



Determination of "Malice" in Intellectual Property Counter-Suit for Damages Actions in Malicious Litigation

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In recent years, civil infringement cases of intellectual property rights had been in a rapid growth trend. Among the growth, malicious litigation damage liability disputes (*i.e.*, counter-suit for damages actions in malicious litigation) have been increasing. "Malicious filing of intellectual property litigation damage liability disputes" first appeared to be a new third-level cause of action in February 2011, belonging to secondary cases of "intellectual property rights and infringement disputes" under the part V "intellectual property rights and competition disputes" according to *the Notice of the Supreme People's Court on Promulgation of the Revised Regulations on Causes of Action for Civil Cases*. In our research, there were 51 such cases between 2001 and 2017, and 112 between 2018 and 2021, *i.e.*, a two-fold increase in the past four years than those in the previous 17 years.

Intellectual property counter-suit for damages actions in malicious litigation are tort liability cases, and the principle of full compensation shall be generally applied in judgment. Plaintiff bears the burden to prove that there exists a direct causation between the loss and the malicious litigation. Punitive damages, however, are not applicable in such cases. As a result, in most of these cases, the amount of damages awarded was generally low. Rarely, some courts ordered the defendant to pay more than RMB 5 million.

Possibly, intellectual property rights holder, once losing the case of protecting intellectual property rights, might be lost again in the case of counter-suit for damages actions in malicious litigation. Therefore, with the rapid growth of intellectual property rights protection cases, it was necessary to discuss the dispute cases of liability for damage caused by malicious action of intellectual property rights. Intellectual property rights holders must seriously consider the source of their rights and treat the whole litigation prudently before launching their protection actions, so as to avoid being counterattacked by their opponents after losing the rights protection case.

I. Elements of malice

The principle of good faith was the basic principle to be followed by all market participants, and also the basic principle to be followed in all the civil litigation activities. On one hand, the principle ensured that the parties had the right to exercise and dispose of their civil rights and litigation rights within the scope prescribed by law. On the

other hand, it also required the parties to exercise their rights in good faith and prudently without impairing the interests of others and the public. As an owner of the intellectual property right, his rights should be protected in accordance with the law. When the rights were infringed, the owner would exercise its right of action in accordance with the law to protect the rights, but the owner

should also exercise the right in good faith and prudently in accordance with the principle of good faith.

For counter-suit for damages actions in malicious litigation, there should meet the conditions such as malicious initiation of an intellectual property litigation by a right holder, the resulting loss to an accused infringer, and the direct causation between the litigation and the resulting loss. This article mainly addresses the determination of "malice" in the above conditions.

As for malicious litigation, it was generally considered if the plaintiff, who intentionally initiates a litigation when no substantive legal right has been violated for the purpose of obtaining illegal or improper interests. In essence, a malicious action was a tort action, and its behavior showed abuse of rights rather than proper exercise of rights and its purpose was to obtain illegal or improper interests, at the same time which also caused an accused infringer to suffer losses.

According to Article 1165 of the "Tort Liability" of the Seventh Part of the *Civil Code of the People's Republic of China* "where the actor infringes upon the civil rights and interests of others through fault and causes damage, he shall bear tort liability. Unless specifically provided by law, the principle of fault is applied as the general imputation in tort liability commonly. In the case of liability for damage caused by malicious prosecution of intellectual property, actor's subjective fault should be referred to the subjective intent. Namely, if knowing a lawsuit lack of true and justifiable reasons, a right holder still files a lawsuit to obtain improper interests or violate lawful rights and interests of others. Malice is a subjective state, and how to recognize and prove it depends on objective performance. According to the *Research Report on the Problem of malicious Litigation* issued by the third court of the Supreme People's Court in 2004, the "malice" in malicious litigation include two elements: firstly, claims are clearly known to have no facts or legal basis; secondly, there is an improper litigation

purpose to violate legitimate rights and interests of the other party.

II. Case studies

Through discussing the following cases on counter-suit for damages actions in malicious litigation, we provide here some insights of judicial determination with respect to "malice", which hopefully will guide for the work of intellectual property protection of enterprises.

(1) Cases

Case 1: *Ningbo Fubang Furniture Co., Ltd. v. Ningbo Mengying Household Co., Ltd.* (disputes cases of liability for damage in intellectual property litigation due to malicious intent)

Fubang company, who was the owner of the patent right, filed a patent infringement lawsuit against Mengying company for its design patent. According to the court's investigation, the designer of the patent published and made public the same physical display drawing as the design in his WeChat moments and the WeChat moments of Fubang company 's dealers before the patent application date. The relevant information and pictures were available to the public at any time. The court held that the above actions constituted disclosure under patent law. Fubang company should be aware of the information posted to promote its products. As a furniture manufacturing enterprise, Fubang company had also applied for a large number of design patents, so it should have the corresponding cognitive ability for the authorization conditions of design patents. In this case, Fubang company still filed an infringement lawsuit against Mengying company based on this patent, and claimed for infringement compensation, which was subjectively malicious.

Case 2: *Zhimin Zhang, Shanghai Kaicong Electronic Technology Co., Ltd. v. Shenzhen Qiao 'an Technology Co., Ltd.* (disputes cases of liability for damage in intellectual property litigation due to malicious intent)

After the investigation, the court found out that KaiCong company publicly sold a type of camera

that was essentially identical to the design patent on its Tmall online store. Zhimin Zhang as the legal representative of the company should know the above facts, and he still filed patents with published product designs. He violated the principle of good faith, belonging to the malicious behavior. Zhimin Zhang knew that his design patent lacked the right basis, but still filed a patent infringement lawsuit and filed a claim for compensation as high as RMB 10 million, which caused the economic loss of Qiao 'an Company. It was an abuse of litigation rights and deemed to constitute a malicious lawsuit of intellectual property rights.

Case 3: *Shandong Bite Intelligent Technology Co., Ltd. v. Jiangsu Zhongxun Digital Electronics Co., Ltd.* (disputes cases of liability for damage in intellectual property litigation due to malicious intent)

This case was a malicious lawsuit case caused by trademark infringement. The trademark right in this case belonged to Bite Company, which used to be the OEM of TELEMATRIX brand owner (TELEMATRIX. INC.) in China and Bite Company processed hotel telephone products with the brand of TELEMATRIX for TELEMATRIX. INC. In 2004, Bite Company applied for trademark registration "TELEMATRIX" (designating the telephone and other goods under category 9) and received it in 2007 with a registration number 4359350. Since 2006, Zhongxun Company has accepted TELEMATRIX INC.'s entrustment to make TELEMATRIX telephone products. Bite Company filed a civil lawsuit against Zhongxun Company for infringement of its trademark and filed a complaint with the ministry of Industry and Commerce. Zhongxun Company was forced to terminate manufacturing cooperation with TELEMATRIX INC, which resulted in the loss of a large number of products and materials and huge losses.

In 2013, Trademark Review and Adjudication Board revoked the trademark No. 4359350 on the ground: that before the application for the trademark registration day, the trademark of

TELEMATRIX in the world especially in American hotel special telephone industry had a certain reputation; and that Bite Company's application for registration of the trademark constituted "a mark registered in an unfair manner that is already in use by another party and enjoys substantial influence" under trademark law. Bite Company appealed and lost, and the trademark was finally revoked.

The Supreme Court held that, based on the popularity of TELEMATRIX trademark of TELEMATRIX.INC., the act of Bite Company's applying for the registration of the trademark involved could not be called good faith. According to Bite Company's promotional content on its website, as well as filed the trademark infringement lawsuits against TELEMATRIX.INC.'s OEM enterprises, it was difficult to identify Bite Company as a legitimate exercise of its litigation rights for the purpose of safeguarding rights according to law.

(2) Case analysis

According to the above cases, the identification of "malice" is the most important factor in the disputes of liability for damage in the malicious action of intellectual property rights. In general, the intellectual property rights holder in the lawsuit has the knowledge of his or her rights. If there exist a lack of right base or defects in rights, the holder will be considered having a subjective malice, and otherwise, the holder might not be considered as malicious and a case-by-case analysis combining facts and evidences is required.

a. In the case of patent infringement, if the patentee knew that its patent granted sourced from a publicly known technology (including the technology previously disclosed by others and technology that itself made public) and initiated a lawsuit on the basis of the patent, it might be considered as bad faith. Took design patents for example. Compared with technical invention patents and utility model patents, design patents were simple and intuitive, and substantial examination was not required in the

authorization process. In the field of patent, a large number of malicious lawsuits were mainly based on design patents. Article 23 of the *Patent Law of the People's Republic of China* "Any design for which patent right may be granted must not be in conflict with any legal rights acquired by any other person prior to the date of filing". In addition, according to Article 12 of *Several Provisions of the Supreme People's Court on the Application of Law in Hearing Patent Dispute Cases*: "the lawful rights mentioned in paragraph 3 of Article 23 of the Patent Law include the lawful rights and interests enjoyed in respect of a work, trademark, geographical indication, name, enterprise name, portrait, as well as the name of a commodity with certain influence, packaging and decoration." Therefore, if the design patent was in conflict with the legal rights acquired by others prior to the filing date, there may be problems with the patent's right base. If the patentee knew that there were problems with its right and still filed a lawsuit, the patentee would be deemed to be in "malice". In the case of Jiangsu Yangfu Wine Industry (supra), Yuyuan Brewery marked "Yanghe, China" or "Yanghe, Jiangsu" on its wine box appearance patent. It was confirmed the infringement Yanghe trademark right of Yangfu company by the court. Yuyuan Brewery still filed an intellectual property lawsuit on the basis of the design patent when it knew that its rights did not conform to the provisions of the patent law, and was considered as obviously malicious.

The judgment of invention patents and utility model patents cases was professional and complicated because of involving relatively complex comparison of technical features. In these cases, it could not be concluded simply that the patentee had a definite judgment on the validity of its patent rights, basing on the fact that the accused infringer raised a public knowledge technology defense or provided the patent technology information disclosed earlier. It should be conducted a specific case review on the basis of the evidence submitted by both parties, in judging whether the patentee applied for a patent with the knowledge that the patented technology belonged to the public knowledge or whether the patentee deliberately litigated with the

knowledge that the patent right was invalid. In addition, the "malice" of the patentee was not enough to be identified only according to the patent involved in the invalid procedure was invalid.

The enlightenment for patentee given by the above cases was that patent application was the protection of independent research and development achievements, rather than simply putting together the previously disclosed technology. If the patentee meant the latter, it might be faced counterattack in a subsequent litigation. It was necessary for the agency that provided professional patent service to conduct sufficient search before patent application, which could help patent applicants to effectively avoid being identified as "malice" in the litigation.

b. For trademark infringement cases, the trademark registrant should pay attention to whether the act of applying for a trademark was malicious or whether the registration infringed upon the prior rights of others, for example, whether it violated the provisions of Article 32 of the Trademark Law. In the 2019 revision of Trademark Law, two provisions had been added. One was the regulation of malicious registered trademarks in Article 4 , and the other was the principle of good faith shall be followed in trademark registration in article 7. Therefore, trademark registrant should consider whether it constituted the possibility of malicious litigation for the trademark right, if its rights was obtained in violation of these provisions.

c. In copyright infringement cases, since the registration of works was a formal examination, it would be considered as subjectively malicious if the works wasn't created independently by the author but came from others.

III Conclusion

According to the above analysis of the dispute cases of liability for damage arising from malicious intellectual property litigation, an intellectual property right holder should consider whether there exists a legal and factual basis for a lawsuit, and initiate a lawsuit in good faith and

prudently. Of course, at the time of a lawsuit, a right holder may not accurately ascertain whether the evidence is sufficient and whether the grounds are supported. The plaintiff's filing of a lawsuit does not mean that his or her claim will

be upheld by a court. It could not generally be regarded as a malicious lawsuit, as long as the plaintiff's motive and purpose is to safeguard their own legitimate rights and have a certain factual basis, and even if the lawsuit is ultimately not supported by the court.

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Ms. Zang Yunxiao has expertise in intellectual property litigation and arbitration (including trademark infringement, patent infringement, copyright infringement and unfair competition); patent invalidation, trademark application/objection/invalidation; intellectual property legal counsel, company perennial legal counsel, economic contract disputes, etc. Since July 2004, she has represented a lot of intellectual property litigation cases, as well as patent and trademark invalidation cases, and has deep research and rich experience in intellectual property protection and risk prevention. She is particularly good at patent invalidation, patent litigation, patent infringement analysis and other types of cases in the electrical and mechanical fields; she also has extensive experience in trademark application, invalidation and rights protection. Her trademark infringement and unfair competition cases have been selected in the typical case of the Beijing Intellectual Property Court and the typical case recommended by "China Intellectual Property". In addition, she is also good at designing intellectual property strategic protection programs for companies.



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