Mental Elements of Patent Infringement Compensation: Empirical Survey of Taiwan Judicial Decisions and Its Comparative Implications

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Mental Elements of Patent Infringement Compensation: Empirical Survey of Taiwan Judicial Decisions and Its Comparative Implications

Richard Li-dar Wang, Shao-ting Hong

I Introduction

The owner of a patent enjoys exclusive rights of practising the technology as claimed in the patent. Anyone that utilises the claimed technology without prior authorisation from the patent owner would infringe their rights. Once infringement occurs, the remedy is two-fold, consisting of injunctive relief and monetary compensation. As a general matter, no mental element is necessary for the court to grant injunctions against infringing steps or products. In contrast, there is a dichotomy between states around the world regarding mental elements for monetary compensation. Countries such as the United States and United Kingdom do not require any mental element on the side of infringers. Patent infringement is a type of strict liability in such counties. Germany and Japan, however, require patent owners to establish mental elements – intent or negligence – when they are seeking recovery of damages in patent infringement cases.

For a long period, the Taiwanese Patent Act did not provide clear guidance as to the mental element of patent infringement compensation. The attitude of the judicial system thus played a key role on this issue. Most courts considered patent infringement a type of torts and required mental elements when awarding damages, while courts diverged on the level of negligence that makes an infringer liable for monetary compensation. The Taiwanese Patent Act was dramatically amended in 2011. The new Act, which became effective in 2013, explicitly requires intent or negligence a prerequisite for infringement compensation. That amendment settles the status problem of the mental element in infringement litigations.

Nevertheless, in the post-revision era, the decisions of the courts are still of high importance over the issue of scienter in Taiwan. Most users of modern technologies are not familiar with their technical configurations and related patents, except the product manufacturers. The lack of technological understanding makes intent and negligence hard to be determined for a substantial cohort of potential infringers. In another aspect, however, patents are granted by registration, which serves as notice to the public as to the scope of patent rights. Negligence is an abstract concept and up to the courts to decide on a case-by-case basis. If the courts are inclined to consider, for instance, that simply neglecting patent registration constitutes negligence in patent infringement, the mental element will be substantially diminished and come close to the strict liability as in the United States and United Kingdom. The view of the courts on the duty of care and standards for judging negligence is therefore a critical factor for the real shape of the negligence liability. To figure out the actual nature of infringement compensation in Taiwan, the court decisions on mental elements are worthy of thorough investigation and examination.

This article provides a survey of Taiwanese court decisions since 2000. In Part II, the authors briefly summarise the findings of a previous survey investigating court decisions before the establishment of the Intellectual Property Court in 2008. Part III of this article records the results of the authors’ empirical study on the decisions of the IP Court between 2008 and 2014. Finally, Part IV analyses the findings of the two surveys, assesses the development of Taiwanese judicial practice on the mental element issue, and highlights the implication of Taiwanese experience for remedy law of patent infringement from a comparative point of view.

II Prior to 2008: Divergent Court Rulings in Taiwan

The development of Taiwanese judicial decisions on the issue of mental elements could be divided into two stages. The first period covers the days preceding the year of 2008. According to a survey on district and appeal courts’ decisions regarding mental elements during the year of 2000 and 2008, Taiwanese court opinions were quite divergent on this issue. Among the 211 cases where the plaintiffs were awarded compensation for patent
Infringement, the courts in 149 decisions (70.6%) took mental elements into consideration, but they ignored that same issue in the rest of cases (29 decisions, 29.4%). The statistics indicate that scienter – intent or negligence – was not yet consistently confirmed as an element in determining patent infringement compensation. As for the burden of proof, the courts held disparate views as well. In 48 decisions (32.2% of the cases that upheld mental elements), the courts presumed the negligence of the infringers, but in the rest (67.8%) of the cases they identified the infringer's intent or negligence with evidence. There were even seven decisions where the courts explicitly denied to presume the infringer's negligence. In the latter half of this period, the Taiwanese Supreme Court weighed in on the issue of mental elements. In 2004, the Supreme Court ruled that patent infringement by its nature was a type of torts, and mental elements were thus indispensable for damage compensation. As for the burden of proof on negligence, the Supreme Court expressed conflicting views during this period. In 2005 and 2007, the Court indicated in two separate decisions that patent infringers were presumed negligent due to the notice that patent registration provided to the general public. In the intervening year of 2006, however, an opinion from the Court suggested that patent owners should bear the burden of proof and substantiate the intent or negligence on the side of infringers.

In short, during the first period, it was settled through a series of Supreme Court's decisions that scienter is an essential element for patent infringement compensation, but related issues, such as the burden of proof, duty of care, and standards for judging negligence, were still unresolved.

III Since 2008: The Intellectual Property Court Determines Negligence by Types of Infringer

The establishment of the IP Court in July, 2008 is a significant milestone of Taiwanese patent law. The Court's expertise in intellectual property law and technological sophistication with the aid of technical examiners enable it to enhance tremendously the quality of patent litigation. As a specialised tribunal for all the patent cases at first instance and at appeal level in Taiwan, it also unifies pre-existing court rulings that are divergent or even conflicting in the patent field. The same trend of changes can also be found as to the issue of mental elements.

This article investigates all the patent infringement cases decided in the IP Court since July, 2008 to June 2014, including decisions of first instance and on appeal. The total number of cases and defendants under such coverage is listed in Table 1. As individual defendants in the same infringement decision may reach different results with respect to the mental element, the authors use the number of defendants instead of cases as the unit of observation and calculation in this survey.

### Table 1

<table>
<thead>
<tr>
<th>All infringement cases</th>
<th>Mental element cases</th>
<th>First instance</th>
<th>Appeal</th>
<th>Total number of defendants</th>
</tr>
</thead>
<tbody>
<tr>
<td>1239</td>
<td>157 (12.67%)</td>
<td>92</td>
<td>65</td>
<td>181</td>
</tr>
</tbody>
</table>

The rulings of the IP Court with regard to the mental element in all the infringement cases and a yearly distribution are demonstrated in Table 2 and Table 3, respectively.

### Table 2

<table>
<thead>
<tr>
<th>Number of defendants</th>
<th>Negligence</th>
<th>Intent</th>
<th>No fault</th>
</tr>
</thead>
<tbody>
<tr>
<td>181</td>
<td>80</td>
<td>70</td>
<td>39</td>
</tr>
<tr>
<td>Percentage in all defendants</td>
<td>100%</td>
<td>44.20%</td>
<td>38.67%</td>
</tr>
</tbody>
</table>
Mental Elements of Patent Infringement Compensation: Empirical Survey of Taiwan Judicial Decisions and Its Comparative Implications

Table 3

<table>
<thead>
<tr>
<th>Year / Number of defendants</th>
<th>Negligence</th>
<th>Intent</th>
<th>No fault</th>
<th>No fault rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014 (to June)</td>
<td>9</td>
<td>4</td>
<td>6</td>
<td>31.58%</td>
</tr>
<tr>
<td>2013</td>
<td>22</td>
<td>11</td>
<td>1</td>
<td>3.33%</td>
</tr>
<tr>
<td>2012</td>
<td>25</td>
<td>18</td>
<td>8</td>
<td>17.39%</td>
</tr>
<tr>
<td>2011</td>
<td>11</td>
<td>13</td>
<td>12</td>
<td>30.00%</td>
</tr>
<tr>
<td>2010</td>
<td>6</td>
<td>15</td>
<td>5</td>
<td>20.00%</td>
</tr>
<tr>
<td>2009</td>
<td>7</td>
<td>9</td>
<td>7</td>
<td>33.33%</td>
</tr>
<tr>
<td>Total</td>
<td>80</td>
<td>70</td>
<td>39</td>
<td>21.55%</td>
</tr>
</tbody>
</table>

A prominent point in Table 2 and Table 3 is that about 20% of defendants are steadily held of no fault for their patent infringement, hence are not liable for monetary compensation. The underlying reason for this outcome is that Taiwanese courts eventually settled on the issue of burden of proof. In 2009, the Taiwanese Supreme Court overruled an infringement compensation ruling of a lower court that presumed the infringing defendant to be negligent, and rather held that the mental element has to be proved with evidence that demonstrates the defendant knew or should have known the patent at issue. This opinion unequivocally rejects the presumption of negligence on the side of infringers, which is followed by the IP Court ever since, and a substantial cohort of defendants is therefore exempted from compensation liability.

Through this empirical investigation, the authors further find that the IP Court stratifies the duty of care that different types of infringers should bear and in that way objectivises the abstract concept of negligence. The survey shows that during this period, the IP Court repeatedly differentiate the duty of care into three levels in its decisions. For those infringers that manufacture the infringing products or otherwise compete directly with the patent owner, the Court considers that they have reason to pay attention to patents related to the product, and have the ability to understand the patent at issue as well. Their duty of care is consequently high.

Secondly, for retailers such as internet stores or supermarkets that are selling numerous items of merchandise, the Court recognises that they may not pay attention to patents pertinent to specific items, nor do they have the ability to search and analyse those pertinent patents. As a result, the duty of care for such retailers is deemed to be low.

Thirdly, wholesalers or other dealers that are located in the middle of the supply chain usually trade products within specific categories, and hence to some extent have the interest and ability to search and understand existing patents in those areas. The Court ruled that the duty of care for such dealers is intermediate.

The relation between the duty of care and negligence determination on the IP Court is dramatically close, which displays fully by the statistics of Table 4.

Table 4

<table>
<thead>
<tr>
<th>Duty of care / Number of defendants</th>
<th>Negligence</th>
<th>No fault</th>
</tr>
</thead>
<tbody>
<tr>
<td>High duty of care</td>
<td>57</td>
<td></td>
</tr>
<tr>
<td>Intermediate level</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td>Intermediate with good-faith reliance</td>
<td>13</td>
<td></td>
</tr>
<tr>
<td>Low duty of care</td>
<td>23</td>
<td></td>
</tr>
<tr>
<td>Other factors</td>
<td>16</td>
<td>3</td>
</tr>
<tr>
<td>Total</td>
<td>80</td>
<td>39</td>
</tr>
</tbody>
</table>
For those defendants with a high duty of care, negligence is presumed by the Court and nearly unrebuttable. Conversely, the low duty-of-care defendants are almost as a rule considered inculpable for no fault on their side. Those wholesalers or dealers with intermediate duty of care are likely to be held negligent when they infringe. Nevertheless, those mid-level dealers frequently do not have sufficient expertise to conduct infringement analysis on their own. If they ensure non-infringement guarantee from manufacturers or importers of the product in advance, yet still turn out to be infringing due to their good-faith reliance on the dishonest guarantee, their duty of care is considered accomplished and their negligence could be effectively refuted.15

With respect to intent, half of the intentional infringers are so determined by the Court on the basis of warning letters or other types of infringement notice sent from patent owners.16 Another important base for deciding intent is prior licence or litigation with the patent owner with respect to the patent at issue.17 Evidence from the infringer side, such as raising patent validity opposition or efforts to design around the patent, may or may not successfully negate the willfulness allegation, which is highly fact-dependent and decided by the Court on a case-by-case basis.

IV Analysis and Comparative Implications

The empirical study of this paper shows that about 20% of defendants are held not to be at fault in patent infringement litigation, and therefore immune from monetary compensation in Taiwan. Most of those defendants are retailers or mid-level dealers that do not specialise in the patented products. They usually have no expertise in the technicality of the products, and rarely pay attention to relevant technical development, and are not aware of the technologies at issue. It is tremendously difficult for them to discern and prevent the patent infringement. In light of those features, the Taiwanese IP Court considers their duty of care are low and seldom find them negligent in infringement cases.

There are still drawbacks in Taiwanese judicial practices regarding mental element adjudication. For instance, the duty of care and negligence determination may be too objectivised. The IP Court could leave more case-by-case flexibility and pay more attention to the subjective situation of individual defendants to better determine whether the negligence exists. From a comparative perspective, nonetheless, the implication of Taiwanese experience is two-fold. First, the systematic opinions of the IP Court regarding mental element determination could be a good reference for other countries in searching for appropriate standards to decide the duty of care and negligence in patent infringement cases. Secondly, the most prominent feature of Taiwanese case law, that is, immunising non-specialised retailers and dealers from monetary compensation, could be beneficial and helpful for those countries that are now suffering from abusive patent assertions towards small businesses.

A famous example of abusive patent assertions is the MPHJ dispute. MPHJ Technology Investments, LLC is a non-practising entity (NPE). It bought patents relating to networked scanning systems, which are widely used in computer-scanning equipment, and aggressively alleged patent infringement towards end users, including small businesses in veterinary services, lawn and garden services, building maintenance services, and medical laboratories.18 It sent out through its subsidiaries a series of more than 9,000 letters to more than 4,800 small businesses with fewer than 100 employees located all across the United States. In those letters, MPHJ accused the recipients of patent infringement, urged them to take licence and pay royalties, and warned that it would file an infringement lawsuit if the recipients did not respond to the letter in two weeks. The letters even attached a nine-page complaint for patent infringement litigation.19

The Federal Trade Commission (FTC) and several states have stepped in to curb such abusive behaviour by the law of unfair trading practice.20 In reality, MPHJ did not file any lawsuit against small businesses that did not respond to the letters. It made no preparations to file such litigation. The letters also falsely stated that many companies had responded and were paying for a licence.21 MPHJ settled the dispute at the federal level with the FTC in November 2014.22

The courts in Taiwan usually regards those infringers who are not specialised in the patented product at no fault for the infringement and hence free from damage compensation.23 That judicial practice could effectively prevent abusive patent assertions against innocent infringers. As a matter of fact, MPHJ deliberately avoided computer-savvy enterprises and chose small businesses in
the field of veterinary services, lawn and garden services, building maintenance services, and medical laboratories as its targets.\(^\text{24}\) Those business do not know much about the networked scanning technologies, and have no idea which technology their scanning equipment are using and whether those machines are infringing the patents at issue. Technically, they are still infringers, but it is the manufacturer of the scanning machines that determines which technology to be adopted and makes a profit therefrom.

The patent infringement litigation should be therefore channelled towards the manufacturers or designers of the products, not to the end users or mid- or downstream dealers. Taiwanese experience with the status of mental elements in infringement compensation, and the low duty of care and generally no-fault rulings for those innocent infringers could definitely provide a good referential model for countries in the world that are suffering from the MPHJ-type abusive assertions of patent rights.

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3 See infra text II.


5 id.


10 A few defendants were held negligent for a period of time and of intent for another in a single case. The sum of defendants with negligence and with intent in Table 2 and Table 3 is therefore larger than all defendants minus those with no fault.


19 id. at 4-6.


21 Complaint, supra n.18, at 8-9.


23 See supra text III.

24 Complaint, supra n.18, at 3-4.