_153643.html.

² See, e.g., Hogan Lovells, "Calculating Larger Patent Damages In China By Burden Shifting," March 26, 2018, at <https://www.engage.hoganlovells.com/knowledgeservices/news/calculating-larger-patent-damages-in-china-by-burden-shifting>.

³ See China National Intellectual Property Administration, "China Patent Investigation Report," 2019, at https://www.cnipa.gov.cn/module/download/down.jsp?i_ID=40213&colID=88.

⁴ PwC 2018 Patent Litigation Study.

Maximum statutory damages increase to RMB 5 million

China's patent law provides statutory damages when the patent holder's actual loss, infringer's benefits from patent infringement, and patent license fee (royalty) are difficult to determine. The Fourth Amendment increases the maximum available statutory damages from RMB 1 million (approx. USD 150,000) to RMB 5 million (approx. USD 750,000). This increase may change the cost/benefit decision of taking legal action and may encourage patent owners in China to enforce their rights through litigation, especially given the system's heavy reliance on statutory damages for patent infringement.

Introduction of punitive damages

The Fourth Amendment introduces punitive damages for patent infringement in China's patent law. Under the amended patent law, when infringement is found by the court to be intentional and serious, the damages award may be increased up to five times.

Application of different damage measures

The Fourth Amendment changes the order in which certain damage measures shall be applied by the court. Previously, damages were determined based on actual loss of the patent holder; and if the actual loss was difficult to determine, damages could be determined based on the benefits obtained by the infringer due to the infringement. Under the amended patent law, damages are based on actual loss of the patent holder *or* the benefits obtained by the infringer due to the infringement. The new amendment does not change when the patent license fee (royalty) should be applied. If both actual loss and infringer benefits are difficult to determine, the damages may be determined with reference to the multiple of the patent license fee.

Note that the judicial interpretations previously issued by Supreme People's Court (SPC) include provisions on economic apportionment and how each measure of damages can be determined. According to SPC Judicial Interpretation [2009] No. 21,⁵ the infringer's benefits should be limited to the benefits from the infringing act, and benefits from other rights should be reasonably excluded. According to SPC Judicial Interpretation [2015] No. 4,⁶ actual loss can be determined based on the product of (1) patent owner's lost sales of the patented products due to infringement, and (2) reasonable unit profit of the patented products; and if the patent owner's lost sales are difficult to determine, actual loss can be determined based on the product of (1) total sales of the infringing products, and (2) reasonable unit profit of the patented products. The infringer's benefits due to infringement can be determined based on the product of (1) total sales of the infringing products, and (2) reasonable unit profit of the infringing products. For the measurement of the infringer's benefits due to infringement, reasonable unit profit of the infringing products is usually based on the infringer's operating profits; if the infringer solely engaged in the business of infringement, reasonable unit profit can be based on sales profits. Further, to determine the patent license fee (royalty), the court may consider the patent type; the nature and circumstances of the infringement; the nature, scope and term of the license; and other factors.

⁵ SPC Judicial Interpretation [2009] No. 21, at <https://www.chinacourt.org/law/detail/2009/12/id/139373.shtml>.

⁶ SPC Judicial Interpretation [2015] No. 4, at <https://www.chinacourt.org/law/detail/2015/01/id/148090.shtml>.

Provision for discovery

Lack of discovery has been a long-standing issue for patent litigation in China. If the key evidence is controlled by one party, it is usually very difficult for the other party to obtain that evidence. This limits the parties' access to relevant financial information and directly affects the quantum analysis related to all damage measures. The Fourth Amendment adds provisions related to discovery. Courts may order the infringer to provide financial books and materials related to the infringement, provided that the right holder has tried his/her best to present evidence while such financial books and materials are mainly controlled by the infringer. If the infringer does not provide or provides false financial books and materials, the court may determine the amount of indemnification by referring to the claims made, and the evidence presented by the right holder. Considering that similar language appeared in the SPC Judicial Interpretation [2016] No. 1 and the 2013 amendment to trademark law, and the SPC adopted the policy in other civil procedures, it is unclear whether this change will have any actual impact on China's patent litigation or specifically, the damages determination.

Along with the recent amendments to China's trade secret protection that were made in administrative, civil, and criminal law (see *CRA Insights*, "[China refines trade secret protections](#)," December 2020), the Fourth Amendment to the People's Republic of China Patent Law indicates that, at least on paper and in policy pronouncements, patent litigation may become an effective tool to protect intellectual property rights in China.

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