



## **Infringement Determination and Liability to Pay Compensation in Design Patent**

### **Infringement Disputes in China**

---A Design Patent Infringement Dispute between Panasonic Co., Ltd. and Kingdom Electrical Appliances Co., Ltd. of Zhuhai, China

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#### **Contents**

Foreword

#### **I. Case Summary**

1. Basic Information
2. Case Introduction

#### **II. Infringement Determination in Design Patent Infringement Disputes in China**

1. Determination of Similarity of Designs
2. Impact of the Design Patent and the Evaluation Report of the Accused Design on the Judgement of the Court

#### **III. Liability in Patent Cases in China**

1. Providing Proof for Compensation for the Damage Caused by Patent Infringement
2. Principle of Reasonableness
3. Regarding Reasonable Expenses

Conclusion



## **Foreword**

As the change of the mode of economic development in China accelerates, the trend of technical innovation leading the economic development is becoming more apparent and the protection system of the patent right is improving day by day. In recent years, the design patent has attracted more and more attention, and the profits made from the innovation of design are huge. Moreover, imitating a design usually does not require high technical skills, so the designs which have a high market value are apt to suffer from infringement.

The captioned case we represented is a design patent infringement dispute over a “beauty product”. Beijing Intellectual Property Court, which was the court of first instance, fully favored our claim for compensation of a total of RMB 3.2 million, which is the highest compensation ever ruled for design cases by the courts of Beijing. The present case was listed by Beijing Higher People’s Court among the Top Ten Typical Cases of IP Protection ruled by courts of Beijing in 2016, and further listed by the Supreme People’s Court of China among the Top Ten IP Cases ruled by Chinese courts in 2016. The captioned case has aroused wide concern both at home and abroad and has great social influence. By taking the captioned case as an example, this article makes an introduction to the infringement comparison and burden of proof for compensation in the design patent infringement practice in China.



## I . Case Summary

### 1. Basic Information

Plaintiff of first instance (appellee of second instance)      Panasonic Co., Ltd. (hereinafter simply referred to as Panasonic)

Defendant 1 of first instance (petitioner 1 of second instance)      Kingdom Electrical Appliances Co., Ltd. of Zhuhai (hereinafter simply referred to as Kingdom)

Defendant 2 of first instance (petitioner 2 of second instance)      Li Kang Fu Ya Commercial and Trading Co., Ltd. of Beijing (hereinafter simply referred to as Li Kang).

Courts hearing the case and the case number

First instance      Beijing Intellectual Property Court      [(2015) Beijing IP Civil First No. 266]

Second instance      Beijing Higher People's Court      Civil Judgment [(2016) Beijing Civil Final No. 245]

### 2. Case Introduction

Panasonic, which was established in 1918, is a magnate in the worldwide electrical appliance industry and is well-known throughout the world for its products in various fields such as household appliances, digital audio-visual electronic products, office products and beauty appliances. As one of the first Japanese enterprises that entered China, Panasonic has enjoyed very high popularity in China. In recent years, the facial vaporizers as a kind of beauty appliances developed by Panasonic are particularly popular among Chinese consumers.

On June 1, 2011, Panasonic filed with SIPO a design patent application for one of its facial vaporizer products, and got the patent right on September 5, 2012 (number of announcement of granting of patent right: ZL201130151611.3 and priority date: January 26, 2011).

Kingdom is a manufacturer of beauty apparatuses in China among which the facial vaporizers are its flagship products. Since 2013, Kingdom has been mass-producing, selling, and advertising facial vaporizers KD2331 (without a handle and with a handle) and KD2331T (without a handle) which imitate the patented product of Panasonic. Panasonic lodged a complaint and warned Kingdom to stop infringement but no action was taken by Kingdom, so Panasonic filed with Beijing Intellectual Property



Court a design patent infringement lawsuit against Kingdom and an E-commerce company Li Kang which sells the accused products as the co-defendants, claiming a stop of infringement of its patented products and compensation of RMB 3 million from Kingdom and joint compensation of reasonable expense of RMB 200,000 from Kingdom and Li Kang.

Beijing Intellectual Property Court accepted the case in February 2015 and issued a civil judgment in November 2015 [(2015) Beijing IP Civil First No. 266], ruling that the products KD2331 (with a handle and without a handle) and KD2331T (without a handle) produced by Kingdom were similar to the patented product of Panasonic and fell within the protection scope of the patent of Panasonic, and the two defendants should stop the infringement; Kingdom should pay compensation of RMB 3 million; and Kingdom and Li Kang should be jointly and severally liable for a reasonable expense of RMB 200,000.

Kingdom and Li Kang were unsatisfied with the first instance judgment and lodged an appeal. After hearing the appeal, the Beijing Higher People's Court determined that the products accused of infringement fell within the protection scope of the patent concerned. As for the sum of compensation, the Beijing Higher People's Court decided that the judgment of the court of first instance of fully favoring Panasonic's claim for compensation was supported by facts and the law. Therefore, the Beijing Higher People's Court made the civil judgment [(2016) Beijing Civil Final No. 245] in December 2016 to uphold the first instance judgment.

## **II. Infringement Determination in Design Patent Infringement Disputes in China**

In the present case, the accused products include two types as shown below, i.e., with a handle and without a handle, and both types are regarded as falling within the protection scope of the patent concerned.



Patent concerned

Accused product without a handle

Accused product with a handle

### 1. Determination of Similarity of Designs

The comparison between the patent concerned and the comparative design shall be made through the approach of whole observation and comprehensive judgment. The parts which are most easily seen in the ordinary use state of the product and the design features which are different from the prior design have more notable influence on the overall visual effect. This rule is reflected in Article 11 of *Interpretation by the Supreme People's Court on Issues Concerning the Application of Laws in the Trial of Patent Infringement Dispute Cases*. According to the interpretation of the Supreme People's Court, when determination is made by the people's courts as to whether the designs are identical or similar, a comprehensive judgment should be made based on the design features of the patented design and the design accused of infringement and the overall visual effect of the designs. The following factors usually have more notable influence on the overall visual effect of a design: (1) parts that are easily seen in the ordinary use state of the product versus other parts of the product; (2) design features of the patented design distinguishing from the prior designs versus other design features. Therefore, when comparison is made between the patent concerned and the comparative design, after the differences are determined, it is of great importance to explain whether the different parts can be easily seen or not and to prove that the different parts are design features of the patented design which are different from the prior design.



As can be seen from the above views, the design of the overall shape of the accused product without a handle is the same as that of the patent concerned, i.e., a substantial semi-ellipse extending upwardly at an angle of 60 degrees to first form a narrow neck portion and then expand into a flaring nozzle. Moreover, the radius of the neck portion and the shape of the flaring nozzle of the accused product without a handle are the same as those of the patent concerned, and the position and the appearance of the control key on the vaporizer body and the position and the shape of the peltate water inlet port of the accused product without a handle are the same as those of the patent concerned. The only differences between the accused product without a handle and the patent concerned lie in the annular groove in the base, the wire insertion port, the fulcrums under the base, and the heat dissipation holes. Apparently, these differences lie in the parts which usually are not paid attention to or cannot be directly and easily seen by common consumers when using the product, so they have little influence on the overall visual effect of the design. On the contrary, the appearance of the body of the product not only can be easily and directly seen in use but also is the design feature of the patent concerned which is different from the prior design, so it has notable influence on the overall visual effect of the design. Based on all the design features of the patent concerned and the accused product and their influence on the overall visual effect, it can be determined that the patent concerned and the accused product have similar overall visual effect.

The similarities between the accused product with a handle and the patent concerned are completely the same as those between the accused product without a handle and the patent concerned, and the differences are basically the same. The only difference lies in the handle. As shown in the front view, the suspending upper part of the handle is provided behind the nozzle of the main body, so when the accused product is observed as a whole its sense of beauty and its appearance are mainly determined by its main body. The overall construction and the contour of the main body of the accused product are basically the same as those of the patent concerned, and the components constituting the main body of the accused product and their proportions in the whole product are basically the same as those of the patent concerned. These similarities all lie in the parts of the patented product which can be easily and directly seen in use, and these parts account for a large proportion in the whole patented product, so they have notable influence on the overall visual effect. According to the documented evidence, in the prior designs of the beauty appliances relating to the patent concerned, the handle is a conventional



design and has been disclosed by a number of prior designs, so it has little influence on the overall visual effect.

Hence, according to the approach of whole observation and comprehensive judgment, the patented product of Panasonic and the two accused products with and without a handle constitute similar designs.

## **2. Impact of the Design Patent and the Evaluation Report of the Accused Design on the Judgement of the Court**

Because the accused product without a handle is too similar to the patented product concerned, during the hearing of the present case Kingdom put emphasis on the accused product with a handle in its non-infringement defense and provided the self-owned design patent and the evaluation report of its product with a handle as evidence of dissimilarity.

The application date of Kingdom's self-owned design patent is August 30, 2013 which is later than the application date of the patent concerned. Furthermore, the examination system of the design patent application in China does not include substantive examination, so getting a patent right does not mean that the patent administrative department believes that the design patent application does not constitute similar designs with other prior design patents. As explicitly provided in the *Interpretation by the Supreme People's Court on Issues Concerning the Application of Laws in the Trial of Patent Infringement Dispute Cases (II)*, where the accused infringing design falls within the protection scope of the patent in dispute that is in precedence, if the accused infringer raises a non-infringement defense on the ground that his design has been granted a patent, the people's courts shall not support this defense. Therefore, the non-infringement defenses on the ground of later patents are in fact meaningless.

Kingdom also submitted an evaluation report of its self-owned patent. Although Kingdom admitted in the evaluation report that the patented design of Panasonic and the prior designs all had the nozzles and main bodies which are very similar to those of the accused product of Kingdom, Kingdom made a conclusion in the evaluation report that the difference made by the handle of the accused product had notable influence on the overall visual effect. The court of first instance decided that the purpose of the evaluation report system is for overcoming the disadvantage of making no substantive examination on the utility model patent applications and the design patent applications before the granting of the patent



right to ensure the stability of the patent right; and in the present case, the patent evaluation report on which the non-infringement defense of Kingdom was based was not aimed at the patent of Panasonic and did not include the patent concerned as the comparative object. Therefore, the court of first instance ruled that it was inadmissible for the conclusion of the patent evaluation report to serve as the evidence. Although the evidence and defense of Kingdom were disallowed by the court, suppose the accused design had its own patent and the patent evaluation report took the patent concerned as the comparative object, it could be anticipated that the conclusion of the evaluation report might influence the judge's evaluation of evidence through inner conviction. The court of course will make a final conclusion as to whether the patent concerned and the accused product constitute similar designs based on its own judgment.

### **III. Liability in Patent Cases**

An important reason for the present case to be listed in the Top 10 cases and attracting wide attention is that the court fully favored Panasonic's claim for compensation of a total of 3.2 million. In juridical practice, compensation ruled by the courts for design patent infringement cases is generally no more than tens of thousands of Yuan, and the statutory upper limit of compensation provided by the Patent Law in force is 1 million. Under such circumstances, the present case undoubtedly has epoch-making significance and fully demonstrates the value of design patents.

#### **1. Providing Proof for Compensation for the Damage Caused by Patent Infringement**

According to Article 65 of the Chinese Patent Law, "The amount of compensation for the damage caused by the infringement of the patent right shall be assessed on the basis of the actual losses suffered by the right holder because of the infringement; where it is difficult to determine the actual losses, the amount may be assessed on the basis of the profits the infringer has earned because of the infringement. Where it is difficult to determine the losses the right holder has suffered or the profits the infringer has earned, the amount may be assessed by reference to the appropriate multiple of the amount of the exploitation fee of that patent under a contractual license. The amount of compensation for the damage shall also include the reasonable expenses of the right holder incurred for stopping the infringing act. Wherein it is difficult to determine the losses suffered by the right holder, the profits the infringer has earned and the exploitation fee of that patent under a contractual license, the people's courts may award





the damages of not less than RMB 10, 000 Yuan and not more than RMB 1, 000, 000 Yuan in light of such factors, as the type of the patent right, the nature and the circumstances of the infringing act.”

In juridical practice, most of the right holders find it difficult to provide proof and the compensation is low. Generally speaking, the value and the profits out of the patent right, and the specific amount of the actual losses caused by the infringement of the patent right are difficult to calculate. The infringer and the outsiders usually will not voluntarily provide the evidence they have that can prove the actual losses the right holder has suffered or the profits the infringer has earned out of the infringement, and confined by the limited ability of obtaining evidence, the right holder is unable to collect evidence by himself or herself, so it is very common in design patent infringement cases that it is difficult to determine the actual losses suffered by the right holder or the profits made by the infringer out of the infringement. However, when determining the amount of compensation, the people’s courts normally will not let the amount exceed the range of hundreds of thousands of Yuan.

In the present case, we also faced the difficulty that it was hard to obtain conclusive evidence to prove the profits made from the infringement of the patent right. After repeated discussion between and Panasonic and we lawyers, a basic idea of calculating the profits made from the infringement based on the sales records of the products accused of infringement on the E-commerce platforms was finally determined. Guided by this idea, we fixed the evidence of some major E-commerce sites such as Taobao.com, Alibaba.com, and JD.com selling the products accused of infringement, and analyzed the fixed evidence one page by one page. The huge workload of notarization and calculation took several lawyers and their assistants a couple of weeks, but we thereby got to know the astonishing volume of sales of the infringing product. According to the statistical results from the fixed evidence, the sales volume of the accused products on Taobao.com for one month is as large as 140918 sets and the sales volume of the accused products on Alibaba.com for three months is as large as 18411347 sets. Based on the price of RMB 260/per accused product, even if each accused product only made a profit of RMB 5, the total profit made from the infringement exceeded RMB 10,000,000. In the present case, although we did not submit specific financial data to prove the profits gained by the accused product, the above evidence could prove that Kingdom had gained huge profits from the accused product, far exceeding RMB 3,000,000 requested by Panasonic for compensation.

## **2. Principle of Reasonableness**



In juridical practice, because the authenticity of the network information is hard to determine, there are few successful cases of determining the infringement compensation based on the network statistics of the E-commerce platforms. In the present case, the reason why the courts fully favored Panasonic's claim is mainly that we sufficiently proved the reasonableness of the claim.

First, considering that the network statistics was not 100% honest, the amount of compensation we determined to request was not the full amount calculated as above. During the court hearing, we honestly said to the collegial panel that the network sales data might be collected repeatedly. For example, there is a possibility that a product, after being sold on Alibaba.com which is a wholesale platform, is again sold on Taobao.com which is a retail platform. Therefore, we offered several calculation methods when calculating the profit gained from the infringement, including making the calculation only based on either the data of Taobao.com or the data of Alibaba.com. No matter which method we employed, the calculated amount of profits gained from the infringement was far more than RMB 3,000,000.

Second, we sufficiently explained to the courts the facts for proving that Kingdom had gained huge profits from the infringing product, including Kingdom's great influence on online sales in China. On November 11 of each year, which is a major sales promotion event held by E-commerce sites in China, one shop can sell tens of thousands of "hot product" in one day. The infringing product in the present case is a hot product of Kingdom, has long been seen on the home page of the website of Kingdom, and has been sold by Kingdom as its flagship product. Kingdom invited several A-lister popular stars such as Yuxin Zhang and Mi Yang to endorse its products, mainly the products accused of infringement, and even launched products with signatures of popular stars. If it were not for huge profits, Kingdom would not spend big money on inviting popular stars to endorse the product for consecutive years. Although these reasons were not shown in the judgment, they apparently would make a great impact on the judge's evaluation of evidence through inner conviction, and would encourage the judge to admit that the amount of compensation we requested was highly reasonable.

By contrast, Kingdom failed to provide evidence for its actual profits, and had been alleging that most of the products accused of infringement sold on the E-commerce platforms were counterfeit and the sales volume shown on the network was a result of "click farming" but did not provide any evidence. The assertion of Kingdom was not reasonable and was not supported by evidence, so it was



undoubtedly disallowed by the court.

### **3. Regarding Reasonable Expenses**

According to Article 16 of *Opinions on Several Issues concerning Intellectual Property Trials Serving the Overall Objective under the Current Economic Situation* of the Supreme People's Court, reasonable expenses for safeguarding legal rights shall be compensated for separately.

In the past juridical practice, the right holder, when claiming compensation, usually took into consideration the reasonable expenses for safeguarding the legal right together with the compensation for damage caused by the infringement, and the courts would make a judgment also based on these two factors. However, in recent years, the voice that the compensation is too low to cover the expenses for safeguarding legal rights has gained great attention from the courts. At present, most courts in most situations will separately determine the compensation for damage caused by the infringement and the reasonable expenses according to the request of the right holder, which actually lifts the level of compensation for the right holder.

In the present case, Panasonic claimed compensation of RMB 3,000,000 based on the profits made from the infringement, and further claimed compensation for the reasonable expenses of RMB 200,000. Although the total amount on the receipts, including the notarization fee, translation fee and lawyer's fee and submitted in the first instance, was less than RMB200,000, we explained that not all the actual expenses have receipts. According to the daily life experience, the court of first instance made a calculation within a reasonable range and fully favored our claim for compensation for the reasonable expenses.

The court of second instance pointed out that under the circumstances that Panasonic could not provide a reasonable explanation of the expenses having no receipts, the judgment of the court of first instance of fully favoring Panasonic's claim for compensation on the ground that not all the expenses in real life had receipts was not well-grounded. However, considering that the accused infringing act did not stop during the litigation and Panasonic supplementally submitted the receipts of the expenses for investigation and evidence collection in the second instance and the supplementally submitted amount was larger than the amount not covered by the evidence of the first instance. To seek a substantive solution to the dispute, the court of second instance upheld the judgment of first instance.

According to the judgment of the court of second instance, the right holder should claim compensation



for the reasonable expenses separately from compensation for damage caused by the infringement, and should provide sufficiently reasonable receipts to support the expenses.

### **Conclusion**

In recent years, the progress and efforts made by the courts in China in enhancing the protection of intellectual property are obvious to all. From the *Interpretation by the Supreme People's Court on Issues Concerning the Application of Laws in the Trial of Patent Infringement Dispute Cases (II)* which explicitly provides that “the people’s courts may order the infringer to provide evidence on profits gained by the infringer from the infringement; if the infringer refuses to provide the evidence, the people’s courts may ascertain the profits gained by the infringer from the infringement according to the right holder’s claims and evidence provided by the right holder” to the statutory upper limit of compensation lifted to RMB 5,000,000 in the draft amendment of the Patent Law, the above progress and efforts made by the courts in China are fully demonstrated. In the current juridical practice, like the present case, more and more cases have been ruled with high compensation favoring the right holders. The right holders can be more confident of the protection of their intellectual property right in China. For obtaining high compensation, working with lawyers to reasonably and effectively adduce proof is indispensable as the foundation.