

# 16 Comparative Study on the Judicial Protection of Intellectual Property: From the Viewpoint of the Trial of Intellectual Property Cases between China and Japan

Luo Dongchuan<sup>(\*)</sup>

*Following its entry into the WTO, China is facing the new challenge of how to strengthen judicial protection for the intellectual property. In recent years, China has put forward the strategy of building the country by strengthening science and education while advocating judicial system reform. Meanwhile, Japan also is implementing its judicial system reform. Japan put forward the "Intellectual Property Policy Outline" and drew up the "Basic Law on Intellectual Property" in 2002. Under the new circumstances, China and Japan have attached unprecedented importance to the judicial system and intellectual property protection. This is the new background of intellectual property protection. Under this historical situation, it is of special importance to make a comparative study on judicial protection for intellectual property between China and Japan because both countries can learn from each other in judicial protection for intellectual property and judicial system reform. This article, from the perspective of how to improve the law enforcement and judicial system in order to adapt to the new needs in the new century in terms of intellectual property protection, makes a comparative study of the judicial systems and judicial remedies for intellectual property between China and Japan.*

*Under the present circumstances, both China and Japan are attaching greater importance to judicial reform and IPR protection than ever before.*

## 1 Comparison of the Trial System for Intellectual Property between Japan and China

### 1-1 Overview of the IPR trial in Japan and China

Both China and Japan have already established IPR departments in their courts. In Japan, the 3<sup>rd</sup>, 6<sup>th</sup>, 13<sup>th</sup> and 18<sup>th</sup> Civil Departments in the Tokyo High Court are responsible for IPR cases. In addition, the 29<sup>th</sup>, 46<sup>th</sup>, and 47<sup>th</sup> Civil Departments in the Tokyo District Court are also responsible for IPR infringement cases.

China started to set up intellectual property courts in Beijing, Shanghai and Guangdong in 1993. In 1996, the Supreme People's Court set up its intellectual property court. As of 2002, altogether 31 high courts in China had set up civil trial courts specially dealing with intellectual property issues. At the same time, except for people's intermediate courts at the provincial capitals, intermediate courts at various local levels have also set up a civil department specially dealing with intellectual property. For example, Haidian District and Chaoyang District in Beijing, Pu Dong New District and Huangpu District in Shanghai, and Shinan District in Qingdao have also set up their respective IP courts.

It is an international trend to set up special IP departments or special IP courts.

### 1-2 General introduction to the intellectual property trial and its related judicial system

#### 1-2-1 Types of IPR cases accepted

The district courts in Japan (such as the intellectual property departments of the Tokyo District Court) mainly deal with intellectual property infringement disputes, including those related to patent right (including utility models and design disputes), trademark right, copyright, unfair competition, plant variety right and semiconductor IC layout. In contrast, Chinese intellectual property courts accept all types of intellectual property disputes, including, IP right ownership disputes and related contract disputes (the jurisdiction of some cases requires approval by the Supreme People's Court), in addition to IP infringement.

#### 1-2-2 Number of IPR cases accepted

From 1991 to 2001, intellectual property infringement cases in Japan nearly doubled. The Tokyo District Court accepted about half of all cases in Japan, reaching 300 per year.

In China, the number of newly accepted cases over the past 10 years has been on the increase, with an average yearly increase of 10-20%. In such major cities as Beijing, Shanghai, Guangdong, Jiangsu and Zhejiang, the rate of increase is even higher.

From 1990 to 2000, Chinese courts accepted 36,504 first instance IPR cases and decided 36,088 cases. Among decided cases, there were 9,318 patent cases, 3,027 trademark cases, 4,486

(\*) Deputy Chief Judge of the Third Civil Tribunal of the Supreme People's Court of China

copyright cases, 13,710 technical contract cases, and 5,963 unfair competition and other IPR cases. In 2001, Chinese courts at all levels accepted 5,041 IPR cases, a 10% increase over the previous year. In 2002, 6,201 first-instance cases were decided. Regarding second-instance appeal cases, a total of 1,544 cases were accepted and 1,461 cases were decided.

### 1-2-3 Jurisdiction of IPR cases

IPR infringement cases in Japan are decided by the district court of the defendant's domicile, or of the place where the accused infringing product is manufactured or sold. The Tokyo District Court has jurisdiction over the Eastern Japan area while the Osaka District Court has the same jurisdiction over the Western Japan area. In Japan, 85% of first-trial IPR cases are tried by the Tokyo and Osaka District Courts.

In Japan, there are two kinds of patent lawsuits. One is administrative lawsuits against the decisions made by the Japanese Patent Office and comes under the jurisdiction of the Tokyo High Court. If the defendant refuses to accept the ruling by the Tokyo High Court, he can appeal to the Supreme Court. Another type of case is patent infringement cases. These cases fall under the jurisdiction of the district courts. The defendant can appeal to the High Court and then the Supreme Court.

In China, if a lawsuit is filed against the Patent Review Committee of the State Intellectual Property Office (formerly called the Chinese Patent Office) on the decision of grant of patent or patent effectiveness, the case will be tried by the First Intermediate People's Court of Beijing. If the defendant refuses to accept the decision made by this court, he can appeal to the Beijing High People's Court.

According to Article 5 of *Regulations on the Applicable Laws in the Trial of Patent Dispute* of the Supreme People's Court, lawsuits arising from infringement of patent are under the jurisdiction of the people's court where the act of infringement takes place or of the defendant's domicile. The place of the infringement includes: the place of the manufacturing, use, offer to sale, sales, import of the alleged infringing invention or utility model; the place of the use of the patented process, or the place of manufacture, use, offer to sale, import of the product that was manufactured by the patented process; the place of the manufacturing, sales and import of the design patent product; and the place where the act of passing-off regarding another party's patent took place. Article 6 stipulates that if the defendant only files the lawsuit against the manufacturer of the infringing product, excluding the seller and if the place of manufacturing is different from that of sales, the people's court where the product is manufactured has the jurisdiction over the case. If both manufacturer and seller become defendants, the people's court where

the product is sold has the jurisdiction over the case. If the seller is a branch of the manufacturer, and the plaintiff files a suit against the manufacturer in the place where the infringing product is sold, the people's court there has the jurisdiction.

The Supreme People's Court made new regulations on the jurisdiction of IPR infringement cases in *Interpretation on the Applicable Laws in Trials of Trademark Civil Dispute Cases* and *Interpretation on the Applicable Laws in Trials of Copyright Civil Dispute Cases*. The above two legal interpretations stipulate that trademark infringement cases and copyright infringement cases are under the jurisdiction of the people's court where infringing action takes place, where the infringing products or counterfeit goods are stored or seized, and of the defendant's domicile. In other words, the people's court doesn't try cases of trademark infringement and copyright infringement according to the place of final result of the infringing act. The place of storage means a place that is used to store large quantities or frequently used to store or conceal infringing products or counterfeit goods. The place of seizure means a place where the Customs, the Administration for Industry and Commerce or the Copyright Administrations seal up and seize the infringing products or counterfeit goods according to the relevant law. The place of seizure in the above two legal interpretations only refers to the place where infringing products or counterfeit goods are sealed up and seized by intellectual property enforcement authorities. The place where the people's court seals up and seizes the infringing products or counterfeit goods before the trial will not be regarded as the place of seizure under the above two legal interpretations. In the place of storage or seizure of the infringing products or counterfeit goods, the party concerned not only can file a lawsuit against the party who stores, manages or transports such products or counterfeit goods, but also can file a lawsuit against the seller or manufacturer of the infringing products or counterfeit goods, or both of them at the same time.

### 1-2-4 Concentrated trial of IPR cases

(1) In the Outline for Intellectual Property Strategy, Japan has put forward the proposal to concentrate jurisdiction for IPR cases to the Tokyo District Court and Osaka District Court.

(2) According to the Supreme Court's legal interpretations on disputes involved in patent, trademark, copyright, plant variety right, IC layout right, and so on, all IPR cases should be examined by intermediate courts or higher, except for in some exceptional situations approved by the High People's Court where certain grassroots people's courts can try certain types of IPR cases.

Patent, plant variety, and IC layout dispute cases must be under the jurisdiction of the

intermediate people's courts designated by the Supreme Court.

#### **1-2-5 Trial procedure**

In Japan, after an IPR case is accepted, it is examined by the same collegial panel until its completion. This is the same as in China.

When a case begins to be tried in Japan, there is not a complete court trial process that reviews factual and legal evidences. After an IPR case is accepted, usually the judge assembles both parties in the court or a meeting room in order to discuss such questions as evidence and disputing points, usually once a month. The whole oral argument process usually has 10 rounds. Both parties air their opinions by exchange of briefs, and the judge will summarize issues asserted by both parties after full consideration of the briefs submitted by both parties. Thus, not so many oral arguments are held in the Japanese court. In the whole process, the judge, from a neutral standpoint, guides both parties to air their opinions. Sometimes, if necessary, the judge would also ask both parties to adhere to their points. In Japan, there is no jury system and the judge is responsible for the review of all evidences.

The Chinese court adopts the court trial system, which includes the reading of the complaint and plea, the court's investigation (including production and confirmation of evidences by parties) and oral arguments. The judge can hand down the verdict at the court or at a later, designated date. The intellectual property judges in China, however, pay great attention to the pre-court procedures, including exchange of evidences and the written statements and confirmation of the disputing points.

#### **1-2-6 Evidence**

It is a common practice around the world, including Japan and China, that both parties in a lawsuit bear responsibilities in the submission of evidence. Unlike the United States, there is no discovery procedure in either Japan or China.

Article 105 of the Japanese Patent Law stipulates that one party in the lawsuit can ask the court to order the opposite party to submit evidence required to establish the infringing action or calculate amount of damage unless the opposite party has the appropriate reasons to refuse.

China has made some specific regulations on burden of proof in various intellectual property laws such as Article 57(2) of the Patent Law, Article 56(3) of the Trademark Law and Article 52 of the Copyright Law. However, the shift of burden of proof regarding process patent as stipulated in Article 57(2) of the Patent Law doesn't mean that the right holder is completely free of any responsibility in providing evidence. The patent holder should first show evidence that he enjoys the process patent and the defendant manufactures the same product as manufactured through the

patented process, and only after that can the court ask the defendant to provide the evidence that its product is manufactured differently from the patented method.

In China, there is the evidence preservation system. That is to say, in the case of emergency or that the evidence might be eradicated, application can be filed to the court for the preservation of the evidence. In the Trademark Law and Copyright Law amended in 2001, evidence preservation before trial is also adopted.

The China Civil Proceeding Law also stipulates that one party in the lawsuit can file application asking the court to collect evidence if it is difficult to collect evidence due to objective reasons.

Chinese courts employ an evidence exchange system. In China's court practice, the purpose of the exchange of evidence before opening court is to ascertain the evidence provided by the parties, clear up the debating point, and understand their claims in order to make an adequate preparation for the court opening. When exchange of evidence involves patent and trade secrets, the exchange of evidence must be made within the extent requested by the plaintiff. The people's court should hold a closed-door hearing when so requested by the parties and can impose a duty on the opposite party to maintain secrecy. Disobeying the confidentiality obligation may be dealt with as civil contempt depending on the circumstances and may be the reason for issuing an order to stop infringement and pay damages.

In trials involving trade secrets in Japan, even if the party insists on not revealing them to the opposite party, generally speaking, a judge will ask the said party to disclose them from the viewpoint of judicial fairness. But the party can disclose the related details little by little based on the defense asserted by the counter party to avoid an exposure of unknown trade secrets and suffering damages thereby.

#### **1-2-7 Professional knowledge**

(1) The investigator system is adopted in the Court Organization Law in Japan. It stipulates that based upon the request of the judge, an investigator will be arranged in an industrial right litigation in order to solve the technological problems related to the case by presenting a research report with technological analysis.

(2) There is an appraisal system in the Civil Procedure Law in China, which stipulates that in the face of technological problems in court, it is possible to request the appraisal by a legally accepted appraisal organization.

(3) Based on this provision, China is also exploring ways for the introduction of the expert witness system and expert consulting system. Catering to the needs of the case, the parties can ask for one or two experts or "expert witnesses" to

attend court, explaining the details related to the professional technologies.

(4) The people's court is able to study technological cases from experts and consulting offices if needed, as well as have the technological facts concerned appraised by the request from the parties concerned.

## **2 Some Issues in the Judicial Remedy of Intellectual Property Cases**

IPR judicial remedy means that, when the legal right of an IP owner is infringed, it is possible to demand measures for protection from the judicial authorities. This is the main method to realize IPR protection, which will protect the right from being infringed illegally by the means of the state power. As for IPR, besides criminal remedy and administrative remedy, there is procedural remedy and substantive remedy in the aspect of civil judicial remedy.

### **2-1 Procedural remedy**

Procedural remedy means measures to offer a kind of protection to the party concerned before the court makes a ruling. Provisional measures as defined in Article 50 of the TRIPS Agreement are also the procedural remedies for the protection of IPR. Every country generally has measures to stop the acts of infringement as stipulated in Article 50 of the TRIPS Agreement. What is more important is that the article stipulates that provisional measures should be adopted before the beginning of the court proceedings, if necessary. It also stipulates the preservation of evidence before a lawsuit.

When China amended the Patent Law in 2000, and the Trademark Law and Copyright Law in 2001, it added the provisions on provisional measures before the court proceedings. As for the detailed implementation of provisional measures, for example, qualification of the applicant, applying procedure, evidence, security, review, compensation of damage when court proceeding is not initiated, etc., the Supreme Court made a detailed stipulation by its judicial interpretation. In China, there is no definition for the concept of "preliminary injunction", but the nature and content of that term are the same as in provisional measures, meaning the court would order the stop of the infringement action before the lawsuit is initiated.

In Japan's Civil Preservation Law, the term of "provisional disposition" is defined. When an act of infringement brings about imminent risk of damage or risk of tremendous damage to the party concerned, it is possible to request for the adoption of provisional disposition. In Japan, with more and more attention paid by enterprises to the protection of IPR, and based on the demand for immediate action to solve infringement disputes, provisional

disposition becomes one of the important ways that the parties prefer to select to speed up the solution for IPR disputes. In fact, most cases of provisional disposition requested in IPR litigations in Japan have something to do with the prohibition of the infringement of the IPR with the purpose of stopping the manufacture and sale of the infringing products. In that sense, by applying provisional disposition, the party concerned seems to be able to realize the same results as the final trial.

The two countries differ in their ways of implementing provisional measures. In Japan, only when there are few questions remaining does the judge grant preliminary injunction without asking the disputing parties. Usually opposing parties will be asked before ordering preliminary injunction, and when deemed necessary, the judge will ask the parties to come to the court to explain the facts and reasons. There are only a few cases of provisional measures in China. From legal interpretation issued by the Supreme People's Court, the provisional measures should be decided before the lawsuit is initiated. Therefore, generally speaking, the court will examine assertions of the requesting party only and will not contact the opposite party. But at the same time, the legal interpretation also stipulates that, when necessary, the court can ask the opposite party about facts. After the implementation of the provisional measures, the opposite side may ask the court to review and reconsider its decision on provisional measures and has the right to request the rescission of the provisional measures. In such a case, the court has to listen to the opinions of both sides and should agree to rescind the provisional measures if the reason is appropriate.

In Japan, the judge will have the discretion in deciding whether the applicant should make compensation for damage resulting from the provisional disposition if the applicant loses the case in the lawsuit. If the judge believes that the applicant has committed fault, for example, by concealing the relevant facts, then the applicant would be ordered to pay compensation for the damages caused by the implementation of the provisional disposition. In China, if the applicant does not initiate a lawsuit or loses the case in the lawsuit after the implementation of the provisional measures, the court must order the applicant to make compensation for the damages. In China, even when the plaintiff doesn't file the preliminary injunction before the lawsuit, he can still file the application for the provisional measures when filing the lawsuit.

### **2-2 Substantial remedy**

(1) Substantial remedy refers to the substantial protection the party concerned can enjoy through judicial procedure. As far as intellectual property is concerned, substantial remedy mainly refers to court's acceptance of the substantial claims put

forward by the party concerned, that is to say, a request for stopping the act of infringement and for damage compensation.

(2) In terms of the context of the substantial remedy, Japan and China both provide injunction to stop the act of infringement and order of damage compensation. After the confirmation of the infringement of the rights, the court can, based upon the request of the party concerned, order the defendant to compensate for the damage of the infringement of the rights.

(3) In the IP lawsuits in China, besides the injunction and compensation for damage, there are other ways such as apology, restitution, recovery of reputation, and eradication of disturbance on the rightholder.

(4) Action 106 of the Japanese Patent Law stipulates the definition of "Measures for recovery of reputation". That is to say, upon the request of a patentee or exclusive licensee, the court may, in lieu of damages or in addition thereto, order a person who has injured the business reputation of the patentee or exclusive licensee by infringing the patent right or exclusive license, whether intentionally or negligently, to take the measures necessary for the recovery of the business reputation.

### **2-3 Infringement of right and invalidation**

In the patent infringement litigation, the defendant often demands the invalidation of the patent held by the plaintiff or declaration of nonexistence of right asserted by the plaintiff. This is one of most important defenses used by defendants in IP cases. Demanding invalidation is also a method sometimes used by the defendant to postpone the litigation. This has prolonged the period of time required from initiation to completion of intellectual property litigations, which ultimately affects the effectiveness of the protection of intellectual property. In this respect, Japan and China share some similar experience.

Before 1992 Supreme People's Court interpretation, in China, if defendant requested the declaration of invalidity of the plaintiff's patent, the court usually stopped the trial until the Patent Review Board (PRB) made the final ruling on validity of the patent. If the defendant refused to accept the ruling of the PRB and appealed it to the court, the infringement court would have to stop the infringement proceedings until the conclusion of validity proceedings. China's Supreme People's Court, in 1992, announced in its legal interpretation that request of invalidation against utility model and design patent should be put forward during the plea period, otherwise the court doesn't have to stop the proceedings. As for the invention patent, even if the defendant requests for invalidation, the proceedings need not be stopped.

In Japan, the Japanese Supreme Court's decision on *Fujitsu* (also known as the *Kilby Case*)

in April 2000 had historical and realistic significance, which has changed the whole process of intellectual property litigation in Japanese courts. The Japanese Supreme Court opined that the court that tries the patent infringement case can decide on the validity of the patent. The *Kilby* decision has changed the past practice on invalidation request, and has expedited the protection process. But the court still cannot announce directly that the patent is invalid, instead, only can dismiss the plaintiff's claim by ruling it as abuse of right.

In China, due to many suspensions of IP infringement proceedings in the past, the People's Supreme Court in 2001, in its legal interpretation entitled *Regulations on the Applicable Laws in the Trial of Intellectual Property Dispute*, stipulated the conditions for suspending the IP infringement proceedings.

In Japan, if the defendant initiates invalidation proceeding before the Japan Patent Office, the court may suspend the infringement proceedings. If the defendant appeals the JPO's decision on invalidity to the Tokyo High Court (or then the Supreme Court), the infringement proceedings will reopen after the decision on validity of the disputed patent is finally made by the High Court or the Supreme Court.

In order to improve the efficiency of patent infringing proceedings, both the Chinese and Japanese courts are exploring ways to expedite the trial process while dealing properly with the relationship between patent infringing proceedings and patent invalidation proceedings. The current measures taken by the Japanese court, which were declared by the Supreme Court in the *Kilby* decision, are quite positive, but whether the validation review procedure becomes meaningless is worth research. It is also a challenge to the quality of the judge. Invalidation proceedings are dealt with by the Department of Appeal of the JPO or the Tokyo High Court, while the first instance of a patent infringement lawsuit is dealt with by a district court. Whether both sides can reach a consensus on validity of the disputed patent and how to solve any differences between them is an outstanding question. It is worth researching the impact on the patent system and interests of the involved parties, as well as on how to coordinate the relationship between patent infringement proceedings and patent invalidation proceedings.

### **2-4 Doctrine of equivalents**

This is one of the hottest issues in the Japanese legal society. In particular, the Supreme Court acknowledged and affirmed the doctrine of equivalents and also put forward five applicable principles in the decision on *THK Co. Ltd. v. Tsub-akimoto Seiko Co., Ltd.*, Heisei 6(0) No. 1083, February 24, 1998 (also known as the *Ball Spline Case*), which has had a deep impact on the Japanese patent society.

The doctrine of equivalents (DoE) is a very important issue in the patent infringement proceedings, one that must not be overlooked. Although every country basically acknowledges this principle, the detailed criterion for applying DoE is different. Although the history of patent trial in China is not very long, based upon the experience of other countries, China has also adopted this principle. Moreover, the Chinese Supreme People's Court has clarified its criteria for applying DoE in the legal interpretation entitled *Regulations on the Applicable Laws in the Trial of Patent Dispute*.

How to apply the doctrine of equivalents is related to the question of what will be protected by a patent. It is quite difficult to define the scope of the protection of an invention only through patent claims. Therefore, the application of the DoE may be regarded as contributing to reasonable protection for technological innovations while serving the purpose of the patent system itself. What scope of protection the disputed patent has been conferred may become the focus of a dispute and therefore the key issue to the patent infringement proceedings. How to define the scope of protection of a patent can be said to be the prerequisite of the judgment of infringement. In practice, however, it becomes obvious that literal claim construction by itself is not sufficient to realize effective patent protection. This is partly because, due to the ever rapid development of technologies, the possibility becomes quite high that a feature or element of the patented technology will become able to be replaced by another feature or element that is developed after issue of the patent and therefore is not, and cannot be, claimed by the applicant. When defining the scope of patent protection, almost every country adopts the DoE; i.e., basically defines it based on the patent claims appearing in the patent certificate, but also, by taking into account the specification and the drawings, includes within the protected scope the product that has a feature which has not been claimed but can be deemed as equivalent to the claimed feature.

However, the doctrine of equivalents should be implemented strictly, otherwise it might be abused. If the DoE is used inappropriately, it will affect legality and effectiveness of the patent system itself. The use of the DoE in cases of patent infringement should be understood and handled correctly.

## **2-5 Compensation for damage**

The compensation for damage in IPR infringement cases has quite different aspects from that in cases that involve tangible assets. Calculation of the IPR damage compensation is always an important and difficult issue in IPR cases. In the knowledge society, since acts of IPR infringement are becoming more concealable and the damage caused is incalculable, the voice to

increase damage compensation and for revision of the law is very high.

In Japan, according to Article 417 of the Japanese Civil Code, the compensation for IPR damage is made as monetary compensation, and damage compensation must be compensatory and cannot be punishable.

In China, in terms of damage compensation for IPR infringement, besides the stipulation in the Civil Code, there are some clear stipulations in the Patent Law, Trademark Law and Copyright Law. The Chinese court has maintained the principle of comprehensive damage compensation in order to define the compensation amount in a fair and rational way. Regarding IPR cases, application of punishable compensation is still non-existent in China.

The comprehensive damage compensation rule means, as for the act of infringement taken by the accuser, regardless of whether it is intentional or unintentional, and regardless of whether the accuser would be dealt with by criminal punishment or administrative punishment, the accuser should make damage compensation for the damage caused by his acts, both physically and psychologically. The purpose of comprehensive damage compensation is to protect the rights of the injured party as much as possible, and to fully compensate for the damage suffered by the injured party. This principle is compatible with the stipulation in the TRIPS Agreement that requires "the infringer to pay the right holder damages adequate to compensate for the injury the right holder has suffered".

In IPR infringement proceedings, the Chinese people's court will, based upon the principle of comprehensive damage compensation, assure the injured party receives enough compensation for the damage caused by the infringement so that the injured party will not suffer economic loss. For those cases in which calculation of the damage is affected by the evidence issues, the court will, based upon the request of the injured party, set a compensation amount that is favorable to the injured party.

When infringement is found, the Chinese court, in addition to damage compensation, may impose on the infringer(s) such civil liability and civil penalty as apology, restitution, confiscation of the infringing products and the equipment which is used to manufacture infringing products, and/or fine. The Japanese court can order the seizure and destruction of the infringing products.

In terms of patent infringement cases, Japanese scholars believe that although Article 709 of the Japanese Civil Code and Article 102 of the Patent Law stipulate respectively damage compensation issues for act of tort (infringement of another party's right) and patent infringement, it is difficult for the plaintiff to demonstrate the exact amount of damage amount. Section 102(1) of the

Japanese Patent Law stipulates the calculation of damage compensation according to the damage caused by the infringement action, which seems the ordinarily adopted method. Under this provision, the amount of damage the patent holder suffered can be calculated by multiplying the number of infringing products sold by the infringer by the unit profit of the products that the patent holder could have sold in the absence of the infringement. This formula has taken the market share and marketing effort of the patent holder into full consideration. If the defendant did not gain any profit, this calculation method will not be affected. Section 102(2) of the Japanese Patent Law stipulates that damage compensation can also be calculated according to the profits gained by the infringer. But this method seems apt to provoke disputes over the calculation of the infringer's profits between the plaintiff and the defendant. In order to solve such a dispute, Japanese Patent Law allows use of an expert witness to calculate the amount of damage, and Japanese courts hold that "profit" refers to "average profit". An expert witness to calculate the amount of damage will be appointed upon the request of the plaintiff.

The Chinese Supreme People's Court clarified the calculation methods of damage compensation in its legal interpretations for patent and trademark infringement. Article 20 of the legal interpretation entitled *Regulations on the Applicable Laws in the Trial of Patent Dispute* stipulated that the people's court, according to Article 57(1) of the Chinese Patent Law, can decide the amount of damage compensation based upon the loss caused to the right holder due to the infringement or the profit gained by the infringer, according to the request of the right holder.

The loss suffered by the right holder can be calculated by multiplying the amount of decreased sales volume due to the infringement of the patented product by the reasonable profit margin per product. When it is difficult to calculate the decreased sales volume, the number of sold infringing products multiplied by the profit margin per patented product can be used in the calculation of the damage compensation.

The profit gained by the infringer can be calculated according to the following formula: the number of sold infringing products multiplied by the profit margin per infringing product. The profit gained by the infringer will be usually calculated based on the infringer's operating income. If the infringer's business consists solely of infringement of the patent, however, the profit can be calculated based on the infringer's gross profit on sales.

The Supreme Court stipulated in Article 13 of its legal interpretation entitled "*Interpretation on the Applicable Laws in Trials of Trademark Civil Dispute Cases*" that the people's court may select the calculation method based upon the selection of the

right holder. Profit, which refers to the profit gained by the act of infringement, is calculated by multiplying the sales of the infringing product by the infringer's profit margin per product. If it is difficult to know the infringer's profit margin, the rightholder's profit margin may be used. Damage, which refers to the damage caused by the act of infringement, is calculated by multiplying the amount of decreased sales volume of the patent holder due to the act of infringement or the sold volume of the infringing product by the rightholder's profit margin.

Article 60 of China's Patent Law amended in 2000 stipulates that damage compensation can also be calculated based on the amount of royalty possibly paid to the patentee when the infringer seeks to be licensed. The China Supreme Court stipulated in Article 21 of *Regulations on the Applicable Laws in the Trial of Patent Dispute* that the amount of damage compensation can be as much as one to three times the possible royalty, and the amount of possible royalty will be determined by the people's court according to the circumstances of the case, kind or nature of patent, average amount of royalties, scope and time of use. Generally speaking, not less than a reasonable amount (namely, the same as the royalties) is adopted in most patent cases. As for intentional infringement, malicious action and repeated violation, however, the amount of compensation should be calculated by multiplying the possible royalty by one to three times. But as for those patents with high royalties, it should not be avoided to multiply the amount in order to prevent the swindling of money by the party concerned in the way of contract defrauding.

The royalty based calculation method is adopted also in Japan. When the injured party cannot get a sufficient amount of compensation from the calculation based on the rightholder's loss or the infringer's profit, the party often claims for the royalty-based calculation as a last resort. In particular, Article 102(4) of the Japanese Patent Law stipulates that Article 102(3) shall not preclude a claim to damages exceeding the amount referred to therein. That is to say, the above methods could be used simultaneously. In such a case, where there has been neither willfulness nor gross negligence on the part of the person who has infringed the patent right, the court may take this into consideration when awarding damages.

Next, let's look at fixed damages or statutory damages.

In Japanese Patent Law, there is no statutory damages system, but Article 105<sup>ter</sup> provides that a court may award a reasonable amount of damages when it is extremely difficult to prove facts necessary for the proof of damages from the nature of such relevant facts. This provision in fact allows judges to decide the amount of damages. When

infringement occurs and the amount of damages is very difficult to confirm, the judge can decide the amount of damages according to the entire purport of the oral argument and the result of the taking of evidence.

The Supreme People's Court in China also stipulated in *Regulations on the Applicable Laws in the Trial of Patent Dispute* that when amount of damages cannot be calculated by methods that the law provides, but the right holder in fact suffers a loss or the infringer makes a profit, the people's court can determine the amount within the range of not less than RMB 5,000 to not more than RMB 300,000, up to a maximum of RMB 500,000 depending on the situation.

Both the Copyright Law and Trademark Law amended in 2001 in China prescribed the statutory damage system. The Supreme Court made it clear how to implement the statutory damages system in *Interpretation on the Applicable Laws in Trials of Trademark Civil Dispute Cases* and *Interpretation on the Applicable Laws in Trials of Copyright Civil Dispute Cases*. When determining the amount of statutory damages in the case of copyright infringement, the people's court should take the type of works, reasonable royalty and nature and effect of infringement into full consideration. When determining the amount of statutory damages in the case of trademark infringement, the people's court should take the nature, period and result of the infringement, reputation the trademark enjoys, royalty amount, type/period/scope of trademark and the reasonable expenses for stopping the act of infringement into consideration.

As for whether expenses incurred in the investigation and action to stop the infringement by the right holder should be included in the amount of damages, Japanese scholars believe that, under some circumstances, the injured party can request for it. *Interpretation on the Applicable Laws in Trials of Copyright Civil Dispute Cases* set by China's Supreme People's Court states that the people's court can, upon the request of the right holder, put the reasonable expenses incurred in the investigation and stopping of the infringement into the amount of damages. This can be seen as the reflection of the comprehensive damage compensation rule.

As for whether the lawyer fee can be included in the damage compensation, in China, the people's court can, according to situations, account whole or part of the lawyer fee into the compensation amount in order to compensate for the actual loss suffered by the right holder. In Japan, courts in IPR cases generally don't take the lawyer fee of the prevailing party into consideration. Only in some cases involved in extremely difficult technological and legal matters would the lawyer fee be considered as the loss of the plaintiff.

### 3 For Future Development of the Intellectual Property Litigation System

Economic and scientific globalization has put much stricter demands on intellectual property protection. Meanwhile, the conflict over public health problem and protection of traditional knowledge between developed and undeveloped countries, and the great importance attached to biological and business method patent by developed countries, has also posed another new challenge to intellectual property protection.

How to set up an effective intellectual property system, and how to co-ordinate international intellectual property protection are two major issues that will face every country in the future. Judges in both Japan and China are facing the same challenge in terms of IPR protection.

Regarding the intellectual property litigation, we have to adapt to the demands of the new era, push forward the judicial reform, adhere to the principles of fairness, effectiveness and consistency and improve the quality of the judges of the new generation. In addition, with the development of the knowledge economy, the importance of intellectual property has forced people to use legal means to solve such disputes in both China and Japan. The commercial value of IPR is becoming increasingly high, and the short-cycled nature of IPR also calls for more rapid and efficient intellectual property protection. Hence, the new developments in this field have put higher demands on the capability and quality of intellectual property judges.