

Patent Enforcement in China

By Shengping Yang

Patent enforcement in China has been a hot topic throughout the world for a while. Some people are of the opinion that China has achieved great progress in protecting patent rights in the past years. Some other people do not agree with this. Some, especially people from foreign countries, even say that pursuing a patent in China is not worthwhile because a Chinese patent is not enforceable. There are also some people with the opinion that Chinese courts favor Chinese parties over foreign parties. When I spoke with people about this topic and asked for any data or evidence to support their opinions, I found that nearly all these opinions are based on some kind of intuition or imagination, rather than on some concrete truth. To describe the real situation of Chinese patent enforcement, this article provides some statistics and investigations on concluded cases handled by the Chinese people's courts in the recent years involving a patent. Then it presents actions taken by the authorities involved in patent enforcement in lawmaking. This article also analyzes a hotly contested case to give a more concrete insight on the situation of Chinese patent enforcement.

General Situation of Patent Litigation in China

I'd first like to present some statistics about the general status of patent litigation in China.

According to the white book *Judicial Protection of Intellectual Property Rights in China* issued by the Supreme People's Court on April 19, 2011, the local people's courts received in 2010 a total of 42,931 civil intellectual property cases of first instance and concluded 41,718 cases. This represents growth of 40.18% and 36.74%, respectively, compared with 2009. Among the 42,931 civil intellectual property cases, 5,785 involved a patent, which represents 13.5% of the total.¹

The white book does not tell how many of the 5,785 patent cases involved foreign parties. However, we studied 3,000 concluded patent trial cases disclosed on the website of the Supreme Court, and made some statistics, which provide some persuasive information. These 3,000 cases represent the most recent available at the time of this writing at the China courts' website,² which compiles a collection of completed cases.

According to our study, 129 of the 3,000 cases involved at least one foreign party, which represents 4.3% of the total studied. (See Table 1.) Among the 129 cases involving a foreign party, 12 (9.3%) were concluded through mediation, 11 (8.5%) were concluded through dismissal of action, and nine (7%) were concluded through not handling. The other 97 cases (75.2%) were concluded through adjudication.³

Among the 97 adjudicated cases, nine were cases in which both the defendant and plaintiff were foreign parties. (See Table 2.) Among the remaining 88 adjudicated cases involving a foreign party and a Chinese party on different sides, foreign parties won 52 cases, while the Chinese parties won 36 cases. This means the winning rate of a foreign party involved in a patent litigation case in China is roughly

60% when the opposing party of the case is a Chinese entity.

According to these statistics, one cannot say that a Chinese patent is unenforceable or the Chinese courts are always more favorable to Chinese than to foreign parties.

To enforce a patent in China, as in any other country or region, one should have a clear understanding about the general Chinese enforcement environment. The following section of this article provides some insights on this.

Brief Review of Chinese Patent History

As is commonly known, the first Chinese patent law came into force in 1985, which is deemed as the beginning of Chinese patent history. Generally speaking, the Chinese patent system has a very short history. The first stage of Chinese patent history was an emerging stage. In this stage, the public perception of patents was established from scratch. Everything in relation to patents was developing very quickly, but somewhat irregularly.

Then came the second stage in which more and more Chinese citizens and entities became aware of the benefits of patents. Some people found that the patents and applications published on the Internet by patent offices of different countries and regions were a good resource of new and interesting technologies. They did not even think that those technologies could be protected by laws before delving into the numerous documents that were freely accessible. They also began selecting the useful disclosures and using them in their research and production.

The third stage is when Chinese citizens and entities got a better understanding about patents and became more respectful of others' patent rights and started establishing their own patent portfolios and enforcing their own patents.

As I understand, we are now in the third stage. In the present stage, the public has more channels and opportunities to gain patent knowledge. More and more people and entities are applying for their own patents and also have more opportunities to taste the bitterness of having their patent rights infringed. The government also is growing more aware of the importance of creating and protecting innovation in order to promote the country to change from a world factory into an innovation center and is taking various actions to support that end.

Chinese Patent Enforcement System

Chinese patent enforcement is a specialized practice. Article 60 of the new Chinese Patent Law reads:

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Where a dispute arises as a result of the exploitation of a patent without the authorization of the patentee, that is, the infringement of the patent right of the patentee, it shall be settled through consultation by the parties. Where the parties are not willing to consult with each other or where the consultation fails, the patentee or any interested party may institute legal proceedings in the people's court, or request the administrative authority for patent affairs to handle the matter. When the administrative authority for patent affairs handling the matter considers that the infringement is established, it may order the infringer to stop the infringing act immediately. If the infringer is not satisfied with the order, he may, within 15 days from the date of receipt of the notification of the order, institute legal proceedings in the people's court in accordance with the Administrative Procedure Law of the People's Republic of China. If, within the said time limit, such proceedings are not instituted and the order is not complied with, the administrative authority for patent affairs may approach the people's court for compulsory execution. The said authority handling the matter may, upon the request of the parties, mediate in the amount of compensation for the damage caused by the infringement of the patent right. If the mediation fails, the parties may institute legal proceedings in the people's court in accordance with the Civil Procedure Law of the People's Republic of China.⁴

According to article 60, when a patent is infringed, there are at least two routes for the patentee to get a remedy: one is judicial and the other is administrative. The dual route is a distinguishing feature of Chinese patent law and will be discussed in more detail below.

Administrative Route of Patent Enforcement

As mentioned above, administrative law enforcement is a characteristic particular to Chinese patent enforcement. The State Intellectual Property Office (SIPO) even issues special measures to regulate actions of local administrative authorities in patent administrative enforcement to ensure the patent actions are more consistent across local administrative proceedings.

According to the *Measures for Patent Administrative Law Enforcement* (revised last year), when a patent is deemed as infringed, the patentee or any interested party may request local authorities in charge of patent works for redress. The local authority files the case and notifies the alleged infringer within five days from receiving the request. Then a copy of the request and relevant materials is transferred to the alleged infringer within five days from the date of filing, and the alleged infringer is required to answer. When the local authority is convinced that some infringement exists, the local authority may take action immediately. In order to convince the local authority of the infringement, the complaining party should submit evidence, such as samples or photographs. The total term of such a case is three months from the date of filing. For particularly complex cases, this term can be extended up to four months on approval of the commissioner of the local authority.

In our experience, when the local authority is convinced that infringement exists, it usually takes action on the same day

Table 1. Summary of parties and resolution methods for 3,000 concluded patent trial cases

Involving foreign parties				Involving only Chinese parties
129 (4.3%)				2,871(95.7%)
Mediated	Action dismissed	Not handled	Adjudicated	
12	11	9	97	

Table 2. Summary of success rates for 97 adjudicated patent cases involving a foreign party

Dispute between Chinese and foreign parties		Dispute between foreign parties
88		9
Chinese parties win	Foreign parties win	
36	52	

of filing. The first action usually requires the infringer to stop infringement immediately, accompanied by disposal of infringing products and instruments. If the infringer does not abide by the requirement, the authority may request police assistance.

Official data of patent administrative enforcement in 2010 is not yet available, but we can still get some impression and information based on the official data of 2009. According to the *Patent Statistics Annual Report*⁵ of 2009 issued by the SIPO, data of patent administrative enforcement cases received and concluded by the local authorities in 2009 is represented in Table 3.

Among the 937 infringement dispute cases, 151 involved a patent for invention, 445 involved a utility model, and the other 341 involved a design.⁶ Therefore, we can say that owners of utility models and design rights use this administrative approach more often than owners for invention patents. This is because, compared with invention patents, infringement of utility model and design patent rights are generally more easily determined.

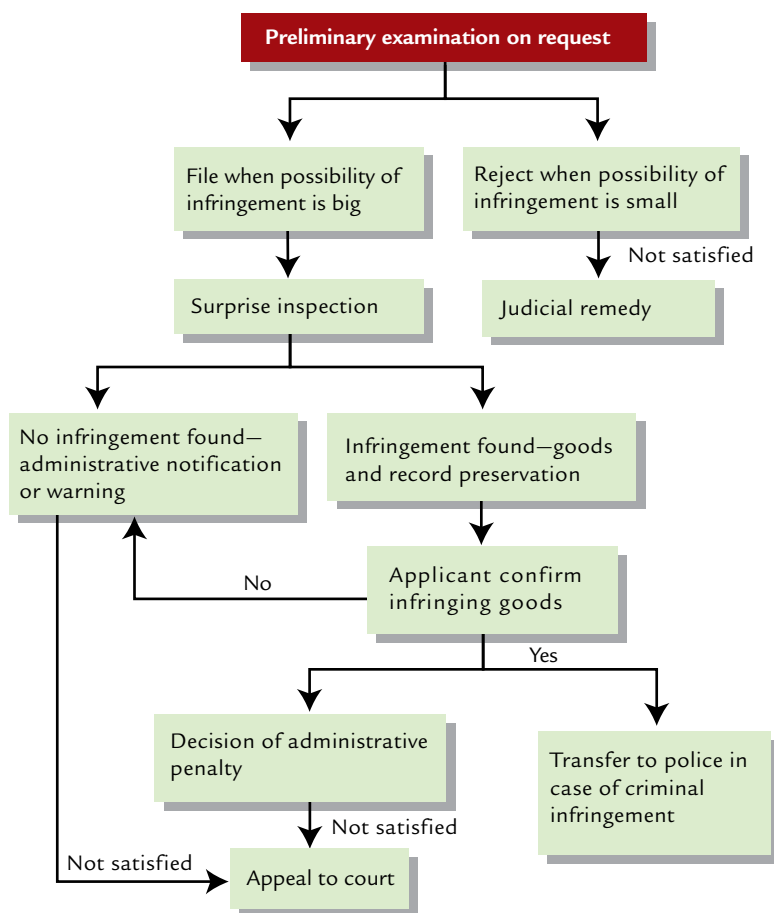
Chinese people and entities apply this administrative route much more often than foreign parties. For example, among the 937 infringement dispute cases received by local authorities in 2009, 895 were launched by patentees from mainland China, 13 were launched by patentees from Taiwan, and the other 29 were launched by patentees from other countries. In 2009, only nine patentees from the United States applied this route.⁷

Generally speaking, the administrative route of patent enforcement is cheap, quick, and simple. If injunction is the major objective, administrative patent enforcement should be a good choice. Of course, the patentee also can request damages. In such a case, the local authority can only mediate; it cannot decide the damages amount. If the mediation fails, the patentee can only sue the infringer in the court for damages. If a patentee pursues administrative action, the administrative action does not bar the patentee from also launching a judicial case.

Judicial Route of Patent Enforcement

Patent litigation cases are a special type of civil case and accordingly comply with general regulation of the two-tiered

Figure 1. General proceeding of patent administrative enforcement



system adopted by Chinese courts. However, the first instance of a patent infringement case is not handled by a basic people's court as would apply for most civil cases. Rather, patent cases are first held in the first instance one level higher by an authorized intermediate people's court. Normal proceedings of a first instance patent infringement case comprise the following steps:

1. Initiation—A plaintiff submits petition to an Intermediate People's Court.
2. Formality examination—Finished within seven days from receiving the petition.
3. Prehearing proceeding—Notify the plaintiff of acceptance, transfer the petition and relevant documents to the defendant, and the defendant submits a response.
4. Oral hearing—Both sides debate in court under moderation of judges.
5. Decision—The decision can be a judgment or ruling.

The normal term of a first instance case is six months. In practice, once sued for infringing a patent, the defendant usually launches an invalidation process against the relevant patent before the patent reexamination board. This process usually takes one year. The court usually discontinues the judicial proceedings to wait for the result of invalidation. Therefore, a patent infringement litigation case in China generally takes 18 months. The decision of the Intermediate

People's Court is appealable to a High People's Court. The High People's Court usually concludes the case within three months.

As can be seen from the above, there is no procedure like the American discovery process in a patent litigation case in China. As a result, evidence collection before launching a judicial case and choosing opportunities for disclosing the evidence should be very important for a patent case in China. Far more of the fact gathering is performed in advance of the actual infringement suit and not after a suit is filed.

Other Choices for Enforcing a Patent *Customs Record*

Besides taking the administrative route and judicial route, one can also take the customs protection route. Registration is a precondition for Chinese customs to take action in protecting a patent right on its own initiative. Specifically, according to the *Regulations of the People's Republic of China on Customs Protection of Intellectual Property Rights*, a patentee can file a request with the General Administration of Customs to register his patent. When all required documents and materials are submitted, the customs will issue a Certificate of Intellectual Property Custom Protection Registration to the applicant within 30 days. With a patent registered, the customs may take action on its own initiative to monitor and seize infringing goods.

In practice, goods that are found to infringe design patents are sometimes monitored and seized by the customs through the registration process described above. For goods thought to infringe invention patents or utility model patents, it is more often that a patentee tracks infringing goods. The patentee then reports entry of infringing goods to customs and customs seizes the goods.

According to statistics of the General Administration of Customs of China, Chinese customs monitored and intercepted 20,155 batches of goods infringing valid Chinese intellectual property rights in 2010. Currently, the number of valid customs registrations of patents is 3,895.⁸

Self-Help

Of course, when a patent is infringed, the patentee also may choose to solve the problem by sending a warning letter to the infringer, sending a notification of infringement to end users, etc. Of course, whether to choose these routes depends on many other conditions.

Government Actions Taken to Improve the Environment of Patent Enforcement

As mentioned above, with the development of the economy, international trade, and technology cooperation, the Chinese government is becoming more aware of the importance of intellectual property. The government also is growing more aware of the general environment of protecting rights of intellectual property owners. In recent years, the government took

various actions to improve the general environment of patent procurement and enforcement.

Patent Law Amended to Improve and Simplify Patent Enforcement

In 2008, the patent law was amended for the third time. With this amendment, improvements were made to facilitate patent enforcement. Such provisions include:

Article 11, Paragraph 2

“After the grant of the patent for a design, no entity or individual may, without the authorization of the patentee, exploit the patent, that is, make, offer to sell, sell or import the product incorporating its or his patented design, for production or business purposes.”⁹ Offering to sell products incorporating a patented design is deemed as infringement, which makes evidence collection easier and alleviates the patentee’s burden of proof.

Article 20, Paragraph 4

“For an invention or utility model, if a patent application has been filed in a foreign country in violation of the provisions of the first paragraph of this Article [confidentiality examination], it shall not be granted patent right while filing application for patent in China.”¹⁰ This clause clarifies the penalty of violating the requirement of first filing in China for creations made in China. This makes it easier for the courts to decide a case involving such factors.

Article 62

“In a patent infringement dispute, where the alleged infringer has evidence to prove that the technology or design exploited by it or him forms part of prior art or is prior design, such exploitation does not constitute infringement of patent right.”¹¹ In Chinese patent practice, issues relating to so-called substantive matters like patentability, validity, etc., are usually decided by the SIPO rather than by the courts. This is because Chinese judges usually have no technical backgrounds and are deemed less expert than examiners on such issues. Article 62 takes a step in giving the courts more power when deciding relatively substantive issues and to some extent simplifies the judicial proceeding. This article also signals a trend of Chinese patent system development, which is to absorb active and substantive aspects of more developed systems like the American system.

Article 65

“The amount of compensation for the damage caused by the infringement of the patent right . . . shall also include the reasonable expenses of the right holder incurred for stopping the infringing act.”¹² This means reasonable attorney fees can be included in calculating damages in a patent litigation case. This can apparently relieve the burden of the patentee in protecting his rights and is a big improvement encouraging patentees to fight against infringement.

Judicial Interpretation Issued to Unify Judicial Determinations of Courts All over the Country

At the end of 2009, the Supreme People’s Court issued its No. 21 judicial interpretation, *Interpretation of the Supreme People’s Court on Several Issues Concerning the Application of Law in the Trial of Patent Infringement Dispute Cases* (JI). This JI

Table 3. Patent administrative enforcement cases entertained and concluded in 2009

	Entertained	Concluded
Total	1,541	1,336
Infringement disputes	937	741
Other disputes	26	17
Pass-off of patents	548	548
Counterfeit patents	30	30

answered some open questions such as how to decide the scope of a claim comprising a technical feature defined by functionality, whether a design patent should be bound to a specific product, and whether protection to a patented process should be expanded to products obtained through the patented process, etc.

According to the JI, the content of a technical feature should be determined in consideration of the detailed embodiments of the functions or effects described in the specification and drawings and equivalents thereof.

On the issue of design patent, when the newly revised patent law was published in 2008, most intellectual property professionals deduced that the protected object of a design patent was converted from the product using the design to the design itself, which was deemed helpful to solve the long-debated question of protections for a particular item, e.g., vehicle vs. vehicle model. But from article 8 of the JI, when interpreting paragraph 2 of article 59 of the patent law, the People’s Court emphasizes the design “of the product.” This limits infringement of a design to the types of product identical or similar to the design patent product. This apparently resolves the long-argued questions of vehicle vs. vehicle model. That is, a vehicle using the same design of a model design patent still could be deemed not infringing the model design patent.

As for patented processes, the new JI provides a firm conclusion for the long-debated topic as to whether a product obtained using a patented process should be limited to products directly obtained by the patented process or should extend to follow-up products. The right of the patentee of a process patent is strengthened by the JI. A patentee shall accordingly strengthen monitoring over infringement actions of using follow-up products obtained by further processing or treating the above-mentioned original product. Due to the extension of the scope of infringement actions, this provision also gives the patentee more flexibility in choosing jurisdiction or venue for filing a lawsuit against alleged infringers.

Another remarkable clause of this JI includes principles to be adopted in deciding infringement. According to this JI, the principle of redundant designation is abandoned in infringement determinations. That is, the scope of a claim will be defined by all technical features included in the claim, regardless of whether a technical feature is essential or not. This makes the process of infringement determinations more objective and easier to keep consistent among different courts.

National Intellectual Property Strategy Emphasizes Intellectual Property Enforcement

In 2008, the Chinese government issued the *Outline of the National Intellectual Property Strategy*. In this outline, enforcement is mentioned 12 times to emphasize the will and wish of the country to improve the general situation of intellectual property enforcement.

When talking with our colleagues on Chinese patent litigation experience, we have a common feeling that the government is aware of the complaints regarding the past Chinese patent enforcement environment and is trying to show a fair and impartial image to the world. Quite often we felt that the courts and the government are more favorable to foreigners than to Chinese when a case involves a Chinese party and a foreign party.

Illustrative Cases Publicized to Guide Judging Actions

As is known, there is no case law-based precedent system in the Chinese system. But in recent years, the Supreme People's Court publicized illustrative cases for reference in judging intellectual property cases by local courts.

In 2010, the Supreme People's Court publicized 50 such illustrative intellectual property cases, of which 11 were patent cases.¹³ These cases do not form a part of the law and also do not form any standard of principle. However, the local courts may view such illustrative cases as guidelines when encountering similar cases. When involved in a patent enforcement case, one can try to draw the attention of the judge to such illustrative cases for more favorable results.

Special Campaigns Conducted to Crack down Intellectual Property Infringement

In recent years, China launched numerous special campaigns against intellectual property infringement. In such a campaign, more administrative and judicial resources are dispatched to the subject matter. As a result, it usually becomes easier for an intellectual property right owner to get the attention and action of the administrative or judicial authorities against the infringement activities.

Rome wasn't built in a day. We cannot expect these actions taken by China to make everything perfect, but the system will definitely benefit from these actions and a better environment can be expected.

Summary of a Recent Patent Infringement Case: *Chint v. Schneider*

*Chint Group Corp. v. Schneider Electric Low-Voltage (Tianjin) Co.*¹⁴ received so much attention because of the record-setting damage award and the direction in which the damage was paid—from a foreign party to a Chinese party.

In the past, Chinese patent enforcement was criticized because of, among other things, small damage awards. Such awards were far from enough to compensate the losses of intellectual property rights owners and were also insufficient to deter infringers from further infringement. In *Chint v. Schneider*, the Wenzhou Intermediate People's Court decreed Schneider to pay a damage of over ¥330 million to Chint. This was substantial enough to quiet concerns about insignificant damage awards, but then the direction of payment from a

foreign party to a Chinese party called into question the fairness of the Chinese intellectual property enforcement system.

This case was discussed quite a lot. Nearly all aspects of the judgment were talked over. Upon careful consideration, it appears that the Wenzhou Intermediate People's Court paid much attention and with much deliberation to make the judgment in accordance with provisions of the law to avoid possible criticism of its decision.

There were two critical factors in this case. One is whether the Schneider product C65 micro circuit breaker infringes the Chint patent for utility model ZL97248479.5. Since the fast contact closing mechanics comprises all technical features of the Chint patent, there is no doubt that C65 fell into the scope of the Chint patent, and accordingly infringes the patent according to the current Chinese patent law.

Another commonly debated aspect of *Chint v. Schneider* is the amount of damage. According to the 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 rights 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 rights 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.¹⁵ Since Chint provided detailed tax data of Schneider's business in relation to the involved product C65, and Schneider did not provide any persuasive evidence to prove that this data could not be used as the basis of damage calculation, the resulting amount of damage was also reasonable in principle.

The final result of this case also proved that the judgment of Wenzhou Intermediate People's Court withstands scrutiny. As is publicly known, the two sides settled the case and Schneider paid ¥157 million to Chint.

Conclusion

From the above, we can conclude that there is still a long way to go for Chinese patent enforcement. For example, due to the short history, the public perception about patents, especially respecting others' patents, still needs improvement. As one example, the very short time limit of proceeding (six months for the first instance, three months for the second instance) makes it difficult for participants to respond in an unhurried and considered manner. There is no procedure like discovery that is deemed quite effective to facilitate additional fact gathering before oral hearing. But Chinese patent enforcement is not as bad as some would believe. A Chinese patent is not only enforceable, it is fairly enforceable. China's effort in improving the general environment of intellectual property protection including patent enforcement is unmatched by efforts in other jurisdictions.

Most important is that with the awareness of the Chinese public about the meaning and importance of patents to their business and livelihood, the amount of patents applied and obtained by Chinese entities and individuals is dramatically increasing. According to statistics issued by the SIPO, the

total number of patent applications filed by Chinese before the SIPO in 2010 was over 1.2 million.¹⁶ The government is trying to increase this number to 2.5 million in the next five years.¹⁷ These patents can be a bulwark and source of protection for the Chinese patentees and holders of Chinese patent rights. On the other hand, they also can be obstacles to their competitors from both China and the rest of the world, especially when you think about the huge market and the fast growing economy.

Therefore, confidence in Chinese patent enforcement should be built up. More important is to build up enforceable patent portfolios in time. Hesitation and wondering will leave opportunities of the future missed and lost. ■

Endnotes

1. SUPREME PEOPLE'S COURT, JUDICIAL PROTECTION OF INTELLECTUAL PROPERTY RIGHTS IN CHINA (2010) (Apr. 19, 2011).

2. CHINA COURT, <http://www.chinacourt.org/cpws/> (last visited Aug. 28, 2011).

3. *Id.* The concept of a case concluded by "not handling" may result from improper jurisdiction of the matter pled. One example is where an indefinite defendant is named, in which case the court will conclude the case by not taking any action, or "not handling."

4. Patent Law of the People's Republic of China (promulgated by the Standing Comm. Nat'l People's Cong., Mar. 12, 1984, effective Apr. 1, 1985, revised Dec. 27, 2008), art. 60.

5. See SIPO, PATENT STATISTICS ANNUAL REPORT (2009), available at <http://www.sipo.gov.cn/tjxx/2009.pdf>.

6. A patent for invention in the People's Republic of China corresponds to a utility patent in the United States; utility models in the People's Republic of China do not undergo substantive examination but are more akin to registration.

7. See SIPO, *supra* note 5.

8. Chao You, *Enterprises Should Strengthen IP Customs Protection Record*, BEIJING LAW (Apr. 18, 2010), <http://www.beijinglvshi.net.cn/flgw/2010/4/10418101653921.html>.

9. Patent Law of the People's Republic of China (promulgated by the Standing Comm. Nat'l People's Cong., Mar. 12, 1984, effective Apr. 1, 1985, revised Dec. 27, 2008), art. 11.

10. *Id.* at art. 20.

11. *Id.* at art. 62.

12. *Id.* at art. 65.

13. *Chinese Courts on Judicial Protection of Intellectual Property Cases*, THE SUP. PEOPLE'S CT. OF THE PEOPLE'S REPUBLIC OF CHINA (Apr. 24, 2010), http://www.court.gov.cn/xwzx/xwfbh/twzb/201104/t20110424_19816.htm.

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15. Patent Law of the People's Republic of China (promulgated by the Standing Comm. Nat'l People's Cong., Mar. 12, 1984, effective Apr. 1, 1985, revised Dec. 27, 2008), art. 65.

16. *Domestic and Foreign Patent Applications Accepted Chronology of the Situation*, SIPO (Jan. 10, 2011), http://www.sipo.gov.cn/ghfzs/zltj/gnwszslnb/2010/201101/t20110110_562648.html.

17. *Twelfth Five-Year Plan of Patent Examination Work*, SIPO (June 1, 2011), http://big5.sipo.gov.cn/gk/gzyd/201106/t20110601_606008.html.