

China's Draft Patent Law Seeks Five Fold Increase on Damages Cap for Patent Infringement Cases

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Intellectual Property Litigation

On December 2, 2015, the State Council of China began soliciting public comments on the new draft amendments to the Patent Law (the "Draft") submitted by the State Intellectual Property Office of China (the "SIPO"). The deadline for submitting comments is January 1, 2016.¹ Before the Draft, the SIPO publicly released several drafts, and solicited public comments in September 2012² and April 2015³. The final draft of the amendments needs to be greenlighted by the State Council before passing to the National People's Congress for approval.

According to the official explanation from the SIPO, this round of amendments is mainly designed to enhance the protection of the interests of patent right holders, to encourage the utilization of patents, to strengthen SIPO's enforcement powers and to level up the quality of the patents.⁴ Below are the major highlights of the Draft for protection of patent right holders as compared to the current Patent Law.

I. Enhances remedies for patent right holders

Patent right holders usually encounter a series of difficulties when enforcing patent rights, mainly including low damages awards, a deficiency of effective discovery, and willful and repetitive infringement. To solve these problems, the Draft adds the following rules:

- (1) Due to the lack of an effective evidence exchange mechanism to access a defendant's financial information, it is difficult for patent right holders to prove up a defendant's illegal profits. As such, where it is difficult to determine the losses incurred to the patentee or the gains obtained or royalties to be paid by the infringer, courts in China can impose statutory damages. Statutory damages are currently set at the court's discretion at an amount between RMB 10,000 (approximately US\$ 15,652) and RMB 1 million (approximately US\$ 157,480). To give courts increased power, the Draft dramatically increases the cap on statutory damages to RMB 5 million (approximately US\$ 787,400).⁵ In addition, the Draft

¹ <http://www.chinalaw.gov.cn/article/cazjgg/201512/20151200479591.shtml#rd>

² http://www.sipo.gov.cn/ztl/ywzt/zlfjqssxzscxg/xylzfxg/201509/t20150923_1179243.html

³ http://www.sipo.gov.cn/ztl/ywzt/zlfjqssxzscxg/xylzfxg/201504/t20150401_1095934.html

⁴ <http://www.chinalaw.gov.cn/article/cazjgg/201512/20151200479591.shtml#rd>

⁵ Article 68 of the Draft.

introduces enhanced damages for willful infringement, for which a damages award can be increased to three times the amount of actual damages.⁶

- (2) To deter a defendant from withholding financial information in its possession, the court may order a defendant to provide such information; otherwise, the court may make an inference based on the claims of the plaintiff and the evidence provided by the plaintiff.⁷
- (3) To prevent repetitive infringement, the government may (a) order the infringer to immediately cease the infringement, (b) confiscate or destroy the infringing products, the parts, tools, modules or machines that are used to manufacture the infringing products or implement the infringing methods, and (c) impose monetary penalties.⁸
- (4) To cope with new types of infringement and effectively protect patent rights, the Draft formalizes some rules that have been used by the courts or provided by lower level regulations. The Draft adds a specific provision for indirect infringement, which includes rules for contributory and inducement infringement.⁹ If passed, it would be the first time the Patent Law explicitly recognizes indirect infringement, although courts in China have long found indirect infringement in practice. The Draft requires internet service providers to delete, block, disconnect or take other preventive measures to prevent the patent infringement if the internet service provider knows or should have known the existence of patent infringement. The Draft also allows patent right holders and the SIPO to notify the internet service provider (which in China, includes e-commerce platforms) to adopt preventive measures after being notified of patent infringement; otherwise the internet service provider shall be jointly liable with network users for the preventable losses.¹⁰ Before the Draft, the SIPO issued the Measures for Patent-related Administrative Law Enforcement in May 2015, which explicitly provides the SIPO may notify e-commerce platforms to delete, block, disconnect or take other measures against web pages containing infringing products.¹¹

II. Strengthens protections for design patents

China is preparing to become a member of the Hague Agreement Concerning the International Registration of Industrial Designs, which requires members to provide at least 15 years protection. Therefore, the Draft lengthens the protection term for design patents from 10 years to 15 years for the design patents.¹²

The Draft extends protection to partial designs (i.e., design for a part of a product), while protection under the current Patent Law is limited to a whole product. Such an amendment affords stronger protection for design patents.¹³

⁶ *Id.*

⁷ *Id.*

⁸ Article 60 of the Draft.

⁹ Article 62 of the Draft.

¹⁰ Article 63 of the Draft.

¹¹ Article 45 of the Measures for Patent-related Administrative Law Enforcement.

¹² Article 42 of the Draft.

¹³ Article 2 of the Draft.

Lastly, the Draft adds a six-month domestic priority for design patent applications, which does not exist in the current Patent Law.

Although some proposed changes are designed to curb the abusive actions of patent right holders,¹⁴ the proposed changes, especially those regarding enhanced damages and an increase of the statutory damages cap, reflects China's desire to encourage patent right owners to vindicate their rights and foster a more friendly legal environment. In particular, considering the currently busy dockets for patent cases at the specialized intellectual property courts in Beijing, Shanghai and Guangzhou, the docket of patent cases may further surge in China if the increased statutory damages cap of RMB 5 million is passed.

If you have any questions concerning the material discussed in this client alert, please contact the following members of our Intellectual Property Litigation practice group:

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¹⁴ Article 14 and Article 85 of the Draft.