SPC Guiding Case No. 222: Guangzhou De [X] Aquaculture Equipment Technology Co., Ltd. v. Guangzhou Yu [X] Aquaculture Technology Co., Ltd. and Nan [X] Aquaculture Research Institute (Property Damage Compensation Dispute)

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Unofficial English translation prepared for reference only. The official Chinese text prevails.

Discussed and adopted by the Judicial Committee of the Supreme People's Court; issued on December 15, 2023.

Keywords

Civil litigation / compensation for property damage / failure to pay patent annuity fees / termination of the patent right / compensation for losses

Holding

The registered patentee bears the obligation to maintain the validity of the patent right in good faith during a dispute over the ownership of the patent right. Where the termination, invalidation or loss of the patent right results from its fault and harms the legitimate rights and interests of the true right holder, this constitutes an infringement of the true right holder's property rights, and the registered patentee shall bear civil liability for compensation for losses.

Basic Facts

The patentees of the invention patent with patent number ZL200910192778.6, entitled "A Multi-Functional Circulating Water Treatment Device" ("the Patent in Issue"), were the Nan [X] Aquaculture Research Institute and Guangzhou Yu [X] Aquaculture Technology Co., Ltd. ("Yu [X] Company"), and the inventors were Jiang [X]ping, Li [X]hou and Xie [X]yong. The filing date of the Patent in Issue was September 28, 2009, and the grant date was May 30, 2012. Because the annuity fees were not paid in time, the patent right of the Patent in Issue was terminated on September 28, 2012.

Guangzhou De [X] Aquaculture Equipment Technology Co., Ltd. ("De [X] Company") considered that Jiang [X]ping had once been an employee of De [X] Company and, after leaving, had become a shareholder of Yu [X] Company, and that Li [X]hou and Xie [X]yong were employees of the Nan [X] Aquaculture Research Institute. The Patent in Issue was a service invention of Jiang [X]ping, and the right to apply for the patent should belong to De [X] Company. In 2010 and 2011 respectively, De [X] Company had sued the Nan [X] Aquaculture Research Institute, Yu [X] Company and others over disputes concerning the right to apply for the Patent in Issue, requesting an order that the right to apply for the Patent in Issue belong to De [X] Company. When the patent right of the Patent in Issue was terminated and became invalid for failure to pay the fees, the relevant ownership dispute was still being tried. De [X] Company therefore sued, on the ground that Yu [X] Company and the Nan [X] Aquaculture Research Institute had deliberately failed to pay the annuity fees for the patent, causing the termination and invalidation of the patent right and causing irreparable losses to De [X] Company, requesting an order that the defendants compensate economic losses and reasonable rights-protection expenses totaling RMB 1.5 million.

Judgment

On July 12, 2019, the Guangzhou Intellectual Property Court rendered Civil Judgment (2016) Yue 73 Min Chu No. 803: (1) Yu [X] Company and the Nan [X] Aquaculture Research Institute shall, within ten days from the date on which this judgment takes legal effect, compensate De [X] Company a total of RMB 500,000 for economic losses and reasonable rights-protection expenses; and (2) the remaining claims of De [X]

Company were dismissed. After the judgment was pronounced, Yu [X] Company and the Nan [X] Aquaculture Research Institute appealed to the Supreme People's Court. On April 1, 2020, the Supreme People's Court rendered Civil Judgment (2019) Zui Gao Fa Zhi Min Zhong No. 424, dismissing the appeal and affirming the original judgment on the basis of changing the cause of action in this case.

Reasoning

The Supreme People's Court held:

I. On the determination of the cause of action in this case

Article 11, paragraph 1, of the Patent Law provides that after the patent right for an invention or utility model is granted, except as otherwise provided by this Law, no entity or individual may, without the permission of the patentee, exploit the patent, that is, may not manufacture, use, offer to sell, sell or import the patented product, or use the patented process, or use, offer to sell, sell or import the product directly obtained by the patented process, for production or business purposes. Under this provision, acts infringing an invention patent right are limited to the acts of manufacturing, using, offering to sell, selling and importing patented products for production or business purposes, and the acts of using a patented process and using, offering to sell, selling and importing products directly obtained by the patented process. That is to say, the Patent Law adopts the principle that patent infringement acts are defined by law; apart from acts expressly provided by law as infringing a patent right, other acts, even if related to the patent right, are not acts infringing a patent right. Where the registered patentee is not the owner of the patented technology, if the registered patentee deliberately fails to pay the patent annuity fees, causing the termination and invalidation of the patent right and causing economic losses to the owner of the patented technology, such losses are in fact property losses related to the patented technology. The act of deliberately failing to pay patent annuity fees causing the termination and invalidation of the patent right should be an ordinary tort, and the cause of action in such a case may be determined as a dispute over compensation for property damage. In this case, according to De [X] Company's claims, it contended that the Nan [X] Aquaculture Research Institute and Yu [X] Company applied for a patent for the service invention owned by it, but later deliberately failed to pay the patent annuity fees, causing the termination and invalidation of the patent right, causing the technology to enter the public domain and lose the protection of the patent right, and harming the market exclusivity interest it should have enjoyed based on the Patent in Issue. Therefore, the infringing act claimed by De [X] Company was not an act infringing the patent right, and the economic losses it claimed were in fact property losses related to the patented technology; therefore, this case should be a dispute over compensation for property damage, rather than a dispute over infringement of an invention patent right. The original judgment's determination of the cause of action in this case as a dispute over infringement of an invention patent right was clearly improper and should be corrected.

II. On whether the Nan [X] Aquaculture Research Institute and Yu [X] Company should bear compensation liability for the termination and invalidation of the Patent in Issue, and whether they should compensate De [X] Company RMB 500,000 for economic losses and reasonable expenses

The principle of good faith is a basic principle of civil law. It requires civil subjects to keep their promises and be honest in civil activities, pursue their own interests without harming the interests of others and society, thereby achieving a balance between the interest relationships among the parties and between the parties and society, and maintaining the order of market morality. A patent right is a time-limited intellectual property right granted after examination by the state; its continued validity during the protection period requires the patentee to continuously pay the patent annuity fees and not voluntarily abandon the right. Whenever the parties dispute the right to apply for a patent or the patent right ownership for any reason, based on the principle of good faith, the registered patentee shall generally bear the duty of good management to keep the already granted patent right valid, including the continuous payment of patent annuity fees, because once the patent right is terminated and becomes invalid, the patented technology will ordinarily enter the public domain, causing the owner of the patented technology to lose the market exclusivity interest and harming the

legitimate rights and interests of the owner of the patented technology. Where the registered patentee fails to fulfill this duty of good management and causes losses to the owner of the patented technology, it shall bear liability for compensation. In this case, De [X] Company had already sued the Nan [X] Aquaculture Research Institute and Yu [X] Company twice in 2010 and 2011 on the ground of disputes over the right to apply for a patent, especially when the second lawsuit, in which De [X] Company claimed that the invention in issue was a service invention, was ongoing. As the registered patentees, the Nan [X] Aquaculture Research Institute and Yu [X] Company should have borne the duty of good management to maintain the continued validity of the Patent in Issue after it was granted, including the continuous payment of patent annuity fees, in order to avoid possibly causing harm to De [X] Company. However, the Nan [X] Aquaculture Research Institute and Yu [X] Company failed to pay the patent annuity fees, causing the Patent in Issue to be terminated and become invalid on September 28, 2012, infringing the legitimate rights and interests of De [X] Company. They clearly failed to fulfill the duty of good management, violated the principle of good faith, and should compensate for the losses caused to De [X] Company thereby. As for the specific amount of compensation, this case should determine the specific compensation amount based on the market price at the time the Patent in Issue was terminated and became invalid. Given that neither party adduced evidence proving the market price of the Patent in Issue at the time of termination and invalidation, and comprehensively considering that the Patent in Issue was an invention patent, that it was terminated and became invalid in the same year as the grant announcement, that the Nan [X] Aquaculture Research Institute and Yu [X] Company were seriously at fault, and the relatively long duration of De [X] Company's rights protection, and even considering that De [X] Company also had a certain degree of negligence, the compensation of RMB 500,000 for economic losses and reasonable expenses determined in the original judgment was not inappropriate.

Relevant Legal Provisions

Articles 1165 and 1173 of the Civil Code of the People's Republic of China (this case applied Articles 6 and 26 of the Tort Liability Law of the People's Republic of China, effective July 1, 2010).

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