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# CHINA IP Bulletin

YOUR IPR  
ADVISORS  
IN CHINA.

## Executive Summary

### **Compensation for Infringement of IPR**

The situation in China regarding the protection of IPR is improving. However, one important aspect that remains comparatively weak is compensation. In an effort to provide some clarity about the system that is in place, IP experts Maarten Roos and Peng Kai briefly describe the methods of calculation and suggest some legal alternatives to compensation. Some of the topics addressed in the article include injunctions, statutory compensation, and the specific ways that compensation is calculated for trademark, patent, and copyright infringements.

*by Maarten Roos and Peng Kai*

### **2008 IP Group Case Review**

At the end of each year we like to look back at all that we have accomplished, to get a sense of who we are and where we are going. 2008 was a tremendous year for our IP group in terms of growth and influence. In our case review we take you through some of the more interesting files that showcase the work we have been doing in regards to IP protection, enforcement and portfolio building.

*by Zach Wortham and Peng Kai*

## NEWS

### **A Chinese Perspective on the Economic Downturn**

Being closely involved with the business activities of our Clients in China, we are in a good position to assess not only our own future but that of our surroundings. Our confidence in this market is shown by the recent relocation of both our Shanghai and Shenzhen offices, to accommodate our continuing expansion. At the same time, we realize that many companies are seeing an increase in challenges, and this includes some of our clients. We hope that the future will see a quick recovery, and in any case expect that the opportunities for businesses in China will continue to grow. Of course we will do our very best to assist clients in deciding on, as well as implementing, a successful China strategy for 2009.

EXECUTIVE EDITOR:  
MR. WANG JING

SENIOR EDITORS:  
MR. MAARTEN ROOS  
MR. PENG KAI

EDITOR AND DESIGN:  
MR. ZACHARY WORTHAM



## Compensation for Infringement of Intellectual Property Rights

The problem of compensation for infringement of intellectual property rights has always been a tough issue in judicial practice. Despite efforts to establish the principle of full compensation to IP right owners by enhancing the punishments for IP infringement through legislation, it is still not uncommon to win a case but miss out on compensation. The problem is that compensation relates not only to the method of calculation, but also to other key variables such as the collection of evidence and the enforcement of judgments. Nonetheless, an understanding of the basic principles of compensation is necessary to decide on an owners optimal IP strategy.

### I. Methods to Calculate Compensation

#### 1. Basic Principles

IP rights in China are civil rights, to which applies the basic civil-law principle of equal compensation: compensation shall equal the losses suffered from the infringement. Infringers should not benefit from their infringement, but nor should IP owners earn profits from the litigation. To overcome the difficulties of accurately calculating intangible losses, Chinese IP laws provide some explicit methods of calculation.

PRC courts generally do not support claims for other fees (such as attorney fees) except, in common civil cases, court fees. However to meet the requirements under the *Agreement on Trade-Related Aspects of Intellectual Property Rights* (TRIPS), IP laws offer courts the possibility to award reasonable expenses paid by IP owners for the investigation and stopping of the infringement.

#### 2. Methods to calculate patent infringement compensation:

- a) losses suffered by the patent holder due to the infringement;
- b) profits gained by the infringer from the infringement; or
- c) reference to the multiple of the royalty for this patent in a reasonable manner (1-3 times).

The patent holder may freely choose either method (1) or (2) to calculate the amount of compensation. Only when the losses suffered by the patentee and the profits gained by the infringer are difficult to determine, the third method can be optioned.

The losses of a patent holder equal the decrease of sales due to the infringement, multiplied by the reasonable profit per patented product; where the sales decrease is difficult to determine, reference can be made to the number of infringing products sold in the market. The profits of the infringer equal the infringing products sold in the market multiplied by the infringers reasonable profit per infringing product.

#### 3. Methods to calculate trademark infringement compensation:

- a) the benefits that the infringer obtained from the infringement; or
- b) the losses that the trademark owner suffered due to the infringement.

The trademark owner may choose either one of the aforesaid methods of calculation when claiming for damages. The benefits are based on the sales volume of the counterfeits multiplied by the *profit per unit*; if impossible to know the profit per unit, reference can be made to profit of the legitimate goods represented by the registered trademark. The owners losses are the reduced sales volume resulting from the infringement (or sometimes the sales volume of the counterfeits) multiplied by the profit per unit of the legitimate goods.

#### 4. Method to calculate copyright infringement compensation

- a) the copyright owners actual losses; or
- b) the infringers illegal gains;

The actual losses of the copyright owner may be computed by multiplying the reduced sales volume of the reproductions incurred by the infringement and the unit profit of the reproductions of the copyright owner. If the reduction of the sales volume is difficult to determine, reference can be made to the number of counterfeits. Only when the actual losses of the copyright owner cannot be calculated, the compensation may be computed according to the infringers illegal gains.

#### 5. Difficulties in calculating compensation

In practice, IP owners have a lot of difficulty to reasonably calculate the IP holders losses or the infringers benefits. It is for example very difficult to prove that a decrease in sales volume is due to an infringers products. Usually it is much easier to calculate the infringers gains in theory, but the infringer will unlikely disclose such information voluntarily. And even if the infringer does provide such information, its authenticity will be difficult to prove.

## CHINA IPR NEWS

### IPR laws written into the legislation schedule

In the legislation schedule of the 11<sup>th</sup> NPC Standing Committee for the coming 5 years, the NPC Standing Committee will deliberate on 64 legislation items, including the amendments to the patent law and the trademark law.

The previous, 4<sup>th</sup> meeting of the 11<sup>th</sup> NPC Standing Committee conducted its first deliberation on the Amendments to the Patent Law (draft), and collected suggestions and opinions from the public. In accordance with the provisions of the PRC Legislation Law, a law shall be submitted 3 times to a meeting of the Standing Committee for deliberation, before being put to a vote.

### Progress made in IPR trials

From January to October of 2008, the number of civil cases related to IP accepted by the Peoples Courts in China was 10,860, which is an increase of 36.9% over last year. No less than 20% of these cases took place in Guangdong Province. Subsequently, the Supreme Peoples Court authorized two intermediate courts to exercise jurisdiction on patent cases. The Supreme Peoples Court also authorized 21 district courts to exercise jurisdiction over IPR civil cases.

# Compensation for Infringement of IPR



China does not have a discovery phase in its legal procedures, which means that a plaintiff must collect the evidences that can prove its claims. On the other hand, where information indicates that certain evidence does exist but the plaintiff nonetheless does not have access, then an administrative authority may be asked to carry out an on-site investigation, or an application may be filed with the court for evidence preservation. In practice however, the court may demand from the claimant detailed evidences on the kind and location of the relevant information. Comparatively speaking, the rate of success in applying to the administrative authority is much higher than to the court. Preliminary evidence to prove the existence of the infringement is often sufficient for the administrative authority to conduct an investigation.

## II. Alternatives to Compensation in IP litigation

### 1. Statutory compensation

A claimant in practice is frequently unable to prove profits and losses as per the aforesaid methods, in which case the court has the discretion to decide on the amount of compensation in accordance with the infringement circumstances and within the following limits:

- a) For patents: RMB 5,000 to RMB 500,000 according to the type of patent (invention, utility model or design), the nature and circumstances of the infringement, and other factors.
- b) For trademarks: not more than RMB 500,000, whereby the whole situation of the infringement should be considered, including its nature, duration and aftermaths, the reputation of the trademark, the amount of royalties, the type, period and scope of licensing, etc.

- c) For copyrights: not more than RMB 500,000, after a comprehensive consideration of the type of the art, reasonable royalties, nature and consequences of the infringement, etc.

For statutory compensation, no evidences need to be provided except to prove the infringements existence. However the more relevant evidence, the higher the amount of compensation. For example, the value of the IP rights, the scale of manufacturing and sale of legitimate products and counterfeits, and/or the reasonable fees for investigating and stopping the infringement, can all be filed for consideration by the court. In general, the size of the claim could also influence the judgment; the disadvantage of a large claim, on the other hand, is that it will also increase court fees.

### 2. Injunctions

Only courts can award compensation to the infringed. However presuming that the infringement can be established, both the court and an administrative authority can issue an injunction against the infringer to stop the infringement. Many IP owners focus on stopping the infringement rather than obtaining compensation working with administrative authorities is often less costly and can yield results more quickly. However, the legal consciousness of many enterprises and individuals in China is quite weak, and soft judgments such as injunctions are ignored more easily than orders for compensation.

Therefore, a civil claim for a large amount of compensation, in combination with an application to freeze the infringers assets, often works better as a deterrent, as it increases the costs of the infringement and can contribute to a stopping of the infringement and settlement.

## III. Conclusion

Chinese IP laws contain detailed provisions on how to calculate compensation for IP infringement, though adequate compensation remains a practical problem due to the difficulties of collecting evidence and enforcing judgments. The amendment of the three major laws on intellectual property rights, the *PRC Patent Law*, the *PRC Trademark Law* and the *PRC Copyright Law*, may raise the upper limit of statutory compensation to RMB 1,000,000, which could lead to higher levels of compensation to the infringed. But giving more discretion to the courts will also lead to more uncertainty.

Often the biggest practical difficulty for an IP holder in obtaining satisfactory compensation relates to the collection favorable evidences, and to obtaining the courts recognition of its evidences and this problem is unlikely to be resolved soon. At the same time, the amount of claim and compensation is not only a matter of numbers, but also one of deterrence value, litigation strategy and costs, and closely relates to the enforcement of a judgment. Claimants should make a comprehensive review of the circumstances and their goals, work out a feasible and effective strategy of claim, and be ready to make adjustments during an action to ensure that the collected evidences are put to best use.

By Maarten Roos and Peng Kai

# 2008 IP Group Case Review

## 2008 IP Group Case Review

2008 will be remembered as Chinas first shot at playing the lead role on the international stage as they hosted the Olympics; but 2008 also marked the fourth year of the Wang Jing & Co., IP Group. During the last four years,

we have continued to grow and improve our services on every level. In 2006, we launched our trademark and patent registration guides, which we continue to update; and in 2007 we initiated the China IP Bulletin, to introduce legislative developments and best practices in the Chinas IP field. One of the highlights of 2008

was our joining of the Terralex legal network, many of whose members are also IP focused. And despite the global downturn, for 2009 we have many new plans and goals to provide our clients with high value services.



## Establishing your Intellectual Property

The IP Group has clients from all over the world, including Britain, Japan, Spain, Switzerland, New Zealand, Argentina, Denmark, Hong Kong, Italy, The United States, the British Virgin Islands, the Netherlands, Belgium and Singapore, which are involved in all kinds of industrial sectors, including machinery, electronics, bio-industry, automotive, fashion, trade etc. We have assisted these clients in trademark registrations, as well as for invention, utility model and design patents. In 2008 we have also seen an increase in the number of successful trademark reviews, including one case in which the Trademark Appraisal and Examination Commission overruled the rejection decision made by the State Trademark Office (STO), and approved the territorial extension application of our clients registration through the Madrid System; his trademark is now registered and protected in China.

As the business grows, we are also increasingly cooperating with foreign law firms to deal with international IP registrations. For a US client for example, we coordinated the filing of trademark applications in 12 countries/regions; trademarks in Singapore, Hong Kong, Macao, and Taiwan have been granted, while those in Japan, Australia, and the Philippines are still in being examined.

In addition, we have also assisted several clients in other recordings, including for copyright recording, recording trademarks with customs, and registering domain names.

## Protecting Your Intellectual Property

This year, we provided IP-related legal services to a number of companies, including legal opinions on IP issues, drafting agreements of IP assignment/licensing, business cooperation and confidentiality agreements for employees, assisting on IP negotiations and supervising contracts performance. We give some examples:

- A restaurant chain in Guangzhou consulted us on their idea to use a popular cartoon image in their advertising. We advised on the legal consequences of such use, and then provided possible solutions to avoid legal liability.
- A famous Italian clothing brand was planning to establish a retail business and enter the Southeast Asia market. In our investigation and portfolio creation we found that brand was already registered in China by a third

party, which could lead to considerable legal liabilities. The client suspended its business plan, and we assisted to negotiate for transfer of the trademark. After re-acquiring the trademark rights in several target countries through negotiation, our Clients business plan is back on track.

- In an example of aggressive IP protection, a Belgium bio- technology company discovered that a Chinese company had applied for invention patents on two of its popular products. Normally the most straightforward way to attack such a problem would be to file an application for patent invalidation. However, considering the lengthy procedures involved in invalidation, we submitted our opinions and evidences directly to the patent examiner, and maintained communication through-out the process. As a result, the patent applications filed by the Chinese company did not pass substantial examination.

- China sees many malicious trademark application and registrations. Some foreign companies, when entering into the China market, find that their trademarks have already been registered in bad faith, barring them from acquiring the same rights. To solve the problem effectively, we will suggest to first try to negotiate with the trademark owner for a transfer at a reasonable price; if the negotiations fail, we will then file a trademark opposition or cancellation with the STO. In 2008, we succeeded in negotiating for the transfer of trademarks for a Danish and a German company respectively; we filed for opposition and cancellation of malicious registrations of well-known trademark for clients from all over the world, including, Germany, Italy, Japan, Hong Kong, and Argentina.

- Malicious registrations of internet domain names are also a big problem. For example, one Italian company found that its trademark was registered by a Shanghai company as two .CN domain names. We filed an objection with the Domain Name Dispute Settlement Center of the China International Economic and Trade Arbitration Commission, who ruled in favor of our Client and order the transfer of the domain names to our Client. However, after some time the same company registered another, similar domain name, and on its website advertised itself as an affiliate of our Client. This constitutes both a trademark infringement in regards to the domain name dispute and unfair competition, making a lawsuit necessary.

## CHINA IPR NEWS

### 1<sup>st</sup> Circuit Court, Patent Review Committee unveiled in Guangdong

Significant progress was made regarding the cooperation mechanism between the State Intellectual Property Office (SIPO) and Guangdong Province. It is reported that both parties will extend their cooperation on aspects such as the installation of a multimedia filing system, research on patent protection, promotion of officers communication activities, and establishment of an information communication channel.

### MOFCOM takes 13 market concentration cases post AML

The Ministry of Commerce (MOFCOM) has revealed that since the PRC Antimonopoly Law came into effect on August 1, 2008, its Antimonopoly Bureau has received dozens of applications to review cases of market concentration. Up to November 19, it has selected 13 cases for investigation, with decisions rendered for 8 of these.

Market concentration refers to business operators control of other operators or exercising decisive influence on others through mergers, acquisitions, purchase of securities, contract, personnel arrangements or technical control. Though such act may bring efficiency through the combining of resources, over-concentration can easily restrict competition.



• Customs recording can be an effective means to protect IP rights; this year, we completed the recording of IP rights with Customs for companies from Argentina, Italy and Denmark respectively. As a result we have had to respond to notices from Customs, coordinating with Customs on potential infringements, and assist our Clients in monitoring the flow of products related to their IP by identifying infringing products and releasing their legitimate products.

## Enforcing your Intellectual Property

At the beginning of 2008, we assisted a Chinese company in concluding a settlement agreement regarding a patent infringement dispute with a famous Japanese company, resulting in the Chinese company receiving compensation of more than RMB 4 million. In this case, the Chinese company was the holder of the patent rights for the core materials supplied to the Japanese company. When the Japanese company suddenly suspended cooperation, our Client suffered great loss. As negotiations initially failed, we assisted our Client to submit the dispute to the administrative authority, and the Japanese company responded with an application for patent invalidation. During the hearing, we showed sufficient evidence to prove the patent infringement and effectively defended our client from the patent invalidation, thus forcing the Japanese company to settle.

In August 2008, we also obtained a favorable judgment from the Guangzhou Intermediate Peoples Court for a New Zealand beverage manufacturer. The ruling confirmed indisputably that the defendants act constituted trademark infringement. The defendant shall immediately stop manufacturing and selling the infringing

products, and shall pay our Client RMB 150, 000 as compensation for the suffered economic losses. The infringer was a distributor of our client and after terminating the relationship, the defendant began manufacturing and selling fake products. The Clients previous attempt to commence an administrative action had failed.

Another Client invented a new kind of hinge and was granted the patent rights in many countries, including China. The company has since found dozens of infringers in mainland China and has entrusted us to safeguard their interests. We have collected relevant information and evidences, and

“...we filed for opposition and cancellation of malicious registrations of well-known trademark for clients from all over the world, including, Germany, Italy, Japan, Hong Kong, and Argentina.”

taken legal actions against a number of infringers, through complaints with the IP Booth of the Canton Trade Fair to prevent the exhibition of infringing products, through administrative actions, and by filing civil lawsuits. Our efforts were met with mixed results: some infringers immediately stopped their infringement after reaching a settlement, while others are negotiating patent licensing agreements. But we filed actions against those who disregarded our demands, requesting an injunction as well as compensation.

## **Conclusion**

In 2008, our IP group grew by leaps and bounds and we look forward to many more years of such growth. We take this opportunity to express our sincere gratitude to our clients and colleagues. We strongly believe that in 2009, we will strengthen our relationships and create a broader platform with which to provide stronger services to our Clients.

By Zach Wortham and Peng Kai

## CHINA IPR NEWS

### ICE opens IP Desk in Guangzhou

This year, the Italian Institute for Foreign Trade (ICE) in Guangzhou opened a special IPR desk to assist Italian businesses with intellectual property issues. With former Wang Jing & Co. lawyer Tan Shujuan joining the desk, we look forward to a close cooperation to better assist Italian enterprises to protect and enforce their intellectual property rights.

### Sothebys win gives IP a boost in China

Sothebys, the well-known international auction house, recently won a significant victory against a Chinese company, Sichuan Su Fu Bi Auction Company. The ruling is encouraging for well-known international companies because the court recognized the Chinese version of Sothebys as an unregistered well-known trademark and a famous trade name in China, even though Sothebys had not conducted auction business in China. The court indicated that it is willing to give greater protection to foreign IP rights. It is also a timely reminder to multinational companies operating in China that they should develop a Chinese version of their foreign brand and apply for registration as a defensive measure, regardless of whether they intend to adopt a bilingual branding strategy in China.

#### **GUANGZHOU**

Tel. (+8620) 8760 0082  
Fax (+8620) 8778 4482  
info@wjnc.com

#### **SHANGHAI**

Tel. (+8621) 5887 8000  
Fax (+8621) 5882 2460  
shanghai@wjnc.com

#### **TIANJIN**

Tel. (+86 22) 2532 3818  
Fax (+86 22) 2532 3820  
tianjin@wjnc.com

#### **XIAMEN**

Tel. (+86 592) 268 1376  
Fax (+86 592) 268 1380  
xiamen@wjnc.com

#### **SHENZHEN**

Tel. (+86 755) 8882 8008  
Fax (+86 755) 8284 6611  
shenzhen@wjnc.com

#### **HAIKOU**

Tel. (+86 898) 6672 2583  
Fax (+86 898) 6672 0770  
hainan@wjnc.com

#### **QINGDAO**

Tel. (+86 532) 8666 5858  
Fax (+86 532) 8666 5868  
qingdao@wjnc.com

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