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# CHINESE PATENT LAW'S STATUTORY DAMAGES PROVISION: THE ONE SIZE THAT FITS NONE

**Xiaowu Li & Don Wang**

*Abstract:* The concept of statutory damages was first introduced into the Chinese patent regime in 2001 as a “last-resort” approach for damages calculation in infringement cases. Curiously, in the following 15 years, this last-resort approach became so popular among the courts that it is essentially the exclusive approach today. This Article examines the legal and policy implications of the current statutory damages scheme, and concludes that the existence of statutory damages is fundamentally detrimental to the validity of the Chinese patent system. Therefore, we argue that the statutory damages provision in Article 65 of the Patent Law of China should be eliminated. This Article further provides a comparative law perspective, drawing lessons from U.S. copyright law, U.S. patent law, and German patent law, to illustrate that China’s patent system would be better off without this statutory damages provision.

## INTRODUCTION

Let us imagine that you invented the most efficient solar panel known to mankind. With this new panel, human society would not need to worry about its need for energy for the next millennium. Like many inventors before you, you patented the solar panel and built a whole business based upon it with great success. All of a sudden, other companies started to copy your technology without obtaining a license, stealing millions of dollars of business away from you. Naturally, you took the infringers to court. After an exhausting litigation, which cost you \$400,000 in attorney fees, the court finally entered a decision in your favor, with a statutory damages award of —\$40,000! Out of shock and disbelief, you decided to spend more money to appeal the decision. A couple months later, the appellate court rejected your appeal and told you that the damages award, as low as it was, was within the statutory range authorized by the law. There was simply nothing the appellate court could do for you because the district court acted well within its discretion. At the end of the day, you start to question: what was the point of obtaining a patent to begin with? It provided some symbolic protection, but you still lost a lot financially. As absurd as this whole story sounds, this is the reality many patent owners in China face under the Chinese patent law’s current statutory damages provision.<sup>1</sup>

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<sup>1</sup> *Guojia Zhishi Chanquan Ju Fujuzhang Hezhimin Daibiao: Baohu Zhishi Chanquan Xu Qianghua Xingzheng Zhifa* (国家知识产权局副局长何志敏代表：保护知识产权需强化行政执法) [*The Deputy*

This Article examines the legal and policy implications of the statutory damages provision within Article 65 of the Chinese Patent Law, and argues that the policy makers in China should eliminate it in its entirety.<sup>2</sup> Part I of this Article describes the overall problem of inadequate compensation in China's patent regime. Part II provides an overview of the damages calculation regime in Chinese patent law and the origin of its statutory damages provision, presents evidence for the proposition that statutory damages are the major driving force for the low compensation problem, and examines the reasons why statutory damages are so prevalent. Part III illustrates that the current statutory damages provision in Chinese patent law is built on shaky legal ground, and is fundamentally detrimental to the entire patent system. Part IV compares the statutory provisions in Chinese patent law to that of U.S. copyright law, and concludes that any attempt to reform the Chinese statutory provisions would be counter-productive. Part V provides a comparative law perspective based on U.S. and German patent laws to demonstrate how China can build a robust damages calculation scheme without the statutory damages provision.

## I. THE INADEQUATE COMPENSATION PROBLEM OF THE PATENT REGIME IN CHINA

Over the past three decades, China has significantly improved its patent protection regime.<sup>3</sup> However, low damages awards in patent infringement cases are still subject to continuing criticism from legal scholars and industry players in the Chinese market.<sup>4</sup> According to data

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*Director of SIPO: We Need to Strengthen Administrative Agency Enforcement to Protect Intellectual Property*], CHINA DAILY, Mar. 4, 2016, [http://www.chinadaily.com.cn/micro-reading/interface\\_toutiao/2016-03-04/14586302.html](http://www.chinadaily.com.cn/micro-reading/interface_toutiao/2016-03-04/14586302.html). (noting the damages award in patent cases are consistently low, and that one factory in Zhejiang Province spent RMB 400,000 in litigating the case, but only received RMB 40,000 in damages award).

<sup>2</sup> Zhonghua Renmin Gongheguo Zhuanli Fa (中华人民共和国专利法) [Patent Law of People's Republic of China] (promulgated by the Standing Comm. Nat'l People's Cong., Mar. 12, 1984, effective Apr. 1, 1985, amended by the Standing Comm. Nat'l People's Cong., Dec. 27, 2008, effective Oct. 1, 2009), art. 65, translated in STATE INTELLECTUAL PROPERTY OFFICE OF THE P.R.C., [http://english.sipo.gov.cn/laws/lawsregulations/201101/t20110119\\_566244.html](http://english.sipo.gov.cn/laws/lawsregulations/201101/t20110119_566244.html) [hereinafter Chinese Patent Law of 2008].

<sup>3</sup> Xuan-Thao Nguyen, *The China We Hardly Know: Revealing the New China's Intellectual Property Regime*, 55 ST. LOUIS. U.L.J. 773, 774 (2011) (noting that the empirical data and translations of Chinese court decisions revealed that the Chinese society has become very protective of intellectual property rights); Chris Neumeyer, *China's Great Leap Forward in Patents*, IPWATCHDOG (Apr. 4, 2013), <http://www.ipwatchdog.com/2013/04/04/chinas-great-leap-forward-in-patents/id=38625/>.

<sup>4</sup> See e.g., Yieyie Yang, *A Patent Problem: Can Chinese Courts Compare With the U.S. in Providing Patent Holders with Adequate Monetary Damages*, 96 J. PAT. & TRADEMARK OFF. SOC'Y 140, 142 (2014); Nagendra Setty & Alex Chachkes, *International Patent Litigation: A Case Study Approach*, 2014 WL 788286, at \*6 (2014); Patricia E. Campbell & Michael Pecht, *The Emperor's New Clothes:*

compiled by CIELA, one of the most cited Chinese intellectual property analysis services, the average damages awarded in patent infringement cases in China from 2006 to 2013 a mere RMB 118,266.00 (approximately \$18,253.00).<sup>5</sup> This is only 35% of the average damages claimed by the patentees.<sup>6</sup> One judge from Guangdong People's High Court commented that the damages awarded in intellectual property cases are generally less than 5% of the actual losses suffered by plaintiffs.<sup>7</sup> This turns out to be very problematic. On one hand, there is little incentive for infringers to proactively avoid infringement given the "easy profits" one can make through infringement as compared to the low damages he or she has to pay if found infringing.<sup>8</sup> On the other, the low damages award, as compared to the litigation costs, renders it uneconomical for patentees to enforce patent rights in courts.<sup>9</sup> Consequently, the current patent protection regime in China has been regularly criticized as "ineffective."<sup>10</sup>

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*Intellectual Property Protections in China*, 7 J. BUS. & TECH. L. 69, 100-01 (2012); Rachel T. Wu, *Awakening the Sleeping Dragon: The Evolving Chinese Patent Law and its Implications for Pharmaceutical Patents*, 34 FORDHAM INT'L L.J. 549, 562-63 (2011); Cheng Miao et al., *Theory and Practice Related to Patent Infringement Damages*, 4 CHINA PAT. & TRADEMARK 12, 20 (2009) <http://www.cpt.cn/uploadfiles/20100414095525062.pdf>; U.S. PATENT & TRADEMARK OFFICE, REPORT ON PATENT ENFORCEMENT IN CHINA, (2012) [hereinafter USPTO Report], [http://www.uspto.gov/ip/global/China\\_Report\\_on\\_Patent\\_Enforcement\\_\(FullRprt\)FINAL.pdf](http://www.uspto.gov/ip/global/China_Report_on_Patent_Enforcement_(FullRprt)FINAL.pdf).

<sup>5</sup> *Analysing Patent Civil Infringement Cases*, CIELA, <http://www.ciela.cn/en/analysis/patents> [hereinafter CIELA REPORT] (register/login; follow "ANALYSE CASES" hyperlink; then follow "Civil Infringements" hyperlink; then follow "Generate Report" hyperlink).

<sup>6</sup> *Id.*

<sup>7</sup> Yangcheng Evening News (羊城晚报), *Zhishi Chanquan An Weihe Peichang Nan* (知识产权案为何赔偿难) [Why it is Difficult to Reach Fair Compensations in Intellectual Property Cases], NEWS.163.COM (Apr. 23, 2015), <http://news.163.com/15/0423/14/ANT3OVHT00014AED.html>.

<sup>8</sup> Campbell & Pecht, *supra* note 4, at 101; see also Kristina Sepetys & Alan Cox, *Intellectual Property Rights Protection in China: Litigation, Economic Damages, and Case Strategies*, in ECONOMIC APPROACHES TO INTELLECTUAL PROPERTY: POLICY, LITIGATION AND MANAGEMENT 11.401, 11.406 (Gregory K. Leonard & Lauren J. Stiroh eds., 2005), [http://www.nera.com/content/dam/nera/publications/archive1/PUB\\_IPR\\_Protection\\_China\\_IP1138.pdf](http://www.nera.com/content/dam/nera/publications/archive1/PUB_IPR_Protection_China_IP1138.pdf) (noting that a proper level of damages awards can deter infringers and the traditionally low damages awards in patent infringement cases in China are hurting the country's ability to effectively enforce patent rights).

<sup>9</sup> See Wanshan Zhuanli Qinquan Sunhai Peichang Zhidu Haixu Shichang Jizhi Peihe (完善专利侵权损害赔偿制度还需市场机制配合) [The Improvement of Patent Infringement Compensation Regime Requires the Assistance of Market Mechanisms], WTOIP (Jan. 26, 2015), <http://www.wtoip.com/news/a/20150126/8367.html> (noting that patentees in China regularly face the dilemma of "losing money to win a patent case"); Wei Zhang, *Zhishi Chanquan Qinquan Huo Peier Zhengti Piandi* (知识产权侵权获赔额整体偏低) [The Overall Compensation for Intellectual Property Infringement is Too Low], SUPREME COURT OF THE PEOPLE'S REPUBLIC OF CHINA, (Apr. 18, 2013), <http://www.chinacourt.org/article/detail/2013/04/id/948907.shtml>.

<sup>10</sup> Campbell & Pecht, *supra* note 4, at 101.

Notably, the policy makers in China explicitly acknowledge that the current low compensation level is a systematic problem of China's patent regime.<sup>11</sup> For example, in early 2015, the Supreme People's Court of China submitted a report to the Standing Committee of the National People's Congress detailing its review of patent law enforcement.<sup>12</sup> In the report, the Court specifically identified low damages awards as one of the key problems in the current patent regime, and the Court made several pointed recommendations of corrective measures.<sup>13</sup> In the official commentary to the proposed Fourth Amendment to the China's Patent Law, the State Intellectual Property Office (SIPO) similarly lists "low compensations" as one of the five major challenges in patent enforcement.<sup>14</sup> Accordingly, there is a tremendous consensus among the stakeholders of China's patent system that inadequate compensation for patent infringement hinders China's patent regime from further development, and there is an urgent need for comprehensive solutions to this problem.

## II. THE STATUTORY DAMAGES SCHEME AS THE DRIVING FORCE OF THE UNDER-COMPENSATION PROBLEM

There are several theories to explain why damages awards in China's patent cases are so low, such as incompetence of the courts and the government's adherence to Confucian principles of community commitment.<sup>15</sup> However, the most convincing theory attributes the low

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<sup>11</sup> Due to the unique structure of Chinese government, both the courts and executive agencies in China actively participate in the legislation process. Therefore, these institutions are generally considered key "policy makers."

<sup>12</sup> Zuigao Fayuan: Wanshan Zhuanli Qinquan Suihai Peichang Zhidu (最高法院：完善专利侵权损害赔偿制度) [Supreme People's Court: The improvement of the Current Compensation Regime of Patent Protection], CNIPR (Mar. 5, 2015), [http://www.cnipr.com/sfsj/zscqfy/201503/t20150305\\_186983.htm?COLLCC=2247291050&](http://www.cnipr.com/sfsj/zscqfy/201503/t20150305_186983.htm?COLLCC=2247291050&).

<sup>13</sup> *Id.*

<sup>14</sup> Guanyu Zhonghua Renmin Gongheguo Zhuanli Fa Xiugai Zaoan (Zhengqiu Yijian Gao) De Shuoming (关于《中华人民共和国专利法修改草案（征求意见稿）》的说明) [The Commentary on the Proposed Draft of Amendment to the Patent Law of China (Draft for Public Comments)], STATE INTELLECTUAL PROPERTY OFFICE OF P.R.C. (Apr. 2, 2015), [http://www.sipo.gov.cn/zcfg/zcjd/201504/t20150402\\_1096196.html](http://www.sipo.gov.cn/zcfg/zcjd/201504/t20150402_1096196.html) [hereinafter SIPO Commentary on Fourth Amendment]; Zhuanli Lifa Wenda: Zhuanli Fa Disici Quanmian Xiugai (专利立法问答：专利法第四次全面修改) [Q&As on Patent Legislation: The Fourth Comprehensive Amendment of the Patent Law of China], STATE INTELLECTUAL PROPERTY OFFICE OF P.R.C. (Apr. 24, 2015), [http://www.sipo.gov.cn/ztzl/ywzt/zlfjqsxzdscxg/xylzlfxg/201504/t20150424\\_1107544.html](http://www.sipo.gov.cn/ztzl/ywzt/zlfjqsxzdscxg/xylzlfxg/201504/t20150424_1107544.html) [hereinafter Q&As on Fourth Amendment].

<sup>15</sup> Yieyie Yang, *supra* note 4, at 148–52; Edward J. Walneck, *The Patent Troll or Dragon?: How Quantity Issues and Chinese Nationalism Explain Recent Trends in Chinese Patent Law*, 31 ARIZ. J. INT'L & COMP. LAW 435, 442–44 (2014).

damages awards to the methodologies used when calculating damages.<sup>16</sup> Particularly, the predominance of statutory damages awards systematically drive down the overall compensation level in patent cases.

### A. *An Overview of Patent Damages Calculations in China*

To further the analysis of this Article, it is instructive to provide an overview of damages calculation methodologies in patent cases in China and their application in reality. Article 65 of Chinese Patent Law of 2008 provides:

The amount of compensation for patent right infringement shall be determined according to the patentee's actual losses caused by the infringement. If it is hard to determine the actual losses, the amount of compensation may be determined according to the benefits acquired by the infringer through the infringement. If it is hard to determine the losses of the patentee [and] the benefits acquired by the infringer, the amount of the compensation may be determined according to the reasonably multiplied amount of the royalties of that patent. The amount of compensation shall include the reasonable expenses paid by the patentee for putting an end to the infringement. If the losses of the patentee, benefits of the infringer, [and] royalties of the patent are all hard to determine, the people's court may, on the basis of the factors such as the type of patent right, nature of the infringement, and seriousness of the case, determine the amount of compensation within the range from 10,000 to 1,000,000 yuan (approximately \$1,542 to \$154,248 USD).<sup>17</sup>

As the statute indicates, the primary calculation method for patent infringement actions should be based on patentee's actual losses resulting from the infringement.<sup>18</sup> Specifically, the Supreme People's Court has instructed the lower courts to consider "a reasonable profit of a patented product" multiplied by the "number of patented products that patentee was unable to sell due to the infringement" to determine the "patentee's loss."<sup>19</sup>

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<sup>16</sup> Yieyie Yang, *supra* note 4, at 148–51; Cheng Miao, *supra* note 4, at 16–18.

<sup>17</sup> Chinese Patent Law of 2008, *supra* note 2, art. 65.

<sup>18</sup> *Id.*

<sup>19</sup> Zuigao Renmin Fayuan Guanyu Shenli Zhuanli Jiufen Anjian Shiyong Falv Wenti De Ruogan Guiding (最高人民法院关于审理专利纠纷案件适用法律问题的若干规定) [Several Provisions of the Supreme People's Court on Issues Concerning the Applicable Laws to the Trial of Patent Dispute Cases] (promulgated by the Supreme People's Court, June 6, 2001, amended for the first time by the Supreme

This approach reflects the general principle of equity found in Chinese civil law, which aims to bring an injured party back to the same, but not a more advantageous, position prior to the infringement.<sup>20</sup> However, even though a patentee's loss is the primary calculation method in theory, it is rarely used in practice.<sup>21</sup> In China, plaintiffs bear the burden to produce sufficient evidence to establish the loss of sales as a result of the infringement, and in most cases, they are unable to do so.<sup>22</sup>

As a patentee's loss is almost impossible to establish, courts next look into the infringer's profits resulting from the infringement. The Supreme People's Court instructed the lower courts to multiply a "reasonable profit of an infringing product" by the "quantity of the subject infringing products available on the market" to determine the "infringer's profits."<sup>23</sup> However, patentees encounter essentially the same obstacles here as they do in establishing their loss. Like the patentee's loss approach, patentees are similarly required to produce sufficient evidence to prove the infringer's profits.<sup>24</sup> Such evidence is more likely in the infringers' possession and rarely does an infringer cooperate with the court in disclosing it.<sup>25</sup>

If a patentee is unable to establish either its actual loss or the infringer's profits, the patentee can seek damages based on a "reasonable royalty." However, the applicability of this approach is extremely narrow in reality as the courts require the patentee to supply at least one existing license agreement regarding the disputed patent to establish the "royalty

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People's Court, Feb. 25, 2013, amended for the second time by the Supreme People's Court, Jan. 19, 2015, effective Feb. 1, 2015), art. 20, [http://www.sipo.gov.cn/zcfg/flfg/zl/sfjs/201510/t20151021\\_1191718.html](http://www.sipo.gov.cn/zcfg/flfg/zl/sfjs/201510/t20151021_1191718.html) [hereinafter *Several Provisions 2015*] (Article 20 provides that "the 'actual loss' under Patent Law Article 65 can be determined by multiplying the number of patent products that patentee was unable to sell due to the infringement by a reasonable profit per product. If it is hard to determine the decreased number of patent products resulting from the infringement, the actual loss can be determined by multiplying the number of the subject infringing products available on the market by a reasonable profit per product.").

<sup>20</sup> Yieye Yang, *supra* note 4, at 146.

<sup>21</sup> Cheng Miao, *supra* note 4, at 17.

<sup>22</sup> *Id.*; USPTO REPORT, *supra* note 4.

<sup>23</sup> *Several Provisions 2015*, *supra* note 19 (noting that the infringer's profits under Patent Law Article 65 can be determined by multiplying the quantity of subject infringing products available on the market by a reasonable profit of an infringing product).

<sup>24</sup> Cheng Miao, *supra* note 4, at 17–18.

<sup>25</sup> *Id.*; Li-ming Li (李黎明), *Zhuanli Qinquan Fading Peichang Zhong de Zhuti Tezheng he Chanye Shuxing Yanjiu* (专利侵权法定赔偿中的主体特征和产业属性研究) [Research on the Subject Nature and Industrial Characteristics of Statutory Compensation in Patent Infringement], 37 No. 4 MOD. L. SCI. 170, 171 (July 2015), <http://www.iprcn.com/UploadFiles/20151127100491861.pdf> (noting that a lot of companies relying on the excuse that its accounting system is under-developed to refuse to supply the evidence needed to conduct damages calculation).

rate.”<sup>26</sup> In other words, patentees who have never licensed their patent or patentees who licensed their technology at no monetary cost, such as a cross-licensing agreement, cannot deploy this method of damages calculation at all. Where such a license agreement exists, the courts may use the royalty rate in the license as a starting point, and consider adjusting factors, such as the type of the subject patent, the nature and circumstances of the infringement, and the nature, scope, and duration of the reference license.<sup>27</sup>

Finally, when all three methods mentioned above fail, the court will impose statutory damages ranging between RMB 10,000 to RMB 1,000,000 (approximately \$1,542 to \$154,248). In determining the statutory damages, the court may consider factors such as the type of the patent and the nature and circumstances of the infringement.<sup>28</sup> Even today, there is little guidance from the statute itself or from the Supreme People's Court on how to apply this approach. It is not entirely clear whether this statutory damages provision is compensatory or punitive in nature. There is some suggestion that this provision was first introduced for compensatory purposes.<sup>29</sup> However, the Supreme People's Court's instruction for lower courts to assess “the nature and the circumstances of the infringement” factor implies that this provision also encompasses punitive considerations.<sup>30</sup>

### B. *The Origin of the Statutory Damages in Chinese Patent Law*

Early versions of the Patent Law of China did not contain a statutory damages provision.<sup>31</sup> The concept of statutory damages was first introduced

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<sup>26</sup> Yuan Xiaodong, *Research on the Regulations of Patent Infringement Indemnification in China*, <http://www.law.uchicago.edu/files/file/Yuan%20Xiaodong%20paper.pdf>.

<sup>27</sup> Several Provisions 2015, *supra* note 19, art. 21.

<sup>28</sup> *Id.*

<sup>29</sup> *See infra* notes 41–43 and accompanying text.

<sup>30</sup> Several Provisions 2015, *supra* note 19, art. 21. *See also* Hongyan Shi (石红艳) & Shengye Lin (林声烨), *Zhishi Chanquan Qinquan Yinru Chengfaxing Peichang Zhibian* (知识产权侵权引入惩罚性赔偿之辩) [*The Debate on Introducing Punitive Damages into Intellectual Property Protection*], 3 INTELL. PROP. (2013), [http://article.chinalawinfo.com/ArticleHtml/Article\\_80421.shtml](http://article.chinalawinfo.com/ArticleHtml/Article_80421.shtml) (noting that the “nature and circumstances” analysis indicates the punitive nature of the statutory damages under Article 65 of Chinese Patent Law).

<sup>31</sup> *See* Zhonghua Renmin Gongheguo Zhuanli Fa (中华人民共和国专利法) [The Patent Law of P.R.C.] (promulgated by the Standing Comm. Nat'l People's Cong., Mar. 12, 1984, effective Apr. 1, 1985), <http://www.chinacourt.org/law/detail/2000/08/id/38517.shtml> [hereinafter Chinese Patent Law of 1984]; Zhonghua Renmin Gongheguo Zhuanli Fa 1992 Nian Xiuzheng An (中华人民共和国专利法 1992 年修正案) [The 1992 Amendment to The Patent Law of P.R.C.] (promulgated by the Standing Comm. Nat'l People's Cong., Sept. 4, 1992, effective Jan. 1, 1993), [http://www.sipo.gov.cn/zcfg/flfg/zl/fl/201509/t20150906\\_1171275.html](http://www.sipo.gov.cn/zcfg/flfg/zl/fl/201509/t20150906_1171275.html) [hereinafter Chinese Patent Law of 1992]; Zhonghua Renmin Gongheguo Zhuanli Fa 2000 Xiuzheng An (中华人民共和国专利法 2000 年修



in 2001 by the Supreme People's Court in its judicial interpretations of the Chinese Patent Law of 2000.<sup>32</sup> The 2001 judicial interpretations specify that when a court is unable to apply the formal damages calculation approaches — patentee's losses, the infringer's profits, and the reasonable royalty — to determine a damages award in a patent case, it may award a "fixed amount of damages" between RMB 5,000 to RMB 300,000 (approximately \$772 to \$46,304).<sup>33</sup> The Chinese Patent Law of 2008 formally codified the statutory damages in its Article 65, but raised the statutory ranges to RMB 10,000-RMB 1,000,000 (approximately \$1,543 to \$154,345).<sup>34</sup> This controlling provision remains intact today.<sup>35</sup>

The legislative intent behind the 2001 judicial interpretations relating to the statutory damages is not entirely clear. One popular theory is that it was heavily influenced by the ongoing development of Chinese Copyright Law provisions relating to the statutory damages.<sup>36</sup> As early as 1995, the Beijing High People's Court issued an advisory opinion that is believed to be the first attempt to advocate a statutory damages approach in intellectual property cases.<sup>37</sup> The opinion provides that:

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正案) [The 2000 Amendment to the Patent Law of P.R.C.] (promulgated by the Standing Comm. Nat'l People's Cong., Aug. 25, 2000), <http://www.chinacourt.org/law/detail/2000/08/id/38517.shtml> [hereinafter Chinese Patent Law of 2000].

<sup>32</sup> [Zuigaorenmingfayuanguan yushenlizhuanlijufenanjian shiyongfalvweintideruoganguiding] (最高人民法院关于审理专利纠纷案件适用法律问题的若干规定) [Several Provisions of the Supreme People's Court on Issues Concerning Applicable Laws to the Trial of Patent Controversies] (promulgated by the Sup. People's Ct., June 22, 2001, effective July 1, 2001), art. 21, <http://en.pkulaw.cn/display.aspx?id=1853&lib=law&SearchJCeyword=patent%25> [hereinafter Several Provisions 2001].

<sup>33</sup> *Id.*

<sup>34</sup> Chinese Patent Law of 2008, *supra* note 2.

<sup>35</sup> See Several Provisions 2015, *supra* note 19.

<sup>36</sup> Even though it is not an official policy, the policy makers in China regularly look to the development of copyright law in setting the course for patent law. For example, the Supreme People's Court issued its most recent Judicial Interpretation of Patent Law on March 22, 2016, and the Court specifically acknowledges that several of the new interpretations were based on the court's experience with the enforcement of the Chinese Copyright Law. See Jing Liu (刘婧), *Tongyi Xihua Zhuanli Qinquan Caipan Biaozhun Yingzao Youliyu Chuangxin de Fazhi Huanjin* (统一细化专利侵权裁判标准 营造有利于创新的法制环境) [Setting Unified and Specified Standards for Patent Infringement Adjudication and Creating Legal Environment that Helps Innovation], CHINA COURTS (Mar. 23, 2016), <http://www.chinacourt.org/article/detail/2016/03/id/1826733.shtml?from=singlemessage&isappinstalled=0>.

<sup>37</sup> *Beijing Shi Gaoji Renmin Fayuan Yinfa Guanyu Shenli Jisuanji Ruanjian Zhuzuoquan Jiufen Anjian De Jige Wenti De Yijian De Tongzhi* (北京市高级人民法院关于印发《关于审理计算机软件著作权纠纷案件的几个问题的意见》的通知) [Beijing People's High Court Publishes the Opinion on Several Issues on the Trial of the Software Copyright Disputes], CNIPR (Feb. 1, 2012), [http://www.cnipr.net/article\\_show.asp?article\\_id=221](http://www.cnipr.net/article_show.asp?article_id=221) (last visited on Dec. 20, 2015).

If the claimant in a copyright infringement case cannot prove its actual loss or the unlawful gains of the infringer, the infringer needs to compensate the right holder ranging from RMB 5,000 to RMB 30,000. However, if the infringer proved with sufficient evidence that he did not know his action infringed the copyright of the right holder and the resulting infringement is not serious, the court may exercise its discretion to decrease the statutory damages to an amount lower than RMB 5,000.<sup>38</sup>

In 2001, the same year in which statutory damages were first introduced into the patent law through judicial interpretation, the Copyright Law of China formally codified the statutory damages in Article 48.<sup>39</sup> The statute reads that “in a copyright infringement case, if the actual loss of the right holder and the unlawful gains of the infringer is hard to measure, the court may award the right holder statutory damages lower than RMB 500,000 by its discretion.”<sup>40</sup> This appeared to be the court’s attempt to establish a uniform standard for calculating damages for copyright infringement in light of the challenges posed by rise of software copyright, and this attempt likely spilled over to patent law.

On top of the influence of the copyright law, another impetus for introducing the concept of statutory damages was to handle the difficulties in determining the patentee’s actual losses and infringer’s profits in patent cases.<sup>41</sup> Accordingly, the statutory damages served as a last-resort approach to guarantee some minimal compensation available for injured patentees.<sup>42</sup> The order of preference for the four damages calculation methods as listed in Article 65 of the Patent Law confirms that the statutory damages approach is supposed to be deployed as the last resort.<sup>43</sup>

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<sup>38</sup> *Id.*

<sup>39</sup> Zhonghua Renmin Gongheguo Zhuzuoquan Fa 2001 Nian Xiuzheng (中华人民共和国著作权法 2001 年修正) [Copyright Law of P.R.C. of 2001] (promulgated by the Standing Comm. Nat’l People’s Cong., Sept. 7, 1990, amended by the Standing Comm. Nat’l People’s Congress, Oct. 27, 2001), art. 48, [http://www.sipo.gov.cn/zcfg/flfg/bq/fljxzf/201310/t20131025\\_863141.html](http://www.sipo.gov.cn/zcfg/flfg/bq/fljxzf/201310/t20131025_863141.html) [hereinafter Chinese Copyright Law of 2001].

<sup>40</sup> *Id.*

<sup>41</sup> Yuan Xiaodong, *supra* note 26, at 8-9.

<sup>42</sup> *Id.*

<sup>43</sup> Chinese Patent Law of 2008, *supra* note 2, art. 65 (noting that the four calculation methods should be deployed in the following sequential order in term of preference: 1) patentee’s losses, 2) infringer’s profits, 3) reasonable royalty, and 4) statutory damages); *see also*, Several Provisions 2001, *supra* note 32, art. 21.

### C. *The Predominance of the Statutory Damages*

Ironically, the alleged “last-resort” approach of statutory damages became so overwhelmingly popular among the courts that it is essentially the exclusive method for damages calculations today. One survey concluded that, between 2002 and 2010, 94.8% of all the patent cases calculated damages under the statutory damages approach.<sup>44</sup> According to another survey conducted by China Patent Agent (Hong Kong) Ltd., the peak year was 2009 when more than 99% of patent damages awards were based on the statutory damages approach, and the average award was a little less than RMB 100,000 (approximately \$15,425).<sup>45</sup> The situation appears to improve only slightly after the Third Amendment to Patent Law took effect in 2009. Statistics reveal that from 2008 to 2013 courts still used the statutory damages approach in 97.25% of patent infringement cases.<sup>46</sup> Essentially, this statutory damage provision swallowed the entire Article 65 of the Chinese Patent Law.

Notably, courts rarely award damages close to the upper limit of the statutory range.<sup>47</sup> Based on the survey of China Patent Agent Ltd., the average damages awards based on the statutory damages approach from 2008 to 2013 was merely RMB 80,000 (approximately \$12,340).<sup>48</sup> In contrast, there were 42 published patent opinions that adopted non-statutory damages approaches between 2002 and 2010, and the average damages award for these cases was RMB 2,450,000 (approximately \$377,521), four times as much as the average award under the statutory damages approach.<sup>49</sup> It is pretty obvious that the predominance of statutory damages awards in

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<sup>44</sup> Li-ming Li, *supra* note 25, at 171.

<sup>45</sup> Cheng Miao, *supra* note 4, at 17.

<sup>46</sup> LEGAL DAILY (法制日报), 97% Zhuanli Qinquan An Panjue Caiqu Fading Peichang (97% 专利侵权案判决采取法定赔偿) [97% Court Decisions on Patent Infringement Adopt Statutory Damages as the Method for Damages Calculation], PEOPLE.CN (Apr. 16, 2013), <http://ip.people.com.cn/n/2013/0416/c136655-21148974.html> (according to one survey conducted by the Intellectual Property Law Center of Zhongnan University of Economics and Law, only 10% of the patentees choose to enforce their patent after discovering infringement, and 97.25% of patent decisions choose the statutory damages approach. The research further revealed that the average damages award in statutory damages cases is only RMB 80,000 which is even lower than the fees needed for applying and maintaining a patent).

<sup>47</sup> Yieyie Yang, *supra* note 4, at 151.

<sup>48</sup> LEGAL DAILY, *supra* note 46.

<sup>49</sup> Li-ming Li, *supra* note 25, at 171.

patent cases significantly drives down the overall compensation level for patent infringement.<sup>50</sup>

Curiously, the 2008–2013 five-year average was lower than the annual average of the year of 2009, even though the Third Amendment raised the maximum statutory damages from RMB 500,000 (approximately \$77,124) to RMB 1,000,000 (approximately \$154,248) in 2009.<sup>51</sup> This indicates that simply increasing the upper limit of the statutory damages range did little, if any, to alleviate the inadequate compensation problem.

#### *D. Explanations for the Predominance of the Statutory Damages Approach*

There are several reasons why the statutory damages approach is so popular among Chinese litigators and courts. The most apparent reason is the difficulties in applying the other three damages calculation methods.<sup>52</sup>

In China, a plaintiff generally bears the burden to produce sufficient evidence to establish the claimed damages.<sup>53</sup> This is an extremely high burden in reality. For example, courts generally require plaintiffs claiming damages under the patentee's losses theory to supply evidence establishing: (1) the market demand for the patented products, (2) the patentee's ability to manufacture and market the patented products, (3) the quantity of patented products that could have been sold but for the infringement, and (4) a reasonable profit for the patented product.<sup>54</sup> Here, courts specifically require the plaintiff to prove a direct causation between the infringement and the patentee's loss, which is extremely difficult to do.<sup>55</sup>

To establish damages under the infringer's profits theory, a court generally requires the plaintiff to prove: (1) that the allegedly infringing products are available on the market, (2) the quantity of infringing products

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<sup>50</sup> *Id.* (noting that, in cases where statutory damages approach is adopted, the average damages award is RMB 80,000, whereas the average damages award is RMB 150,000 where the other three approaches are used to calculate the damages); *Chinese Intellectual Property Judges Panel*, 15 SMU SCI. & TECH. L. REV. 61, 63 (2011) (Professor Yi Jianiong from the Southwest University of Political Science & Law pointed out that the predominance of statutory awards drove down the average damages awards in patent cases and a patentee can only get 15% of what he claims on average); Yieyie Yang, *supra* note 4, at 151.

<sup>51</sup> LEGAL DAILY, *supra* note 46; Chinese Patent Law of 2008, *supra* note 2.

<sup>52</sup> Yieyie Yang, *supra* note 4, at 148–50.

<sup>53</sup> *Id.*

<sup>54</sup> Yuan Xiaodong, *supra* note 26, at 5–6.

<sup>55</sup> Yieyie Yang, *supra* note 4, at 150.

available on the market, (3) the reasonable profits of an infringing product, and (4) the actual profits obtained by the infringer.<sup>56</sup>

To claim damages under the reasonable royalty theory, a plaintiff must supply an actual license agreement of the patent, something that few plaintiffs are able to provide.<sup>57</sup>

To make matters worse, there is very little discovery in China, and the accused infringers generally have no obligation or incentive to produce the requested documents.<sup>58</sup> Nor can courts in China effectively compel the production of documents, which leaves the infringer to dictate the agenda by deciding whether he will cooperate in turning over the requested evidence.<sup>59</sup> As a result, plaintiffs in most patent cases fail to produce sufficient evidence to establish damages under the first three calculation methods and are forced to resort to the statutory damages approach.

Beneath the surface, courts also have ample reasons to prefer statutory damages over the other three approaches in determining damages awards.<sup>60</sup> For one thing, courts in China are under enormous time pressure when adjudicating patent cases.<sup>61</sup> Typically, it only takes a Chinese trial court six to seven months to adjudicate an entire patent case which includes both the liability determination and the damages determination.<sup>62</sup> Similarly, a typical patent appeal only takes three to four months.<sup>63</sup> For companies used to U.S.-style multi-year patent litigation, the Chinese courts are “rocket docket.”<sup>64</sup> Compared to the statutory damages approach, the other three methods are substantially more time-consuming to apply since extensive fact-finding and evidence examination are typically required. Consequently, courts eager to meet deadlines and get the docket moving are inherently biased in deploying

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<sup>56</sup> Yuan Xiaodong, *supra* note 26, at 6–7.

<sup>57</sup> *Id.*

<sup>58</sup> CATHERINE SUN, CHINA INTELLECTUAL PROPERTY AND CASE COMMENTARIES §1.14 (2014).

<sup>59</sup> *Id.*; Yangcheng Evening News, *supra* note 7 (noting that the alleged infringer regularly refuses to produce book keeping records and other financial documents necessary to determine damages).

<sup>60</sup> In theory, the courts should consider the other three methods before resorting to the statutory damages approach. However, in reality, the courts exercise great discretion over whether to admit relevant evidence pertaining to the damages calculation. Accordingly, whether a statutory damages approach is adopted is a matter of discretion for the courts.

<sup>61</sup> Anthony C. Chen, *Benefiting From China's Booming Market Without Losing Control of Your Crown Jewels: IP Issues for Foreign Business in China*, 2011 WL 2532948, at \*5 (2011).

<sup>62</sup> *Id.*; see also, *CIELA Report*, *supra* note 5.

<sup>63</sup> Chen, *supra* note 61, at \*5. It shall be noted that the legal system in China is different from the U.S. system in terms of the scope of review. A Chinese appeal court can review factual issues as well as legal issues.

<sup>64</sup> *Id.*

calculation methodologies in patent cases. Moreover, courts applying the statutory damages approach are less likely to be overturned on appeals, even if the award is unjustifiably low.<sup>65</sup> Damages awards under the statutory damages approach are highly discretionary, and patentees usually have few viable arguments to challenge the decisions on appeal.<sup>66</sup> This type of appeal-proof opinion is particularly attractive to the lower court judges in light of the Chinese judicial system's long history of penalizing lower court judges based on reversal rates of their cases.<sup>67</sup>

### III. LEGAL AND POLICY ARGUMENTS FOR ELIMINATING STATUTORY DAMAGES

A careful examination of the statutory damages' justifications and policy implications reveals that statutory damages no longer serve any legitimate purpose in China's patent system and actually cause more harm than good.

#### A. *The Justification of the Statutory Damages Based on TRIPs Obligation is Misleading*

Some scholars in China attempted to justify the Patent Law's statutory damages provision by characterizing it as an obligation under the World Trade Organization's (WTO) Agreement on Trade-Related Aspects of Intellectual Property Rights (the TRIPs agreement), of which China is a

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<sup>65</sup> Congying Xu (徐聪颖), *Woguo Zhuanli Quan Fading Peichang de Shijian he Fansi* (我国专利权法定赔偿的实践和反思) [The Experiment of and the Reflection on the Statutory Damages Provision in Chinese Patent Law], *IPR CHINA* (Mar. 9, 2015), [http://www.iprcn.com/IL\\_Lwxc\\_Show.aspx?News\\_PI=2511](http://www.iprcn.com/IL_Lwxc_Show.aspx?News_PI=2511) (last visited Mar. 11, 2016) (the author sampled 405 patent damages decision under the statutory damages approach, and found patentees appeared in 223 cases, but only 7 cases, or 3.86% of the appealed cases, were successful); IP-Lantai (兰台知识产权团队), *Chengfa Xing Peichang Zhidu Neng Jiejue Zhuanli Peichang Di de Jiongjing Ma?* (惩罚性赔偿制度能解决专利侵权赔偿低的窘境吗?) [Can Punitive Damages Solve the Dilemma of Low Damages Awards in Patent Infringement?], *INTELLEGEAST* (Apr. 29, 2015), <http://zhihedongfang.com/article-9598/> (last visited Mar. 12, 2016) (noting that statutory damages in patent cases provide judges a shield from being labeled as "radical" in China).

<sup>66</sup> Yieyie Yang, *supra* note 4, at 151.

<sup>67</sup> For a very long time, the courts in China evaluated lower court judges' performances under the so-called "judicial responsibility system", which penalized judges with high reversal rates and promoted judges with lower reversal rates on appeal. However, the "judicial responsibility system" was recently abandoned. See Carl Minzner, *Judicial Disciplinary Systems for Incorrectly Decided Cases: The Imperial Chinese Heritage Lives On*, 39 *N.M. L. REV.* 63, 67-73 (2009); Nathan Snyder, *Putting Numbers to Feelings: Intellectual Property Rights Enforcement in China's Courts -Evidence from Zhejiang Province Trademark Infringement Cases 2004-2009*, 10 *NW. J. TECH. & INTELL. PROP.* 349, 370 (2012).

member state.<sup>68</sup> This contention is rather misleading. Granted, the WTO and related international treaties profoundly shaped the intellectual property regime in China, and many of the current Patent Law provisions do reflect TRIPs obligations.<sup>69</sup> However, the TRIPs provision relating to statutory damages is permissive, not mandatory.<sup>70</sup> Article 45 of the TRIPs agreement provides that each member state's "judicial authorities *shall* have the authority to order the infringer to pay the right holder damages adequate to compensate for the injury the right holder has suffered[.]" but only "[i]n appropriate cases, Member *may* authorize the judicial authorities to order recovery of profits and/or payment of *pre-established damages . . .*"<sup>71</sup> The TRIPs agreement provides no definition for the "appropriate cases," but rather leaves it to each member state to tailor this provision according to its domestic concerns.<sup>72</sup>

Further, Article 45 of the TRIPs agreement is a general provision concerning damages for all intellectual property rights. Even if, *arguendo*, this provision could be interpreted to require each member state to preserve the statutory damages scheme in some form as a compensation mechanism, it does not necessarily follow that the member state has to preserve it in all intellectual property fields. For example, the United States provides statutory damages in its copyright law but not in its patent law.<sup>73</sup> Nobody seems to suggest that this arrangement results in a violation of the TRIPs agreement. Finally, even among the member states of the TRIPs agreement,

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<sup>68</sup> Yan Hu (胡燕), *Zhuanli Fa Disanci Xiugai Yu TRIPS Xieyi* (专利法第三次修改与 TRIPS 协议) [The Third Amendment to the Patent Law and the TRIPS Agreement], LAWTIME.CN (Apr. 4, 2007), <http://www.lawtime.cn/info/zhuanli/zlnews/2007040435396.html> (noting that the addition of statutory damages provision in the third amendment to the patent law is a reflection of the Article 45 of the TRIPS agreement).

<sup>69</sup> Natalie P. Stoianoff, *The Influence of the WTO over China's Intellectual Property Regime*, 34 SYDNEY L. REV. 65 (2012); Walneck, *supra* note 15, at 439; Joshua J. Galgano, *Patent Reform under the America Invents Act: Does China's Success After the 2009 Chinese Patent Reform Predict Similar Success for the U.S. Patent Regime?*, 23 TRANSNAT'L L. & CONTEMP. PROBS. 197, 199–200 (2014); Raymond M. Gabriel, *The Patent Revolution: Proposed Reforms in Chinese Intellectual Property Law, Policy, and Practice Are the Latest Step to Bolster Patent Protection in China*, 9 ASIAN-PACIFIC L. & POL'Y J. 323, 332 (2008); Guangliang Zhang, *Remedies for Patent Infringement: A Comparative Study of U.S. and Chinese Law*, 1 J. MARSHALL REV. INTELL. PROP. L. 35, 67–68 (2001).

<sup>70</sup> Pamela Samuelson, Phil Hill & Tara Wheatland, *Statutory Damages: A Rarity in Copyright Laws Internationally, but for How Long?*, 60 J. COPYRIGHT SOC'Y U.S.A. 529, 565–66 (2013).

<sup>71</sup> Agreement on Trade-Related Aspects of Intellectual Property Rights, art. 45, Apr. 15, 1994, 108 Stat. 4809, [hereinafter TRIPs] (emphasis added), [https://www.wto.org/english/docs\\_e/legal\\_e/27-trips.pdf](https://www.wto.org/english/docs_e/legal_e/27-trips.pdf).

<sup>72</sup> Samuelson, Hill & Wheatland, *supra* note 70, at 565–66; *see generally* Henning Grosse Ruse-Khan, *The International Law Relation Between TRIPS and Subsequent TRIPS-plus Free Trade Agreements: Towards Safeguarding TRIPS Flexibilities?*, 18 J. INTELL. PROP. L. 325 (2011).

<sup>73</sup> Compare 17 U.S.C. § 504 (2006) (the damages provision for U.S. copyright law), with 35 U.S.C. § 284 (2012) (the damages provision for U.S. patent law).

a statutory damages provision is an exception, rather than the norm.<sup>74</sup> Therefore, the contention that the TRIPs agreement mandates a statutory damages provision in Chinese Patent Law is simply nonsensical and unsupported.

*B. The Justification Based on Consistency of IP Protections is Unconvincing*

As discussed above, it is possible that the statutory damages provision in China's patent law is a spillover/parallel of the statutory damages provision found in China's copyright law.<sup>75</sup> Accordingly, another potential justification for the patent law's statutory damages provision is to maintain the consistency among the branches of intellectual property protection, as the statutory damages award is available in both China's Copyright Law and the Trademark Law.<sup>76</sup> However, this argument is quite unpersuasive because the three major branches of intellectual property law have already diverged significantly as the result of independent development. For example, the lower limit for patent statutory damages is RMB 10,000 whereas there is no minimum statutory damages in trademark or copyright law.<sup>77</sup> There does not seem to be any satisfying justification for this particular inconsistency. One might theorize that the different treatments are driven by the fact that a patent, on average, retains a higher valuation than a copyrighted work or a registered trademark. However, the fact that trademark law recently raised the maximum statutory damages to RMB 3,000,000, which triples the maximum statutory damages for patent infringements, effectively rebuts this theory.<sup>78</sup>

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<sup>74</sup> Samuelson, Hill & Wheatland, *supra* note 70, at 565–66; *see also* Pamela Samuelson & Tara Wheatland, *Statutory Damages in Copyright Law: A Remedy in Need of Reform*, 51 WM. & MARY L. REV. 439, 441 (2009).

<sup>75</sup> *See supra* Part IIB.

<sup>76</sup> Zhonghua Renmin Gongheguo Zhuzuoquan Fa (中华人民共和国著作权法) [Copyright Law of People's Republic of China] (promulgated by the Standing Comm. Nat'l People's Cong., Sept. 7, 1990, effective June 1, 1991), art. 48, *translated in* STATE INTELLECTUAL PROPERTY OFFICE OF THE P.R.C., [http://english.sipo.gov.cn/laws/relatedlaws/200804/t20080416\\_380362.html](http://english.sipo.gov.cn/laws/relatedlaws/200804/t20080416_380362.html) (last visited Mar. 12, 2016); Zhonghua Renmin Gongheguo Shangbiao Fa (中华人民共和国商标法) [Trademark Law of People's Republic of China] (promulgated by the Standing Comm. Nat'l People's Cong., Aug. 23, 1982, effective Mar. 1, 1983), art. 63, [http://sbj.saic.gov.cn/flfg1/flfg/201309/t20130903\\_137807.html](http://sbj.saic.gov.cn/flfg1/flfg/201309/t20130903_137807.html) (last visited Mar. 12, 2016).

<sup>77</sup> *See* Chinese Patent Law of 2008, *supra* note 2, at art. 65; Copyright Law of People's Republic of China, *supra* note 76, at art. 48; Trademark Law of People's Republic of China, *supra* note 76, at art. 63.

<sup>78</sup> *See* Chinese Patent Law of 2008, *supra* note 2, at art. 65; Trademark Law of People's Republic of China, *supra* note 76, at art. 63.



Moreover, unfair competition law is often viewed as another major branch of intellectual property law in China, and a comparison of the damages provisions between patent law and unfair competition law is particularly illuminating to the analysis here.<sup>79</sup> Article 20 of the Unfair Competition Law provides two damages calculation methods that are similar to the patent law: (1) the actual losses of the injured party, and (2) the accused party's unlawful gains resulting from the unlawful practice.<sup>80</sup> There is no statutory damages approach available when determining unfair competition damages.<sup>81</sup> Without statutory damages as a shortcut, courts are forced to apply the injured party's losses approach and infringer's profits approach honestly in determining damages.

Case law demonstrates that courts are more than competent to determine fair damages in unfair competition claims without employing the statutory damages method. For example, in *Qihoo 360 Tech. Co., Ltd. v. Sogou Info. Serv. Co., Ltd.*, the plaintiff Sogou Information Services Company (Sogou) brought an unfair competition claim against its competitor Qihoo 360 Technology Company (Qihoo).<sup>82</sup> The court found that Qihoo, as the developer of the anti-virus software 360 Total Security, violated the Unfair Competition Law of China by designing 360 Total Security to improperly interfere with the consumers' ability to install and use the Sogou internet browser.<sup>83</sup> In determining the damages award, the court provided a specific illustration of the damages calculation claimed by the plaintiff, detailing the internet browser's sales and profit models.<sup>84</sup> Even

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<sup>79</sup> Chengsi Zheng (郑成思), *Fan Buzhengdang Jingzheng: Zhishi Chanquan de Fujia Baohua (反不正当竞争：知识产权的附加保护)* [Unfair Competition Law: The Complementary Protection for Intellectual Property], IOLAW.ORG.CN, <http://www.iolaw.org.cn/shownews.asp?id=4017> (last visited Mar. 12, 2016); Yadong Wang & Lei Lu, *The PRC Anti-unfair Competition Law and Intellectual Property Protection*, CHINA BUS. J. 62 (Feb. 2010), <http://cblj.com/cblj/correspondent/1dfba0b743ddfb65b2e9e41ffa1abc32.pdf> (last visited Mar. 12, 2016).

<sup>80</sup> *Zhonghua Renmin Gongheguo Fan Buzhengdang Jingzheng Fa (中华人民共和国反不正当竞争法)* [Law Against Unfair Competition of the People's Republic of China] (promulgated by the Standing Comm. Nat'l People's Cong., Sept. 2, 1993, effective Dec. 1, 1993), art. 20, *translated in* STATE INTELL. PROP. OFF. OF THE P.R.C., [http://english.sipo.gov.cn/laws/relatedlaws/200804/t20080416\\_380359.html](http://english.sipo.gov.cn/laws/relatedlaws/200804/t20080416_380359.html) (last visited Mar. 12, 2016).

<sup>81</sup> *Id.*

<sup>82</sup> *Beijing Qihu Keji Youxian Gongsu yu Beijing Sougou Xinxi Fuwu Youxian Gongsu Buzhengdang Jingzheng An (北京奇虎科技有限公司与北京搜狗信息服务有限公司不正当竞争案)* [Qihoo 360 Tech. Co., Ltd. v. Sogou Info. Serv. Co., Ltd.], CIVIL HIGH COURT (IP) FINAL TRIAL NO. 1071 (Beijing High People's Ct. 2015) [hereinafter *Qihoo v. Sogou*], [http://www.court.gov.cn/zgcpwsw/content/content?DocID=2748b533-1938-472f-b7e8-6afafb820acf&KeyWord=\(2015\)高民\(知\)终字第1071号](http://www.court.gov.cn/zgcpwsw/content/content?DocID=2748b533-1938-472f-b7e8-6afafb820acf&KeyWord=(2015)高民(知)终字第1071号) (last visited Dec. 28, 2015).

<sup>83</sup> *Id.*

<sup>84</sup> *Id.*

though the amount of damages proposed by plaintiff was not fully adopted, the court nonetheless found plaintiff's user-based model for profits calculation persuasive.<sup>85</sup> Based on this model and statistics compiled by an independent consulting company, i-Research Consulting Group, the court concluded that Sogou lost approximately two million users as a result of Qihoo's unfair competition practice, and rendered an adequate compensation accordingly.<sup>86</sup> This case illustrates that courts in China are capable of rendering a fair damages award without deploying the statutory damages method. Even assuming that maintaining consistency among all branches of China's intellectual property regime is a legitimate policy goal, *Qihoo v. Sogou* makes a compelling argument that the statutory damages provisions in China's different IP regimes should be eliminated altogether. Therefore, the justification based on consistency of China's intellectual property protection regimes is not only unconvincing, but also self-defeating.

*C. The Argument That Patentees Prefer Statutory Damages is Illogical*

In real practice, a patentee in China may forego the other three more burdensome damages calculation methods and directly request the court to apply the statutory damages approach. A survey conducted by the Intellectual Property Law Center at the Zhongnan University of Economics and Law indicates that patentees did so in 93.2% of cases.<sup>87</sup> Based on this statistic, some argue that the statutory damages approach is actually preferred by patentees.<sup>88</sup> However, this argument is illogical because it confuses cause and effect. As illustrated above, a patentee's damages claim based on the three non-statutory-damages approaches rarely succeeds in court due to the heavy evidentiary burden and the courts' subtle bias against these methodologies.<sup>89</sup> It would be absurd to assume that patentees, as practical and rational beings, would dispense resources unnecessarily in an attempt to satisfy the other three more demanding approaches, which are destined to fail in most cases. In other words, the majority of patentees

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<sup>85</sup> *Id.*

<sup>86</sup> *Id.*

<sup>87</sup> Zhixing Chen, *Fading Peichang Weihe Zaoshou Goubing?* (法定赔偿为何遭受诟病?) [Why is the Statutory Damages Award Heavily Criticized?], ZHICHANLI.COM, <http://www.zhichanli.com/article/7968> (last visited Dec. 23, 2015).

<sup>88</sup> *Id.*

<sup>89</sup> See *supra* Part IID.

directly requested the statutory damages approach because of the futility of doing otherwise, not because of their preference for statutory damages.<sup>90</sup>

*D. Statutory Damages are Detrimental to the Legitimacy of China's Patent System*

A more fundamental problem with a statutory damages award is that it is so inherently “arbitrary, inconsistent, [and] unprincipled” that it is detrimental to the legitimacy of China’s patent system.<sup>91</sup>

When determining statutory damages, the Supreme People’s Court instructed the lower courts to consider factors including the type of the patent and the infringement’s nature and circumstances.<sup>92</sup> As a theoretical issue, it is unclear how to engage in this analysis consistently, and whether the lower courts should conduct extensive fact-findings and evidence examinations when assessing these two factors. If extensive fact-findings and evidence-examinations are required, there seems to be no need for the statutory damages approach since it will essentially collapse into the patentee’s losses approach or the infringer’s profits approach.<sup>93</sup>

As a practical matter, there is little evidence that lower courts conduct the two-factor analysis at all when awarding statutory damages. A typical opinion awarding statutory damages in a patent case reads: “Since the losses of the patent owner and the unlawful gains of the defendant is hard to prove, this court decided, at its discretion, considering the type of the patent, nature and circumstances of the infringement, that the damages award is RMB [amount awarded].”<sup>94</sup> This widely used boilerplate language reveals few

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<sup>90</sup> Congying Xu, *supra* note 65 (discussing that the majority of the patentees are not free to choose, but in reality must use the damages calculation methods).

<sup>91</sup> Samuelson & Wheatland, *supra* note 74, at 441 (discussing how the statutory damages in U.S. copyright law are “arbitrary, inconsistent, [and] unprincipled”); *see also* 4 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 14.04[E][1][a] (2012) (“[T]he truth is that statutory damages fluctuate wildly.”).

<sup>92</sup> Several Provisions 2015, *supra* note 19, at art. 21.

<sup>93</sup> The “nature and circumstances of the infringement” factor is particularly difficult to assess without an extensive fact-finding process. It is not entirely clear what elements the lower courts should consider in assessing the “nature and circumstances” factor. Logically speaking, both “patentee’s losses” and “infringer’s profits” should be integral parts of “nature and circumstances” factor. However, if the courts consider patentee’s losses or the infringer’s profits, the statutory damages analysis would be rendered meaningless because the analysis it entails would be the same as either the patentee’s losses approach or the infringer’s profits approach.

<sup>94</sup> *See, e.g.*, Xushui Xian Huaguang Shizheng Jiancai Youxian Gongsi yu Tianjin Shi Jinnan Baitangkou Zhuzao Chang deng Zhuanli Qinquan An (徐水县华光市政建材有限公司与天津市津南白塘口铸造厂等专利侵权案) [Huaguang City Contr. Co., Ltd. v. Jinnan Baitangkou Foundry], JIN HIGH COURT THIRD (FINAL) TRIAL NO. 41 (Tianjin High People’s Ct. 2005), [http://china.findlaw.cn/info/cpws/mscpws/218255\\_2.html](http://china.findlaw.cn/info/cpws/mscpws/218255_2.html); Tongxiang Shi Zili Youxian Zeren

justifications behind a court's reasoning when awarding damages and renders the Supreme Court's instruction on the "type of patent and the infringement's nature and circumstances" factors largely superfluous.

In addition, this mechanism of setting statutory damages makes little policy sense. As mentioned before, in 2001, the Supreme People's Court set a range for statutory damages between RMB 5,000 to RMB 300,000 (approximately \$772 to \$46,304).<sup>95</sup> The 2008 amendments to patent law raised the range to RMB 10,000 to RMB 1,000,000 (approximately \$1,543 to \$154,345). The draft for the Fourth Amendment to Chinese Patent Law circulated in 2015, which is the most recent attempt to revise the patent law, proposes to further raise the range to RMB 100,000 to RMB 5,000,000 (approximately \$15,435 to \$757,432).<sup>96</sup> There appears to be little logic articulated in setting the statutory damages range other than increasing it over time. The selections of the upper and lower limits seem quite random, with little empirical backing. Due to the long period of time needed to amend the patent law, this top-down approach of adjusting the statutory damages range seems to be particularly ill-fitted to deal with the ever changing reality of modern economy and technology.<sup>97</sup> Essentially, policy makers task themselves to play the indefinite "catch-up" game in setting the statutory range, which seems to be quite unnecessary.

The most problematic aspect of statutory damages is that they facilitate inappropriate behaviors, corruption, and local protectionism, which eventually undermine public confidence in China's judicial institutions. As illustrated above, there is little transparency in a typical statutory damages

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Gongsi yu Yan Xiuzhang Zhuanli Qinquan An (桐乡市自力有限责任公司与严秀章专利侵权案) [Zili Ltd. v. Yan Xiuzhang], HANG CIVIL THIRD TRIAL NO. 060 (Hangzhou Intermediate People's Ct. 2005), <http://2007.cnarb.com/zscq/P/patenttorts/201203/53974.html>.

<sup>95</sup> Several Provisions 2001, *supra* note 32, at art. 21.

<sup>96</sup> Zhonghua Renmin Gongheguo Zhuanli Xiuding Caoan (Songshen Gao) ji Duizhao Biao (中华人民共和国专利修订草案 (送审稿) 及对照表) [The Draft for Amendments to Patent Law (Draft for Review) and The Comparison Table], LEGIS. AFF. OFF. OF THE ST. COUNCIL P.R. CHINA (Dec. 2, 2015) [hereinafter the Draft for the Fourth Amendments to Chinese Patent Law], <http://www.chinalaw.gov.cn/article/cazjgg/201512/20151200479591.shtml>, translated in CHINA L. TRANSLATE, <http://chinalawtranslate.com/scpatentdraft/> (last visited Jan. 31, 2016); see also SIPO Commentary on Fourth Amendment, *supra* note 14; Q&As on Fourth Amendment, *supra* note 14.

<sup>97</sup> Generally speaking, the Chinese Patent Law is scheduled to be amended every eight years, and each round of amendment takes years to finalize. For example, for the Third Amendment, the amendment process began with the SIPO's notice seeking public comment on April 1, 2005, and the final amendment was not approved until December 27, 2008, which means the whole process took more than three years. See *Zhuanli Fa Xiugai Licheng* (专利法的修改历程) [The History of Patent Law Amendments], GAOHANGIP (June 17, 2015), <http://www.gaohangip.com/baike/2941>.

opinion, as most courts only recite boilerplate language.<sup>98</sup> At a minimum, some judges, under the pressure of time, deploy the statutory damages approach as a shortcut around the time-consuming fact-finding and evidence examination processes.<sup>99</sup> In this scenario, a statutory damages award provides a cover-up for a judge who abandons his or her duty as an adjudicator, and reduces the court's role to a random-number-generator in assessing damages awards. On a more serious note, an extremely low damages award in a patent case might well be the product of corruption or other political considerations.<sup>100</sup> This would be a serious setback for recent attempts to strengthen China's judiciary.<sup>101</sup> Additionally, it has been long observed that the corruption problem in China is often intertwined with local protectionism, which further incentivizes the lower courts to deploy the statutory damages approach.<sup>102</sup> As discussed before, the bare-bone recitation of boilerplate language in a statutory damages award opinion renders it impossible for patentees to raise any viable legal or factual argument on appeal.<sup>103</sup> As a result, an appellate court reviewing a statutory damages award has little means to detect or combat local protectionism, even if it wants to.

Taken together, not only is the existence of statutory damages in China's patent law unjustifiable, its prevalence is actually damaging the legitimacy of its entire patent system. Consequently, we strongly advocate the elimination of the statutory damages provision in Article 65 of Chinese Patent Law, which would, in turn, encourage the development of the other three more robust damages calculation approaches.

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<sup>98</sup> See *supra* text accompanying note 93.

<sup>99</sup> Yieyie Yang, *supra* note 4, at 157.

<sup>100</sup> *Id.*; Wu, *supra* note 4, at 590–93 (noting that local government corruption is a major hindrance to the patent law enforcement); IP-Litai, *supra* note 65 (noting that avoiding social instability is one reason why many judges choose low damages awards).

<sup>101</sup> Susan Finder, *China's Master Plan for Remaking Its Courts*, THE DIPLOMAT (Mar. 26, 2015), <http://thediplomat.com/2015/03/chinas-master-plan-for-remaking-its-courts/>; Stanley Lubman, *Power Shift: Hopeful Signs in China's Legal Reform Plan*, WALL ST. J. (July 10, 2014), <http://blogs.wsj.com/chinarealtime/2014/07/10/power-shift-hopeful-signs-in-chinas-legal-reform-plan/>; *Improving Professionalism Among China's Judges*, GR. BRIT. CHINA CTR. (Jan. 13, 2012), <http://www.gbcc.org.uk/improving-professionalism-among-chinas-judges.aspx>.

<sup>102</sup> Wu, *supra* note 4, at 590–93; Walneck, *supra* note 15, at 442, 462–66.

<sup>103</sup> Yieyie Yang, *supra* note 4, at 151.

#### IV. THE FUTILITY OF REFORMING THE STATUTORY DAMAGES SCHEME: A U.S. COPYRIGHT EXPERIENCE

Interestingly, policy makers in China recognize the inadequate compensation problem in patent law and statutory damages' key role in causing this problem, but nonetheless do not appear to be eager to eliminate the provision as we propose here.<sup>104</sup> This general attitude of the policy makers invites the question whether the current statutory damages provision in Chinese patent law can be reformed to provide adequate compensation. A comparative examination of the statutory damages provision in U.S. copyright law suggests that the answer is "maybe." The U.S. copyright law experience also shows that reforming the statutory damages provision, as opposed to abolishing it entirely, hardly leads to a long term resolution. Even though the statutory damages provision in U.S. copyright law does not have an under-compensation problem, the inherent rigidity and arbitrariness of a statutory damages approach still leads to other serious problems for U.S. copyright enforcement, which put its sustainability in doubt.

From the outset, an examination of U.S. copyright law is instructive for two reasons. First, U.S. copyright law experienced hundreds of years of development and its statutory damages provision was revised numerous times, which is illuminating for the path ahead of Chinese patent law. Second, the United States is often the most eager advocate to expand the statutory damages approach globally, and consequently exerts tremendous influence over other countries' implementations of statutory damages schemes.<sup>105</sup>

##### A. *History of Statutory Damages in the United States Copyright Law*

The roots of the statutory damages regime in U.S. copyright law can be traced all the way back to the Statute of Anne in the Great Britain.<sup>106</sup> Specifically, the statute required the "offender" of any author's copyright to forfeit the sum of "One Penny [sic] for every Sheet which shall be found in his, her, or their Custody, either Printed or Printing, Published or Exposed to

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<sup>104</sup> See *supra* notes 11–14 and accompanying text; see also the Draft for the Fourth Amendments to Chinese Patent Law, *supra* note 96, at art. 68 (revising Art. 65 of Chinese Patent of 2008 to increase the statutory damages ranges to RMB 100,000 – RMB 5,000,000).

<sup>105</sup> Samuelson, Hill & Wheatland, *supra* note 70, at 536–44 (noting that U.S. has been influential in encouraging implementation of a statutory damages provision in numerous countries through international treaties or its Special 301 procedures).

<sup>106</sup> Act for the Encouragement of Learning (Statute of Anne) 1710, 8 Ann. c. 19 (Eng.).

Sale.”<sup>107</sup> Half of this amount went to the Crown and the remaining half belonged to the copyright holder.<sup>108</sup> The United States inherited this basic framework in its Copyright Act of 1790, but broadened the scope of author’s right to include maps and charts, and set damages for published works at 50 cents for “every sheet which shall be found in [offender’s] possession.”<sup>109</sup> The Copyright Act of 1790 was subsequently amended several times, which largely expanded the statutory damages provision.<sup>110</sup>

The Copyright Act was amended in 1895 to increase the penalty for infringement to \$1 per sheet for infringements in all works covered by the statute, with the exception that in the case of a painting, statue, and statuette, the amount increased to \$10 per sheet.<sup>111</sup> Most notably for the purpose of this Article, this amendment set up a range-based penalty, as opposed to the per-sheet penalty, for “a photograph made from any object not a work of fine arts” to be no less than \$100 and not greater than \$5,000.<sup>112</sup> This specific cap on the recovery of statutory damages for photographic works was largely pushed by newspaper publishers who had to pay excessive damages for unknowingly printing and circulating millions of infringing copies of a photograph.<sup>113</sup> As one practitioner noted, “the adoption of minimum and maximum statutory amounts was significant because it signaled a concern that statutory damages could be immense if they were not limited, particularly as technology made copying of mass quantities of physical works easier.”<sup>114</sup>

The Copyright Act went through a comprehensive overhaul in 1909, which set up the modern scheme for copyright protection. The 1909 Act

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<sup>107</sup> *Id.* § 2.

<sup>108</sup> *Id.*

<sup>109</sup> Copyright Act of 1790, ch. 15, 1 Stat. 124 (repealed 1831). Similar to the Statute of Anne, half of the amount went to the author and the other half went to the United States government.

<sup>110</sup> See Copyright Act of 1831, ch. 16, §§ 1, 6, 4 Stat. 138 (repealed 1870); Act of Aug. 18, 1856, ch. 169, 11 Stat. 138 (repealed 1870).

<sup>111</sup> Act of Mar. 2, 1895, ch. 194, 28 Stat. 965 (repealed 1909) (amending Copyright Act of 1870, ch. 230, 16 Stat. 198 (repealed 1952)).

<sup>112</sup> *Id.* However, it should be noted that this Act was not the first copyright legislation that set up a range-based penalty. Several U.S. colonies already included range-based statutory damages provisions in their copyright laws. See William F. Patry, *The Right to a Jury Trial in Copyright Cases*, 29 J. COPYRIGHT SOC’Y U.S.A. 139, 150 (1981). In 1856, Congress also amended the copyright law to allow copyright owners to recover not less than \$100 for the first, nor less than \$50 for subsequent, unauthorized public performances of dramatic compositions. Act of Aug. 18, 1856, ch. 169, 11 Stat. 138.

<sup>113</sup> Stephanie Berg, *Remedying the Statutory Damages Remedy for Secondary Copyright Infringement Liability: Balancing Copyright and Innovation in the Digital Age*, 56 J. COPYRIGHT SOC’Y U.S.A. 265, 276–77 (2009).

<sup>114</sup> *Id.* at 277.

provided major reforms in three respects.<sup>115</sup> First, the Act authorized the award of actual damages and defendant's profits (or the "in lieu" damages).<sup>116</sup> Second, the Act eliminated the per-sheet penalty, whose previous penal functions were served instead by a criminal provision for willful infringing for profit, and whose compensatory and deterrent functions were taken on by the availability of monetary relief for actual damages and defendant's profits.<sup>117</sup> Third, a new generalized regime of statutory damages was created, available "in lieu" of actual damages and defendant's profits.<sup>118</sup> Specifically, a court was directed to make awards in an amount that was "just," but within range for statutory damages between \$250 and \$5,000 per infringement.<sup>119</sup> Subsequently, courts interpreted that statutory damages should be used as an alternative to actual damages or profits when such damages or profits are hard to prove, and thus refused to award statutory damages when actual damages or profits could be proven.<sup>120</sup> It has been noted that the U.S. Congress largely designed the statutory damages scheme for a compensatory rather than a deterrent purpose.<sup>121</sup>

After decades of public debate and preparation, the U.S. Congress enacted a completely new copyright act in 1976.<sup>122</sup> Under Section 504 of the new act, a plaintiff may elect either actual damages plus infringer's profit or statutory damages.<sup>123</sup> If the plaintiff chooses to pursue statutory damages, a court may still consider evidence of actual damages and profits in calculating the statutory damages award.<sup>124</sup> Under the original version of 1976 Act, the range of a statutory damages award per work infringed was "not less than \$250 or more than \$10,000 as the court consider just," but if the copyright owner proved that the "infringement was committed willfully, the court in its discretion may increase the award of statutory damages to a

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<sup>115</sup> Samuelson & Wheatland, *supra* note 74, at 448.

<sup>116</sup> *Id.*

<sup>117</sup> Copyright Act of 1909, §§ 25, 28, 35 Stat. 1075, 1081–82 (current version at 17 U.S.C. § 504(c) (2006)).

<sup>118</sup> *Id.*

<sup>119</sup> *Id.*

<sup>120</sup> *See* Sheldon v. Metro-Goldwyn Pictures Corp., 309 U.S. 390, 399–401 (1940); Zeigelheim v. Flohr, 119 F. Supp. 324, 329 (E.D.N.Y. 1954).

<sup>121</sup> Samuelson & Wheatland, *supra* note 74, at 450–51.

<sup>122</sup> Copyrights Act of 1976, Pub. L. No. 94-553, § 504 (1976) (codified as amended at 17 U.S.C. § 504 (2011)).

<sup>123</sup> *See* H.R. REP. 94-1476, 162, 1976 U.S.C.C.A.N. 5659 (codified at 17 U.S.C. § 504(c) (2010)).

<sup>124</sup> H.R. REP. 94-1476, at 161.



sum of not more than \$50,000.”<sup>125</sup> This statutory range was subsequently increased multiple times over the years. The Berne Convention Implementation Act of 1988 further doubled the statutory damages range to \$500–\$20,000 for non-willful infringement, and correspondingly increased the upper-limit for willful infringement to \$100,000.<sup>126</sup> The Digital Theft Deterrence and Copyright Damages Improvement Act of 1999 once again increased the statutory damages range by 50%, \$750–\$30,000 per work infringed for non-willful infringement and set a maximum of \$150,000 per work infringed for willful infringement.<sup>127</sup> These statutory ranges remain in force today. At this point, commentators have observe that “[t]he application of statutory damages has too often strayed from the largely compensatory impulse . . . and has focused too heavily on deterrence and punishment by holding many ordinary infringements to be willful, which has resulted in many awards that are punitive in effect and often in intent.”<sup>128</sup>

Though the exact mechanism of Chinese patent law’s statutory damages scheme is different from that of U.S. copyright law, the patterns of their development reveal some common themes. For example, the statutory damages schemes in both systems appear to stem from similar concerns. It appears that the U.S. Congress adopted statutory damages because it was difficult to calculate actual damages in copyright cases.<sup>129</sup> As we noted above, this was also likely the initial legislative intent for adopting the statutory damages approach in China’s patent law.<sup>130</sup> Further, the policy makers in both countries had to constantly readjust the statutory damages ranges to handle new realities of modern economics and technology. Accordingly, the U.S. copyright law experience reveals some of the struggles that the Chinese Patent Law’s statutory damages scheme is likely to face going forward.

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<sup>125</sup> Pub. L. No. 94-553, § 504(c) (1976), as reprinted in 5 KAMINSTEIN LEGISLATIVE HISTORY PROJECT: A COMPENDIUM AND ANALYTICAL INDEX OF MATERIALS LEADING TO THE COPYRIGHT ACT OF 1976, at 163–64 (Alan Latman & James F. Lightstone eds., 1984).

<sup>126</sup> Berne Convention Implementation Act of 1988, Pub. L. No. 100-568 (1988).

<sup>127</sup> Digital Theft Deterrence and Copyright Damages Improvement Act of 1999, Pub. L. No. 106-160 (1999).

<sup>128</sup> Samuelson & Wheatland, *supra* note 74, at 445.

<sup>129</sup> *Id.* at 496 (“That damages in copyright cases are sometimes difficult to prove may have been the initial impetus for creating a general statutory damages provision in U.S. copyright law.”); R. Collin Kilgore, *Sneering at the Law: An Argument for Punitive Damages in Copyright*, 15 VAND. J. ENT. & TECH. L. 637, 652-53 (2013) (noting that actual damages in copyright cases are often difficult and at times impossible to prove, and the election of statutory damages allows plaintiffs to avoid such difficulties).

<sup>130</sup> See *supra* note 41 and accompanying text.

## B. *The Problems of U.S. Copyright Statutory Damages Scheme*

The statutory damages scheme has been in existence since the inception of U.S. copyright law and countless efforts have been made to refine it. However, the scheme does not function as effectively as Congress intended. Over the years, three major problems have been identified in the current U.S. copyright statutory damages scheme.

First, statutory damages in certain copyright cases can be “grossly excessive.”<sup>131</sup> This problem can be particularly serious within the peer-to-peer (P2P) file sharing context in today’s Internet age. For example, in *Sony BMG Music Entertainment v. Tenenbaum*, five major record labels brought suit against Joel Tenenbaum, then a twenty-four year-old college graduate, for illegally uploading thirty songs onto P2P networks like Napster and Limewire.<sup>132</sup> Eventually, the jury rendered a statutory damages award of \$675,000, with \$22,500 for each of the thirty infringed works. In another similarly notorious case, *Capitol Records, Inc. v. Thomas*, three trials resulted in awards of \$222,000, \$1.92 million, and \$1.5 million (\$9,250, \$80,000, and \$62,500 per work, respectively).<sup>133</sup> Such large amounts of damages become particularly problematic where there is little proof that the infringement caused any actual harm or the infringer actually profited from it.<sup>134</sup> Within the academic field, there is a fierce debate on whether some of the statutory damages awards in copyright cases are so excessive that they actually implicated the Due Process Clause of the U.S. Constitution.<sup>135</sup>

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<sup>131</sup> Samuelson & Wheatland, *supra* note 74, at 441.

<sup>132</sup> *Sony BMG Music Entm’t v. Tenenbaum*, 721 F. Supp. 2d 85 (D. Mass. 2010), *aff’d in part, vacated in part, rev’d in part*, 660 F.3d 487 (1st Cir. 2011), *aff’d*, 719 F.3d 67 (1st Cir. 2013).

<sup>133</sup> *Capitol Records, Inc. v. Thomas*, 579 F. Supp.2d 1210, 1227 (D. Minn. 2008); *Capitol Records Inc. v. Thomas-Rasset*, 680 F. Supp.2d 1045, 1049–50 (D. Minn. 2010); *Capitol Records, Inc. v. Thomas-Rasset*, 692 F.3d 899 (8th Cir. 2012).

<sup>134</sup> See Samuelson & Wheatland, *supra* note 74, at 480–90 (listing several examples where excessive damages were awarded even though it was clear that the infringement caused little actual damages and the infringer benefited little from the infringement).

<sup>135</sup> Compare Samuelson & Wheatland, *supra* note 74, at 491–97 (arguing that some of the statutory damages in copyright cases might be unconstitutionally excessive under *BMW v. Gore*, 517 U.S. 559 (1996)), with Steven M. Tepp, *The Constitutional Challenge to Statutory Damages for Copyright Infringement: Don’t Gore Section 504*, 10 ENGAGE: J. FEDERALIST SOC’Y PRAC. GROUP. 93 (2009) (arguing that *BMW v. Gore* does not apply to the statutory damages provision of Copyright Act, and the copyright statutory damages schemes would pass the constitutional muster); see also Pamela Samuelson & Ben Sheffner, *Unconstitutionally Excessive Statutory Damages Awards in Copyright Cases*, 158 U. PA. L. REV. PENNUMBRA 53 (2009) (transcribing the debate between Professor Samuelson and Mr. Sheffner, NBC Universal Inc.’s copyright attorney regarding the constitutionality of statutory damages provision in U.S. copyright law).

Second, large awards of statutory damages leads to problematic enforcement tactics that abuse the copyright system. While the problem of patent trolls has been recognized for some time, the problem of copyright trolls is on the rise in recent years.<sup>136</sup> It is reported that some litigious copyright holders would file hundreds, if not thousands, of lawsuits against tens of thousands of anonymous Internet users.<sup>137</sup> These cases rarely end up in trial; instead, the copyright trolls would file “boilerplate complaints based on a modicum of evidence calculated to maximize settlement profits by minimizing costs and profits.”<sup>138</sup> Commentators and industry shareholders both pointed out that statutory damages play a major role in facilitating such abusive litigious behavior.<sup>139</sup>

Ironically, the third problem associated with U.S. copyright law’s current statutory damages scheme is its utter ineffectiveness in deterring copyright infringement despite the regularity of excessive damages awards.<sup>140</sup> In the context of a content consuming industry, a copyright owner often elects to sue intermediaries for secondary infringement instead of suing individual end-consumers for cost-effectiveness reasons.<sup>141</sup> However, statutory damages awarded against these intermediaries for secondary infringement rarely incentivize the direct infringers to stop the

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<sup>136</sup> Matthew Sag, *Copyright Trolling, An Empirical Study*, 100 IOWA L. REV. 1105, 1111–19 (2015); James DeBriyn, *Shedding Light on Copyright Trolls: An Analysis of Mass Copyright Litigation in the Age of Statutory Damages*, 19 UCLA ENT. L. REV. 79, 91 (2012).

<sup>137</sup> Interestingly, the most active “copyright trolls” in the U.S. appeared to be adult movie studios. It was reported that the most litigious studio, Malibu Media (X-Art) filed over 4500 copyright infringement cases in less than 4 years. See Andy, *New York Judge Puts Break on Copyright Troll Subpoenas*, TORRENTFREAK (Oct. 7, 2015), <https://torrentfreak.com/new-york-judge-puts-brakes-on-copyright-troll-subpoenas-151007/>.

<sup>138</sup> U.S. DEP’T OF COMMERCE INTERNET POLICY TASK FORCE, WHITE PAPER ON REMIXES, FIRST SALE, AND STATUTORY DAMAGES 74 (2016), <http://www.uspto.gov/sites/default/files/documents/copyrightwhitepaper.pdf> [hereinafter COMMERCE DEPARTMENT WHITE PAPER]; see also *EFF Calls For Court Sanctions For Copyright Troll’s Public Humiliation Tactic*, ELEC. FRONTIER FOUND., <https://www.eff.org/cases/malibu-media> (last visited Feb. 29, 2016) (describing Malibu Media’s tactic of filing long lists of adult movie titles on the public record, accusing an Internet user of illegally downloading those movies, and “humiliating” these Internet users to settle).

<sup>139</sup> Sag, *supra* note 136, at 1121–27, 1135 (pointing out the statutory damages and joinder rules play major roles in leading to abusive litigation behaviors of copyright trolls, and advocating reforming the statutory damages scheme in U.S. copyright law); DeBriyn, *supra* note 136, at 106–09 (noting that the existence of statutory damages is the prerequisite of current copyright troll problem and advocating removing the statutory damages provision all together).

<sup>140</sup> Kilgore, *supra* note 129, at 657–58; see also Anna Cronk, *The Punishment Doesn’t Fit the Crime – Why and How Congress Should Revise the Statutory Copyright Damages Provision for Noncommercial Infringements on Peer-to-Peer File-Sharing Networks*, 39 SW. L. REV. 181 (2009).

<sup>141</sup> Berg, *supra* note 113, at 310 (“Suing intermediaries may be cost-effective for the content industries because in a single lawsuit they can eliminate a mechanism that a large number of end-users are using to infringe . . .”).

infringement.<sup>142</sup> On the contrary, when these legitimate intermediaries are consequently forced out of the market en masse, the end-consumers often turn to underground markets.<sup>143</sup> This in turn decreases compliance with the law and further aggravates infringement.<sup>144</sup> A more concerning effectiveness problem with the statutory damages scheme is that it often hits the small players hard, but spares the truly egregious infringers. For example, in the *Thomas* case, the defendant, a single mother, was ordered to pay statutory damages of nearly a \$250,000 dollars for twenty-four music works she uploaded onto Kazza.com.<sup>145</sup> Even the courts admitted that the defendant, who “acted like countless other Internet users,” was simply seeking access to free music and not trying to make any profits through her infringement.<sup>146</sup> In contrast, when an egregious infringer’s profits significantly exceed the maximum statutory damages available, the defendant may refuse to appear in court and force the court to resort to statutory damages in a default judgment.<sup>147</sup> This is essentially the same difficulty a patent owner in China faces in obtaining damages.<sup>148</sup>

### C. *Lessons for Chinese Patent Law's Statutory Damages Scheme*

At first glance, the problems associated with the statutory damages schemes in Chinese patent law and U.S. copyright law are polar opposite: inadequate damages for Chinese patent law and excessive damages in U.S. copyright law. However, these two problems are merely different symptoms rooted in the same disease: the inherent arbitrariness of the statutory damages approach. Because statutory damages are fundamentally “untethered from anything,” there is no meaningful reform available to fix it without essentially abandoning the statutory damages approach.<sup>149</sup> If the

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<sup>142</sup> Mark A. Lemley & R. Anthony Reese, *Reducing Digital Copyright Infringement Without Reducing Innovation*, 56 STAN. L. REV. 1345, 1350-51 (2004).

<sup>143</sup> Berg, *supra* note 113, at 313; *see also* Ronald J. Mann & Seth R. Belzley, *The Promise of Internet Intermediary Liability*, 47 WM. & MARY L. REV. 239, 266 (2005).

<sup>144</sup> Berg, *supra* note 113, at 313 (noting that, in the context of P2P, the empirical evidence has shown that shutting down various P2P file-sharing networks has actually led to an increase in direct infringement instead of a decrease).

<sup>145</sup> *Capital Records, Inc. v. Thomas*, 579 F. Supp. 2d 1210, 1213, 1227 (D. Minn. 2008).

<sup>146</sup> *Id.* at 1227.

<sup>147</sup> Kilgore, *supra* note 129, at 657–58 (noting that in *Venegas-Hernandez v. Sonolus Records*, 370 F.3d 183 (1st Cir. 2004), the defendant intentionally refused to appear in court, which was likely a deliberate tactic to force the court to resort to statutory damages in avoiding the likely larger damages based on its profits).

<sup>148</sup> As discussed above, a patent infringer in China would simply refuse to cooperate in supplying necessary evidence to assist plaintiff in calculating the actual damages or infringer’s profits, which in turn forces the court to resort to the statutory damages approach.

<sup>149</sup> COMMERCE DEPARTMENT WHITE PAPER, *supra* note 138, at 73.

purpose of awarding statutory damages is supposed to be compensatory, the statutory damages awarded are not tied to the amount of harm caused. Nor are these damages tied to the amount of unjust profits made by an infringer, or any realistic assessment of what an appropriate deterrence would be, to fulfil any sense of punitive purpose. Consequently, even though the U.S. has attempted to inject nuances into its copyright law's statutory damages scheme for many years, there are simply no guiding principles for courts to apply in determining a proper level of damages other than keeping it within the statutory range.

Moreover, the problems associated with the statutory damages scheme in current U.S. copyright law are indicative of what Chinese patent law will likely face in the future. As discussed above, due to its rigidity, whether statutory damages can effectively compensate an injured patent owner depends, in part, on what level of compensation the policy maker provides in the first place.<sup>150</sup> As policy makers in China gradually increase the upper- and lower limits of the statutory ranges of patent damages, it is a possibility that the policy makers will over-correct the problem by setting a compensation level too high. This may lead to the systematic abuse problem prevalent in today's U.S. copyright system.<sup>151</sup> The recent proposal for the Fourth Amendment to the Chinese Patent Law already points to some early signs of over-correction, as it proposes significantly increase the minimum statutory damages by ten-fold, from RMB 10,000 to 100,000, and to increase the maximum statutory damages by five-fold, from RMB 1,000,000 to RMB 5,000,000.<sup>152</sup>

Finally, as demonstrated by the U.S. copyright law experience, because there is essentially no underlying principle to be applied consistently across the cases, statutory damages punish some infringers by overcompensating the right holders while leaving other right holders undercompensated, no matter what the statutory range the policy makers set

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<sup>150</sup> See *supra* notes 95–97 and accompanying text.

<sup>151</sup> See *supra* text accompanying notes 136–139.

<sup>152</sup> The recent draft for the Fourth Amendment to Chinese Patent Law proposed to significantly increase the minimum statutory damages by ten-fold, from RMB 10,000 to 100,000, and to increase the maximum statutory damages by five-fold, from RMB 1,000,000 to RMB 5,000,000. See LEGISLATIVE AFFAIRS OFFICE OF THE ST. COUNCIL P.R. CHINA, *supra* note 96. Curiously, this draft also proposed to add a specific “punitive damages” provision, which allow a court to award up to three times the damages assessed based on patentee’s loss approach, infringer’s profits approach or reasonable royalty approach. *Id.* This new provision appears to further the confusion on what purpose the statutory damages provision actually serves in the overall damages calculation scheme by instituting two punitive damages provisions within one article. See text accompanying *supra* notes 29–30.

it to be.<sup>153</sup> The statutory damages scheme in the Chinese patent law is unlikely to avoid this dilemma given all the confusion regarding what purpose the statutory damages provision actually serves.<sup>154</sup> Accordingly, we argue that any attempt to further amend the current statutory damages provision in Chinese patent law would likely be counterproductive as it will lead to other equally troubling problems.

#### V. BUILDING A ROBUST DAMAGES CALCULATION SCHEME FOR CHINESE PATENT LAW WITHOUT THE STATUTORY DAMAGES PROVISION: U.S. AND GERMAN PATENT LAW EXPERIENCE

Admittedly, eliminating the statutory damages scheme from Chinese patent law is not without risk. As discussed before, the impetus for the People's Supreme Court to adopt a statutory damage "exception" in 2001 was the difficulty to prove damages through the three formal approaches—(1) patentee's losses, (2) infringer's profits, and (3) reasonable royalty.<sup>155</sup> Arguably, a patent system without the statutory damages scheme in today's China may still leave the patent owners where they started back in 2001: unable to obtain any damages at all. However, we argue that the policy makers in China need to adopt a forward-looking attitude when solving the current under-compensation problem in the patent system. Instead of shortcutting the damages determination with a statutory damages provision, more attention needs to be given to improving the effectiveness and efficiency of the other three approaches.<sup>156</sup> In other words, eliminating the statutory damages provision is merely the first step in a more comprehensive reform. If the U.S. copyright law experience demonstrates the futility of reforming the Chinese patent law's statutory damage scheme, the U.S. and German patent law experience illustrates the feasibility for China to develop a robust damages calculation scheme without a statutory damages scheme.<sup>157</sup>

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<sup>153</sup> See text accompanying *supra* notes 140–148.

<sup>154</sup> See text accompanying *supra* notes 29–30 (illustrating the confusion on whether the statutory damages in Chinese patent law are compensatory in nature or punitive in nature).

<sup>155</sup> See *supra* note 32 and accompanying text.

<sup>156</sup> See Liu, *supra* note 36 (the Director of the Third Tribunal of the Supreme People's Court remarked that the low compensation problem in China's patent system cannot be solved by simply increasing the statutory damages ranges, and that developing the discovery mechanism is the key to fundamentally solve the problem).

<sup>157</sup> The Authors adopted the United States and Germany as examples for two reasons: (1) both countries have robust and effective patent protection system; (2) both countries have huge influences on the development of Chinese patent system.

A. *Damages Award in the United States Patent Law*

On the substantive front, the current U.S. patent law prescribes two types of compensatory damages for patent infringement under 35 U.S.C. § 284.<sup>158</sup> First, if the patent owner and the infringer are competitors in the same market, the patent owner may state a claim for its own lost profits in the form of sales diversion, price erosion, or increased expense.<sup>159</sup> Second, if the patent owner and the infringer are not competitors, or the patent owner cannot establish lost profits with sufficient evidence, the patent owner can claim an established or hypothetical royalty.<sup>160</sup> A reasonable royalty based on hypothetical negotiation acts as the floor of a potential damages recovery.<sup>161</sup> A damage award can include both lost profits and reasonable royalty.<sup>162</sup>

To claim lost profits, a patent owner must show that “but for” the infringement it would have earned the profits it alleges it lost, and the loss of those profits was reasonably foreseeable consequence of the infringement.<sup>163</sup> One way to establish this “but-for” causation is to demonstrate the four *Panduit* factors: (1) a demand for the patented product, (2) an absence of acceptable non-infringing substitutes, (3) the patent holder had manufacturing and marketing capability to exploit the demand, and (4) the amount of profit the patent owner would have made.<sup>164</sup> However the *Panduit* standard is not the exclusive standard used to establish but-for causation.<sup>165</sup> If the subject patent only covers one component of a multi-component product, the patent owner may only recover the lost profits corresponding to the portion.<sup>166</sup> However, if a patent owner proves that the

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<sup>158</sup> The relevant statute reads: “Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court.” 35 U.S.C. § 284 (2011)

<sup>159</sup> 7-20 DONALD S. CHISUM, CHISUM ON PATENTS § 20.03, Part 1 of 3 (Mathew Bender ed. 2016); *see also* Hebert v. Lisle Corp., 99 F.3d 1109, 1119 (Fed. Cir. 1996) (“[D]amages may include lost profits due to diverted sales, price erosion, and increased expenditures caused by the infringement.”).

<sup>160</sup> CHISUM, *supra* note 159.

<sup>161</sup> *See* 35 U.S.C. § 284; *see also* Crystal Semiconductor Corp. v. TriTech Microelectronic Int’l, Inc., 246 F.3d 1336, 1353 (Fed. Cir. 2001) (noting that the minimum damage a patent owner may recovery is the reasonable royalty).

<sup>162</sup> *See* WMS Gaming, Inc. v. Int’l Game Tech., 184 F.3d 1339, 1360-61 (Fed. Cir. 1999) (affirming damage award include both lost profits and reasonable royalties).

<sup>163</sup> 4 ROBERT A. MATHEWS, JR., ANNOTATED PATENT DIGEST § 30:22 (March 2016 Update).

<sup>164</sup> *Panduit Corp. v. Stahl Bros. Fibre Works, Inc.*, 575 F.2d 1152, 1156 (6th Cir. 1978).

<sup>165</sup> *Rite-Hite Corp. v. Kelley Co., Inc.*, 56 F.3d 1538, 1548 (Fed. Cir. 1995).

<sup>166</sup> *Westinghouse Elec. & Mfg. Co. v. Wagner Elec. & Mfg. Co.*, 225 U.S. 604, 615 (1912) (holding that when “plaintiff’s patent only created a part of the profits, he is only entitled to recover that part of the net gains.”).

“patent-related feature is the basis for customer demand,” he may be rewarded based on the value of the total product without any apportionment of value between the patented and unpatented features.<sup>167</sup> This is commonly referred as the “Entire Market Value Rule.”<sup>168</sup>

On the other hand, a patent owner may claim a reasonable royalty, which is “what a willing licensor and licensee would bargain for during hypothetical negotiations on the date the infringement started.”<sup>169</sup> This reasonable royalty is typically calculated by multiplying a royalty rate by a royalty base.<sup>170</sup> A court typically considers the fifteen *George-Pacific* factors to determine the royalty rate.<sup>171</sup> The royalty base should generally be based on the “smallest salable patent-practicing unit.”<sup>172</sup> The Entire Market Value Rule similarly applies to the reasonable royalty context as well.<sup>173</sup>

On the procedural front, the amount of damages suffered by a patentee as a result of infringement is an issue of fact that is determined by either a jury or the court.<sup>174</sup> The court has the discretion to bifurcate the damages determination phase and the liability phase.<sup>175</sup> However, bifurcation of the liability phase and damages phase in the U.S. context tends to result in considerable delay and extra costs because (1) the parties need to separate discovery pertaining to damages issues, and (2) sometimes a new jury needs to be assembled.<sup>176</sup> Typically, each party will present a damages expert to explain how the fact-finder (jury or court) should calculate damages and to testify on a variety of factors underlying the determination of lost profits or a reasonable royalty.<sup>177</sup> Other fact witnesses, including the inventor and corporate officers, will have to testify on many of these subjects throughout the trial.<sup>178</sup> It is also noteworthy that the United States has the most extensive, and probably cumbersome, discovery mechanism, which typically

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<sup>167</sup> MATHEWS, JR., *supra* note 163.

<sup>168</sup> *Id.*

<sup>169</sup> *State Indus. Inc. v. Mor-Flo Indus. Inc.*, 883 F.2d 1573, 1580 (Fed. Cir. 1989).

<sup>170</sup> MATHEWS, JR., *supra* note 163.

<sup>171</sup> *George-Pacific Corp. v. U.S. Plywood Corp.*, 318 F. Supp. 1116, 1120 (S.D.N.Y. 1970).

<sup>172</sup> *LaserDynamic, Inc. v. Quanta Comput., Inc.*, 694 F.3d 51, 67 (Fed. Cir. 2012).

<sup>173</sup> *Lucent Techs., Inc. v. Gateway, Inc.*, 580 F.3d 1310, 1336-37 (Fed. Cir. 2009).

<sup>174</sup> MATHEWS, JR., *supra* note 163.

<sup>175</sup> *See* FED. R. CIV. P. 42; KIMBERLY A. MOORE, TIMOTHY R. HOLBROOK & JOHN F. MURPHY, *PATENT LITIGATION AND STRATEGY* 303, 307, 931 (4th ed. 2013).

<sup>176</sup> MOORE, HOLBROOK & MURPHY, *supra* note 175, at 309.

<sup>177</sup> *Id.* at 931-32.

<sup>178</sup> *Id.*



is the primary driver for litigation expenses.<sup>179</sup> It is widely recognized that the uneven discovery burden between a patentee and an infringer is the primary driver for the “patent troll” problem in the United States.<sup>180</sup>

Finally, 35 U.S.C. § 284 also allows a court to exercise its discretion to “increase the damages up to three times the amount found or assessed.”<sup>181</sup> The relating case law mandates that such treble damages are appropriate only if the court finds the infringement to be “willful.”<sup>182</sup> The exact standard for determining “willfulness” is in flux pending Supreme Court review.<sup>183</sup> However, it is generally undisputed that treble damages are a punitive damages provision in U.S. patent law.<sup>184</sup>

### B. Damages Award in German Patent Law

Unlike its U.S. counterpart, patent law in Germany provides no punitive damages.<sup>185</sup> Nonetheless, the compensatory damages must be “sufficiently high to provide a deterrent effect.”<sup>186</sup> On the substantive front,

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<sup>179</sup> *Id.* at 193–253; see also John H. Beisner, *Discovering a Better Way: The Need for Effective Civil Litigation Reform*, 60 DUKE L.J. 547 (2010).

<sup>180</sup> John M. Golden, “Patent Trolls” and Patent Remedies, 85 TEX. L. REV. 2111, 2124–35 (2007); Christopher Hu, *Some Observations on the Patent Troll Litigation Problem*, 26 No. 8 INTELL. PROP. & TECH. L.J. 10, 12 (2014); J. Jason Williams, Mark V. Campagna, & Oliva E. Marbutt, *Strategies for Combatting Patent Trolls*, 17 J. INTELL. PROP. L. 367, 368 (2010); Greg Reilly, *Linking Patent Reform and Civil Litigation Reform*, 47 LOY. U. CHI. L.J. 179, 196–99 (2015).

<sup>181</sup> 35 U.S.C. § 284 (2012).

<sup>182</sup> See *Seymour v. McCormick*, 57 U.S. 480, 488 (1853) (suggesting that a discretionary increase in damages under the 1836 Act should be reserved only for “the wanton and malicious pirate”); *Union Carbide Corp. v. Graver Tank & Mfg. Co.*, 282 F.2d 653, 663, 674 (7th Cir. 1960) (holding that increased damages are for “conscious and wilful [*sic*] infringer”); *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 508 (1964) (noting that increased damages are only available “in a case of willful or bad-faith infringement”).

<sup>183</sup> *Stryker Corp. v. Zimmer, Inc.*, 774 F.3d 1349 (Fed. Cir. 2014), *withdrawn and replaced by Stryker Corp. v. Zimmer, Inc.*, 782 F.3d 649 (Fed. Cir. 2015), *cert. granted*, 136 S. Ct. 356 (Oct. 19, 2015) (the Supreme Court granted certiorari to review whether the current willfulness standard need to changed).

<sup>184</sup> See, e.g., *Exxon Shipping Co. v. Baker*, 554 U.S. 471, 507 (2008) (listing Section 284 among punitive damages statutes); *Root v. Ry. Co.*, 105 U.S. 189, 196 (1881) (“[T]he Patent Act of 1836 . . . leav[es] it to the discretion of the court to inflict punitive damages to the extent of trebling the verdict.”); *SRI Int’l, Inc. v. Advanced Tech. Labs., Inc.*, 127 F.3d 1462, 1468 (Fed. Cir. 1997) (“When willful infringement or bad faith has been found, the remedy of enhancement of damages not only serve its primary punitive/deterrent role, but in so doing it has the secondary benefit of quantifying the equities as between patentee and infringer.”); *Delta-X Corp. v. Baker Hughes Prod. Tools, Inc.*, 984 F.2d 410, 413 (Fed. Cir. 1993) (“Enhanced damages are punitive, not compensatory.”).

<sup>185</sup> ALEXANDER HARGUTH & STEVEN CARLSON, *PATENTS IN GERMANY AND EUROPE: PROCUREMENT, ENFORCEMENT AND DEFENSE – AN INTERNATIONAL HANDBOOK* 213 (2011).

<sup>186</sup> *Id.*

there are three methods available to calculate actual damages: (1) patentee's lost profits, (2) infringer's profits, and (3) reasonable royalty.<sup>187</sup>

For the patentee's lost profits approach, the patentee generally bears the burden to prove the extent of its lost profits.<sup>188</sup> Similar to U.S. law, the patentee in Germany must also prove that it indeed lost profits due to the infringement, which is akin to the "but for" causation in U.S. patent law.<sup>189</sup> This causation, in turn, requires the patentee to prove that he actually used the patent directly, and that there is at least a probability that he would realize the lost profits.<sup>190</sup> This is typically very challenging for patentees to prove unless the market is well-developed and well-defined.<sup>191</sup> Further, a patentee seeking damages under this method is also required to disclose its own detailed price calculation, which goes against the will of many companies.<sup>192</sup> As a result, this "lost profits" approach is rarely used in real practice.<sup>193</sup>

For the infringer's profits, damages are calculated by subtracting the "costs of the business" from the infringer's net revenue.<sup>194</sup> The patentee typically needs to determine the infringer's net revenue and costs through a "rendering of accounts" proceeding.<sup>195</sup> Similarly to U.S. law, the court must consider what portion of the profits can be effectively attributed to the infringement, and the damages should be adjusted accordingly.<sup>196</sup> This method is substantially easier than the patentee's lost profits approach, and approximately 75% of patent damages calculations adopt this approach.<sup>197</sup>

Where the patentee's lost profits and infringer's profits do not justify a sufficient damages award, the reasonable royalty approach provides a baseline measurement.<sup>198</sup> The doctrinal premise underpinning this approach

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<sup>187</sup> *Id.*; see also JOHANN PITZ, ATSUSHI KAWADA & JEFFREY A. SCHWAB, PATENT LITIGATION IN GERMANY, JAPAN AND THE UNITED STATES, 52–54 (2015).

<sup>188</sup> HARGUTH & CARLSON, *supra* note 185, at 216; PITZ, KAWADA & SCHWAB, *supra* note 187, at 52–53.

<sup>189</sup> HARGUTH & CARLSON, *supra* note 185, at 217; PITZ, KAWADA & SCHWAB, *supra* note 187, at 52–53.

<sup>190</sup> Federal Supreme Court, 1 ZR 132/60, GRUR 1962, 509, "Dia-Rähmchen II."

<sup>191</sup> HARGUTH & CARLSON, *supra* note 185, at 217; PITZ, KAWADA & SCHWAB, *supra* note 187, at 52–53.

<sup>192</sup> PITZ, KAWADA & SCHWAB, *supra* note 187, at 53.

<sup>193</sup> *Id.*

<sup>194</sup> HARGUTH & CARLSON, *supra* note 185, at 217; PITZ, KAWADA & SCHWAB, *supra* note 187, at 53.

<sup>195</sup> HARGUTH & CARLSON, *supra* note 185, at 218.

<sup>196</sup> *Id.* at 217–18; PITZ, KAWADA & SCHWAB, *supra* note 187, at 53.

<sup>197</sup> HARGUTH & CARLSON, *supra* note 185, at 217; PITZ, KAWADA & SCHWAB, *supra* note 187, at 53.

<sup>198</sup> HARGUTH & CARLSON, *supra* note 185, at 214.

is the principle that an unauthorized user should not be better off compared to a user who legally obtained a license.<sup>199</sup> Similar to the U.S. law, this approach is premised on a hypothetical license that both parties would have agreed upon at the time of the infringement.<sup>200</sup> The framework of determining a reasonable royalty is essentially the same with U.S. law: the royalty base times the royalty rate.<sup>201</sup> Typically, the royalty base is the net revenue made by the infringing products.<sup>202</sup> However, where the patent only covers one of many different components or features of a product, concepts comparable to “apportionment” and the “smallest salable patent practicing unit” also exist in German patent law.<sup>203</sup> As to the royalty rate, a court typically looks into existing license agreements in the market and the customary industry practice as a starting point.<sup>204</sup> Then, the court will adjust this starting rate based on a collection of factors, such as the technological and economic importance of the invention, interaction between the royalty base and the amount of the rate, volume of sales, the risks a normal licensee bear that an infringer may avoid, and marketing efforts or business connections that drove the sales.<sup>205</sup>

On the procedural front, there is no jury for any part of the trial. The determination of liability is completely bifurcated from the damages determination in German patent law.<sup>206</sup> After the liability proceeding, or the “first stage” proceeding, if the court finds the infringer liable for infringement, the patentee must post a bond and may demand the infringer to “render an accounting.”<sup>207</sup> During this process, the infringer is under the obligation to render the patentee an account of all substantial facts necessary for the calculation of patentee’s damages, including the quantity of the infringing products, the sales price of infringing products, dates of delivery, customer lists, and a calculation of production costs.<sup>208</sup> The accounting

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<sup>199</sup> Bundesgerichtshof [BGH] [Federal Court of Justice] Aug. 21, 2012, X ZR 36/80, [GRUR] 1982, 286 (“Fersenabstützvorrichtung”).

<sup>200</sup> PITZ, KAWADA & SCHWAB, *supra* note 187, at 53.

<sup>201</sup> HARGUTH & CARLSON, *supra* note 185, at 214–15.

<sup>202</sup> *Id.* at 214.

<sup>203</sup> This is largely established through the case law of the Federal Supreme Court. For example, to determine whether the royalty base should be apportioned down to one component of the infringing product, the court has to determine: (1) which part of the product is covered by the invention; and (2) if such a part can be identified, whether such part can be sold separately. *See* Bundesgerichtshof [BGH] [Federal Court of Justice] Mar. 14, 2000, X ZR 8/90, [GRUR] 1992, 599 (“Teleskopzylinder”); Oberlandesgericht Düsseldorf [Higher Regional Court] July 17, 2009, 2 U 38/08, Beck RS 2010, 21821 “Kappaggregat.”

<sup>204</sup> HARGUTH & CARLSON, *supra* note 185, at 215.

<sup>205</sup> *Id.* at 216.

<sup>206</sup> *Id.* at 213; PITZ, KAWADA & SCHWAB, *supra* note 187, at 52.

<sup>207</sup> HARGUTH & CARLSON, *supra* note 185, at 213.

<sup>208</sup> PITZ, KAWADA & SCHWAB, *supra* note 187, at 51–52.

rendered must be sufficiently specific to allow the patentee to calculate its losses.<sup>209</sup> In most cases, the parties resolve the damages amount out of court.<sup>210</sup> If the parties cannot reach an agreement, the patentee must file a separate lawsuit, the “second stage” proceeding, to request a court to determine the damages.<sup>211</sup> Once a damages proceeding is initiated, the patentee may elect to pursue damages under any one of the three calculation methods.<sup>212</sup> Further, the patentee may freely change from one method to another until the court enters a final judgement on the damages amount.<sup>213</sup>

### C. *Lessons for Chinese Patent Law*

Patent law presents a level of complexity and difficulty that typically demands extraordinary attention to legal nuance.<sup>214</sup> Damages determinations in patent cases are no exception. The U.S. and German experiences are particularly illuminating when determining how China can build a robust patent damages regime without the statutory damages provision.

On the substantive front, both U.S. and German patent law illustrate the necessity of developing a body of relevant laws to deal with the complexity of patent cases. For example, as demonstrated by the German experience, the difficulty of proving actual losses is not a problem unique to China's patent system.<sup>215</sup> However, the infringer's profits approach has great potential to fill in the void if some basic discovery mechanism is established and strengthened.<sup>216</sup> As argued by countless scholars, China may as well look into the numerous well-established doctrinal principles in U.S. and German patent law, such as the price erosion theory, the entire market value rule, but-for causation, and the direct competition test, to speed up the development of its patent damages laws.<sup>217</sup> Further, China needs to substantially expand the reasonable royalty approach by relaxing the

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<sup>209</sup> HARGUTH & CARLSON, *supra* note 185, at 213.

<sup>210</sup> *Id.* at 213.

<sup>211</sup> HARGUTH & CARLSON, *supra* note 185, at 213; PITZ, KAWADA & SCHWAB, *supra* note 187, at 52.

<sup>212</sup> PITZ, KAWADA & SCHWAB, *supra* note 187, at 52.

<sup>213</sup> *Id.* at 54.

<sup>214</sup> See Jennifer K. Bush, John E. Gartman & Elizabeth I Rogers, *Six Patent Law Puzzlers*, 13 TEX. INTELL. PROP. L.J. 1 (2014); Robert P. Merges & Richard R. Nelson, *On the Complex Economics of Patent Scope*, 90 COLUM. L. REV. 839 (1990); Stephan Kinsella, *The Difficulty and Complexity of Patent Law*, CTR. FOR THE STUDY OF INNOVATIVE FREEDOM (July 24, 2014), <http://c4sif.org/2014/07/the-difficulty-and-complexity-of-patent-law/>.

<sup>215</sup> See *supra* note 191 and accompanying text.

<sup>216</sup> See *supra* text accompanying notes 194–197.

<sup>217</sup> Yieyie Yang, *supra* note 4, at 155–56; Zhang, *supra* note 69, at 68.

requirement for an existing license.<sup>218</sup> Both the U.S. and German experience demonstrate that this reasonable royalty approach can be extraordinarily adaptable to handle complex cases involving advanced technologies.<sup>219</sup>

On the procedural front, German patent law provides more insightful lessons as its judicial system is relatively close to the Chinese system.<sup>220</sup> Specifically, it is unthinkable how China can advance its patent system without strengthening its discovery mechanism. Admittedly, a discovery mechanism as elaborate as the U.S.'s system might not be entirely desirable.<sup>221</sup> However, a procedure akin to the "rendering an accounting" process in German patent law is desperately needed in the current Chinese system. Encouragingly, the policy makers in China appear to be taking some positive steps on this front in the past year.<sup>222</sup> Further, the current Chinese patent statute instructs courts to apply the four approaches in a sequential order to determine damages.<sup>223</sup> It is unclear why this is necessary. Nor is it clear whether courts actually follow this instruction.<sup>224</sup> Instead of letting a court dictate the agenda, policy makers in China should allow a patentee to freely choose the calculation approaches that he deems appropriate (either because it authorizes the highest damages award or it has the most sufficient evidentiary backing). Finally, bifurcating the liability phase and damages determination phase may be another plausible

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<sup>218</sup> See *supra* note 26 and accompanying text; see also Yieyie Yang, *supra* note 4, at 156.

<sup>219</sup> See *supra* notes 169–173, 198–205 and accompanying text.

<sup>220</sup> Though China is not a civil law country in a strict sense, the Chinese system does have many elements of a typical civil law system.

<sup>221</sup> See *supra* notes 179–180 and accompanying text.

<sup>222</sup> The drafters for the Fourth Amendment to the Chinese patent law clearly have this in mind. Specifically, the proposed Article 68 provides that "[a]fter establishing a violation of patent rights, to determine the amount of compensation in situations where the patentee has already produced evidence to the extent possible and the books and materials related to the infringement are primarily in the hands of the infringer, people's courts may order the infringer to provide books and materials relevant to the infringing conduct; if the infringer does not so provide, or provides false books and materials, the people's courts can determine the amount of compensation from consideration of the patentee's desire and the evidence they have provided." See *Draft for the Fourth Amendment to the Chinese Patent Law*, *supra* note 96, art. 68. The Supreme People's Court, in its recent Judicial Interpretation of Patent Law, instructed lower courts that "when actual losses are difficult to determine, the court shall require the patentee to come forth with evidence to prove the infringer's profits. If the patentee supplies sufficient preliminary evidence, and the relevant accounting and documents are in the infringer's possession, the court may order the infringers to supply such documents. If the infringer refuses to supply such evidence or supplies falsified documents, the court may calculate the damages based on the patentee's claim and the preliminary evidence supplied." See *Zuigao Renmin Fayuan Guanyu Shenli Qinfan Zhuanli Quan Jiufen Anjian Yingyong Falv Ruogan Wentu De Jieshi Er* (最高人民法院关于审理侵犯专利纠纷案件适用法律若干问题的解释(二)) [Several Provisions of the Supreme People's Court on Issues Concerning the Applicable Laws to the Trial of Patent Dispute Cases (Second)] (Mar. 22, 2016), (Sup. People's Ct. 2016), [http://www.sipo.gov.cn/zcfg/flfg/zl/sfjs/201603/t20160322\\_1253917.html](http://www.sipo.gov.cn/zcfg/flfg/zl/sfjs/201603/t20160322_1253917.html).

<sup>223</sup> Chinese Patent Law of 2008, *supra* note 2.

<sup>224</sup> See *supra* notes 94, 98–102 and accompanying text.

adjustment that is worth considering. For one thing, it sets up a procedural hurdle to encourage the parties to settle the matter out of the court.<sup>225</sup> Moreover, it might alleviate the time pressure put on a court to adjudicate both liability and damages in a single proceeding.

## CONCLUSION

At one time, the statutory damages provision might have served a worthy purpose in the Chinese patent system. That time has clearly come to an end. It is nearly impossible to find any doctrinal justification for the existence of Chinese patent law's statutory damages provision. On a practical level, not only do statutory damages drive the overall damages in patent cases down to an unjustifiable level, but such damages are also fundamentally detrimental to the legitimacy of the entire patent system of China. The current policy discussion on adjusting the statutory range distracts policy makers from the root of the problem and hinders the development of real solutions.<sup>226</sup> Instead of holding on to this Band-Aid style fix, Chinese policy makers are better off without it.

The encouraging side of the story is that, if the statutory damages provision is eliminated, the shareholders of Chinese patent system have demonstrated the potential to advance the reforms proposed in this Article. On one hand, the cases like *Qihoo 360 Tech. Co., Ltd. v. Sogou Info. Serv. Co., Ltd.* demonstrate Chinese jurists' capability to render a fair and nuanced determination in a case that involved complex technologies without resorting to the statutory damages approach.<sup>227</sup> On the other, the Supreme People's Court has illustrated its ability and willingness to take a leadership role in developing the body of law through judicial interpretation and guiding cases.<sup>228</sup> These developments indicate the great potential for China to build

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<sup>225</sup> Logically speaking, an infringer that has been determined to be liable will be more willing to settle with the patentee.

<sup>226</sup> The current proposal for the fourth amendment to the Chinese Patent Law and related policy discussion devoted a lot of energy on what the lower- and upper- limits of the statutory damages range should be. See Draft for the Fourth Amendment to the Chinese Patent Law, *supra* note 96, art. 68.

<sup>227</sup> See *supra* notes 82–86 and accompanying text.

<sup>228</sup> See Liu, *supra* note 36 (discussing the Supreme People's Court's most recent Judicial Interpretation of Patent Law); see also Lifeng Wang, *The Necessity and Function of China's Guiding Cases System*, STAN. L. SCH. CHINA GUIDING CASES PROJECT, Oct. 15, 2013, <https://cgc.law.stanford.edu/commentaries/9-professor-wang/>; Jianchao Liang, *A Discussion of the Use of Guiding Cases in Judges Training*, STAN. L. SCH. CHINA GUIDING CASES PROJECT, July 1, 2013, <https://cgc.law.stanford.edu/commentaries/8-judge-liang/>; He Jing, *A Significant Step Made by the Supreme People's Court Through the Draft Trademark Law Judicial Interpretation*, CHINA LAW VISION, Nov. 11, 2014, <http://www.chinalawvision.com/2014/11/articles/intellectual-property-1/a-significant-step-made-by-the-supreme-peoples-court-through-the-draft-trademark-law-judicial-interpretation/>; *Judicial Interpretation*

a better, stronger, and more efficient patent protection regime without the statutory damages provision.