

# Recent Patent Decisions in the Intermediate People's Courts of China

Susan Perng Pan

*Susan Pan is a partner in the electrical-mechanical group of Sughrue Mion PLLC, a firm that specializes in intellectual property law. Ms. Pan graduated with a BS in Electrical Engineering from the University of Virginia, Charlottesville and with a JD from the National Law Center of the George Washington University. Ms Pan's experience includes areas of complex patent litigation before US courts and agencies, counseling, licensing and opinion work and representation of applicants before the US Patent and Trademark Office. Areas of particular expertise include patent claim analysis for electrical, computer, optical, mechanical and systems technologies, patent litigation, patent valuation and damage and patent appeals and interferences.<sup>1</sup>*

In the past decade, China's intellectual property system and jurisprudence have received heightened attention and scrutiny from government officials and business executives from all over the globe. With over one billion potential consumers, large multinational companies rushed to establish market position in China despite concerns about how their intellectual property might fare in the untested patent environment. In comparison to most national patent systems, China's system is very much in its early stages, having been formally enacted in 1984.<sup>2</sup> With the basic framework for patent protection in place, foreign companies invested in China in even greater numbers. Current statistics reveal that much of China's patent applications were filed by foreign entities until about 2002. Since then, there has been a more recent trend of increased patent applications filed by Chinese enterprises.<sup>3</sup>

After the initial wave of patent application filings and patent issuances by the PRC's State Intellectual Property Office (SIPO), the next concern was whether these patents would have any significant value in protecting a company's market position in China. This article describes the basic outline for enforcing a patent in China through judicial proceedings.<sup>4</sup> Though the judicial system in China is not based on precedent, this article further describes a few of the patent cases decided by Chinese courts in the past year to illustrate how the judiciary is applying the PRC Patent Law<sup>5</sup> and judicial provisions for adjudicating intellectual property cases.<sup>6</sup>

China has both judicial and administrative mechanisms for intellectual property enforcement. During the past five years since China entered the World Trade Organization, the Beijing No. 1 Intermediate People's Court reports that the tribunal has received 4535 lawsuits relating to intellectual property.<sup>7</sup> Of those cases 981 were related to foreign parties. The court's statistics further show that the foreign parties won about 60 percent of the administrative cases and about 80 percent of the judicial civil cases.<sup>8</sup> These statistics give foreign companies reason to be optimistic about the patent landscape in China. In addition, the cases discussed below also show that the Chinese patent system incorporates some of the hallmarks of US patent enforcement practice, such as the granting of injunctions, awarding of damages both on patent rights and provisional rights, and determination of infringement under the doctrine of equivalents when literal infringement is not found. Nevertheless, the decisionmaking still lacks the transparency that US attorneys are accustomed to and the damages awards remain very low by US standards.

## The Chinese Court System

The Chinese judicial system includes four levels of courts: the Supreme People's Court, the Provincial Higher People's Courts, the Intermediate People's Court, and District or County Courts.<sup>9</sup> The Supreme People's Court has assigned approximately 50 of the 400 Intermediate People's Courts to serve as courts of first instance for patent infringement cases, while the corresponding higher level courts handle the appeals.<sup>10</sup>

## Venue

The proper venue for an infringement action will be the jurisdiction of the people's court where the defendant has its domicile, or the place where infringing acts take place. Places where acts of infringement take place include: places where manufacturing, use, offers for sale, sale, or import of products accused of infringing a patent occur.<sup>11</sup> For process patents, jurisdiction for infringing acts also includes places where acts of using a patented process take place and where acts take place of using, offering for sale, selling or importing products acquired directly from use of the patented process. Places

where consequences of the preceding acts arise are also a proper venue.<sup>12</sup>

## **Preliminary Work: Evidence Gathering and Preliminary Injunctions**

A patent infringement plaintiff will need to engage in significant pre-filing inquiries before filing papers to the Intermediate People's Court to institute an infringement proceeding. This is because China has no discovery framework. The evidence to prove infringement needs to be gathered by the plaintiff, including translation and authentication so that it will be considered by the Court as evidence. The chain of possession of information, such as the distribution of a sold article from the accused manufacturer to the accused seller, must also be documented. Because China's judicial system lacks formal discovery mechanisms, the fact-finding is often done by way of a third party investigator, and sometimes the court itself.<sup>13</sup>

In instances where the plaintiff requires information that would be in possession of the defendant to prove liability or to prove damages, the plaintiff may file for preservation of evidence according to Article 61 of the Chinese Patent Law.<sup>14</sup> The property preservation system requires that the case involve a payment obligation and demonstration that there is an objective possibility that enforcement of a judgment may become impossible or difficult in the absence of such property preservation measures.<sup>15</sup>

Article 61 further provides for a preliminary injunction. Courts consider the following factors in determining whether to issue preliminary injunctions in infringement cases:

1. Whether there is patent infringement;
2. Whether the patent holder will be irreparably harmed in a manner for which monetary damages are inadequate if the infringing act is not enjoined;
3. Whether the patent holder has provided an adequate bond; and
4. Whether issuance of the preliminary injunction would prejudice the public interest.<sup>16</sup>

The case of *US Kohler Co. v. Shanghai Defuand Zhejiang Haixin Hardware Co., Ltd.*<sup>17</sup> is a case in which both the preservation of evidence and the preliminary injunction prongs of Article 61 were enlisted by the patent holder.

In this design patent dispute filed by Kohler, the plaintiff identified two types of faucets produced by the defendants that infringed its design patent. Kohler applied to the Shanghai No. 2 Intermediate People's Court for a preliminary injunction and for preservation of evidence.

Upon decision on the merits, the court ordered defendant Haixin to stop producing and distributing the infringing products and pay damages of 150,000 Yuan (or about USD \$18,700).

The other named defendant, Defu, was ordered to stop selling infringing products. However, it appears that no damages were assessed against Defu.

## **Invalidity Defenses: Interplay of the Patent Reexamination Board and the Intermediate People's Courts**

The Intermediate People's Court does not hear defenses of patent invalidity during the course of an infringement proceeding. Rather, patent validity must be challenged through a separate proceeding via the Patent Reexamination Board. However, the Intermediate People's Courts do hear the appeals of the decisions of the Patent Reexamination Board.<sup>18</sup>

Stays of litigation before the Intermediate People's Courts are generally granted in the event that the invalidity dispute at the PRB relates to validity of a utility model or a design patent.<sup>19</sup> This is likely due to the fact that there is no substantive examination of these types of patent rights prior to their issuance. However, patents for invention are examined on the substance at the SIPO. Thus, stays of litigation based on a pending invalidity proceeding before the Patent Reexamination Board are unlikely for this type of patent.

The use of a parallel invalidity proceeding would appear to allow for procedural posturing to defer the merits of the judicial case, or to challenge any questionable patents. The case of *BMW v. Jinjiang Toy Co., Ltd.*,<sup>20</sup> illustrates how a domestic PRC company leveraged its own patent rights against a foreign patent holder.

In this design patent dispute, BMW learned its lesson the hard way on the importance of proper classification of its design patents. BMW submitted an application for a patent for the design of a toy on August 25, 1999, describing the patent as related to a "car." SIPO granted the design patent. However, on June 19, 2003, BMW requested to amend the patent by changing the name of the patent from "car" to "car model." SIPO granted the amendment on August 6, 2003. However, two days prior to the amendment, the Jinjiang Toy Co. submitted its own design patent for design of a "toy automobile."

BMW filed a request to the Patent Reexamination Board (PRB), averring that Jinjiang's design patent on its "toy automobile" as being invalid as having infringed the design patent previously obtained by BMW, *i.e.*, the design patent held by BMW directed to a "car." The Patent Reexamination Board held that Jinjiang's design patent was named "toy automobile" while the (first issued) BMW design patent related to a "car." The PRB

determined that the two patents were different in use and that toy automobiles were not the same product as a car and were not products of similar class.

BMW appealed the decision of the Patent Reexamination Board to the Beijing No. 1 Intermediate People's Court. The Beijing court held that BMW's design patent filed in 1999 was in an unclear state and was in a state of change. Under the circumstances, the court determined that it was impossible to use BMW's "car" patent as a reference for purposes of invalidating the "toy automobile" patent held by Jinjiang.

Critics of the Chinese patent system may find that the decision in BMW typifies a local protectionism that should give foreign companies pause in entering the Chinese market when important intellectual property rights are at play. However, as a counter-point, it is noted here that the PRC's patent reexamination and appeal process has also worked in favor of foreign national companies. The much publicized case of Pfizer's Viagra patent is one important example. The validity of Pfizer's Viagra patent was successfully challenged by several PRC pharmaceutical manufacturers in a patent invalidation proceeding before the Patent Reexamination Board. The Board invalidated the patent based on insufficient disclosure of the drug's active ingredient. Pfizer appealed the Board decision, and the Beijing No. 1 Intermediate People's Court reversed the invalidation decision of the Board.<sup>21</sup>

Whether one believes that the decision in favor of Jinjiang was improvidently granted or not, the decision in the BMW v. Jinjiang case would underscore to domestic PRC companies the benefits that accrue in filing patent applications. Over time, the interplay of both domestic PRC and foreign interests in the PRC patent system would lead to a more fully developed framework.

## Claim Scope

The extent of protection for patent rights is determined by the terms of the claims. The drawings may be used to interpret the claims.<sup>22</sup> Though the Chinese Patent Law refers specifically only to the claims themselves and the drawings, it appears that the claims will also be construed relative to the prosecution history, as the case of *AGA Medicine Ltd. v. Beijing Starway Medical Supplies*<sup>23</sup> demonstrates.

The patent holder AGA appealed a decision of the Beijing No. 1 Intermediate People's Court. The Intermediate Court had determined that Article 59 of the Patent Law confined AGA to the extent of its written request for patent.<sup>24</sup> In particular, during substantive examination, SIPO referred to reasons that AGA may not be entitled to a patent. AGA then redefined the patent on its own, emphasizing that its request for a patent differed from a reference document in certain ways. The Court determined that if a patentee defines its technical

characteristics in examination and then seeks equivalents infringement during a judicial procedure, this is a violation of goodwill and will not be granted by the court. The Intermediate Court essentially applied an estoppel theory against that patent coverage sought by AGA, despite AGA's arguments that the written requests were to clarify the Examiner's misunderstanding and not to redefine the scope of the invention.

The appellate court's decision appears to have affirmed the non-infringement of the Intermediate People's Court but on alternative grounds. Nevertheless, the Intermediate Court's decision in the AGA case demonstrates the applicability of the notice function of the file wrapper in delineating scope of protection under Chinese patent law.

## What If No Literal Infringement Is Found. . . .

Article 17 of the Supreme People's Court Provisions allows expansion over the literal scope of the claim provided by Article 56 of the Chinese Patent Law. In particular, Article 17 of the Court rules sets forth:

The extent of protection of the right for invention or utility model shall be determined by the terms of the claims. The description and the appended drawings may be used to interpret the claims of Article 56 of the Patent Law means that the extent of protection of patent right should be determined by the necessary technical features expressly stated in the claims, including the extent as determined by the features equivalent to the necessary technical features.

The equivalent feature refers to the features which use substantially the same means, perform substantially the same function and produce substantially the same result as the stated technical features and which can be contemplated by an ordinarily skilled artisan in the art without inventive labor.<sup>25</sup>

Such an equivalents analysis was applied in *Shenzhen Yuanda Metal Industry Col, Ltd. v. Ningbo Tianqi Sports*.<sup>26</sup>

In April 2002, the Yuanda Company brought a patent infringement suit against the Tianqi Sports Co. in the Hangzhou Intermediate People's Court for patent infringement, requesting damages and destruction of products that infringed Yuanda's patent for "dismountable directional handlebars." The Hangzhou court determined that plaintiff Yuanda's patent was not infringed. Yuanda appealed the decision to the Zhejiang Superior Court. The appeal court determined that Tianqi's handlebars differed from the scope of the protected handlebars in at three least different aspects. Accordingly, there was no

literal infringement. However, the Zhejiang court determined that Yuanda's patent was infringed by equivalents and ordered Tianqi to stop infringing activities, destroy infringing products and pay damages.

The Yuanda decision does not provide a meaningful discussion of how equivalents was applied by the Zhejiang appeal court. However, it appears that the breadth of equivalents was very generous and broad, having cured deficiencies of three elements that were lacking under a literal infringement analysis.

Based on the decision in AGA, it is also not clear when equivalents will be precluded. As discussed above, in the AGA case, the Intermediate Court declined to provide an expansive literal reading to a particular claim in view of amendments and file history representations. It appears that the Intermediate Court also determined that under the circumstances, no equivalents would be afforded.

## Awarding of Damages

By court rules, the damages to be awarded will be in the form of lost profits to the patent holder as determined by the number of lost sales, multiplied by the profit per unit.<sup>27</sup> In the event that lost profits of the patent holder cannot be determined, the court will determine the amount of damages with reference to a royalty level, not to exceed a total of 500,000 Yuan (or about USD \$62,500).<sup>28</sup>

The court in Yuanda awarded the patent holder damages of 3,000,000 Yuan (or about USD \$375,000). The decision in Yuanda marks one of the largest reported damages awards in a patent infringement case, though by US standards, this award amount is relatively modest.

## Awarding of Damages Based on Provisional Rights

For those who are quick to note that China lags far behind on patent enforcement, it is noted that the PRC courts have already awarded damages in those instances in which the patent right had not yet matured. This was the case in *Japanese Family Firm v. Taizhou Zhongcheng Electromechanical and Shanghai Xin Hualian*.<sup>29</sup>

The Japanese Family Firm filed an international patent application for a massage armchair in the International Bureau of the World Intellectual Property Organization in August 2000, and the application was published in Japanese in March 2001. The involved patent entered the Chinese national phase on April 26, 2001. SIPO published the application on November 7, 2001 and the Chinese patent issued on August 18, 2004.

In September 2004, the Japanese Family Firm found that Zhongcheng and Xin Hualian produced and sold the infringing armchair and applied for preservation of

evidence. The inspection date on the Certificate of Conformity for the accused massage armchair was June 26, 2004. The Court judged that the armchair of Zhongcheng had applied the same technical features as the subject patent. However, the inspection date for the armchair was prior to the issue date of the Chinese patent, and there was no evidence that Zhongcheng continued its infringing activity after the issuance date of August 18, 2004. The court applied the provisions for interim protection of invention patents to award damages from November 7, 2001, the date that SIPO published the application. The other defendant Xin Hualian continued its activity after the patent issuance date and was thus liable for patent damages. Xin Hualian attempted to obviate its liability by claiming that it was merely a distributor and thus could not be liable for damages. However, Xin Hualian could not identify the alternative source of the accused product that it was distributing and thus was held liable for infringement.

The court issued judgment that Zhongcheng pay an exploitation fee of 100,000 Yuan (or about USD \$12,500) and that Xin Hualian stop infringement immediately and pay damages of 150,000 Yuan (or about USD \$18,700).

In addition to the damages assessed for exploitation of intermediate rights, another notable facet of the Xin Hualian case is the distribution defense posed by the defendant to absolve itself of financial liability. This mode of defense, that the defendant was not privy to how the accused article was manufactured, appears to be a common strategy to avoid paying damages. This strategy of claiming status as a distributor, as opposed to a producer or manufacturer, appears to have had mixed results in the courts.<sup>30</sup> It is believed that the availability of the "distributor defense" to avoid financial liability stems from the difficulty in proving the chain of distribution from manufacturer to distributor and the concomitant difficulty in proving the money damages attributable to the distributor's products.

## Conclusion

The above discussion shows how the Chinese courts are applying patent statutes and court rules to enforce patent rights granted by its own national patent office. The cases show some of the concepts familiar to US patent practitioners, such as the use of injunctions, doctrine of equivalents and estoppel. The cases similarly show some of the characteristics that are an outgrowth of Chinese jurisprudence, such as filings of request to preserve evidence and averring the "distributor" defense as a basis to avoid financial liability. Though patent case reports remain perfunctory, the principles applied by the courts and the tactics applied by the parties appear to be forming a foundation or blueprint for patent enforcement cases going forward.

1. The views expressed herein are solely those of the author.
2. [www.sipo.gov.cn/sipo\\_English/ffjg/zffjg/t20020327\\_33872.htm](http://www.sipo.gov.cn/sipo_English/ffjg/zffjg/t20020327_33872.htm).
3. [http://www.sipo.gov.cn/sipo\\_English/statistics/200607/t20060725\\_104689.htm](http://www.sipo.gov.cn/sipo_English/statistics/200607/t20060725_104689.htm). SIPO's internal statistics show that the cumulative number of patent applications for invention by PRC and foreign entities reached parity around 2002, with an increased number of filings by PRC entities since then.
4. This discussion is primarily directed to patents for invention, as opposed to utility models and design patents. Patents for invention are analogous to utility patents in the United States, which undergo the rigors of substantive examination prior to grant.
5. Patent Law of the People's Republic of China, as amended August 25, 2000, hereafter "Chinese Patent Law."
6. Provisions of the Supreme People's Court on Issues Relating to Application of Law to Adjudication of Cases of Patent Disputes, adopted June 19, 2001, hereafter "Supreme People's Court Provisions."
7. The Beijing Intermediate People's Court is one of about 50 courts of first instance for filing of patent disputes. The Beijing Intermediate People's Court also hears appeals from the administrative decisions of the Patent Reexamination Board (PRB). The PRB adjudicates the validity of patent post-issuance. The Intermediate People's Court also hears proceedings for trademark and copyright infringement.
8. "Foreign Party Related Intellectual Property Cases in Beijing No. 1 Intermediate Court increasing Year by Year." *english.iprtenlinfor/article.jsp?a\_no=45520&col\_no=929&dir=200701*.
9. Cheng, Yong-Shun, Justice, Supreme People's Court of the People's Republic of China, "Juridical Protection of Intellectual Property in China," *Duke J. of Comp. & Int'l L.* 267 (Fall 1998) at page 271.
10. *Id.* See also Supreme People's Court Provisions, Article 2.
11. Supreme People's Court Provisions, Article 5.
12. *Id.*
13. See Provisions of the Supreme People's Court, Article 25.
14. Supreme People's Court Provisions, Article 13; Chinese Patent Law, Article 61.
15. Cheng, *supra* n.9 at 271.
16. Bai *et al.* "Patent Litigation in Chinese Courts" (November 16, 2006); [www.ipfrontline.com/depts/article.asp?id=10608&deptid=6](http://www.ipfrontline.com/depts/article.asp?id=10608&deptid=6).
17. US Kohler Co. v. Shanghai Defu and Zhejiang Haixin Hardware Co., Ltd., *english.ipr.gov.cn/en/infol/article.jsp?a\_no=26669&col\_no=126&dir=200604*.
18. Supreme People's Court Provisions, Article 1.
19. See Supreme People's Court Provisions, Article 9.
20. BMW v. Jinjian Toy Col, Ltd., reported by China Daily, July 31, 2006.
21. Though the Pfizer patent remains under challenge by original PRC company challengers, the Patent Reexamination Board did not appeal the reversal of the Beijing No. 1 Intermediate People's Court. <http://www.iprights.com/publications/articles/article.asp?articleID=310>. Pfizer also remains embroiled in the Viagra battle by way of the local trademark rights for its PRC product. <http://ip.law360.com/secure/ViewArticle.aspx?id=18015>.
22. Chinese Patent Law, Article 56.
23. AGA Medicine Ltd. v. Beijing Starway Medical Supplies, *English.ipr.gov.cn/en/infol/article.jsp?a\_no=2675&col\_no=126&dir=200604*.
24. Though the report refers to Article 59 of the Chinese Patent Law, it is believed that Article 56 is the relevant provision.
25. *Id.* at 17.
26. Shenzhen Yuanda Metal Indus. Col., Ltd. v. Ningbo Tianqi Sports, *english.ipr.gov.cn/en/infol/article.jsp?a\_no=2787&col\_no=126&dir=200604*.
27. Provisions of the Supreme People's Court on Issues Relating to Application of Law to Adjudication of Cases of Patent Disputes, adopted on June 19, 2001 at the 1180th Meeting of the Adjudication Committee of the Supreme People's Court. Article 20.
28. *Id.* at Article 21.
29. Japanese Family Firm v. Taizhou Zhongcheng Electromechanical and Shanghai Xin Hualian, *english.ipr.gov.cn/en/infol/article.jsp?a\_no=4191&col\_no=126&dir=200605*.
30. Compare Changzhou Bridgestone v. Tianjin Supaiqi, *english.ipr.gov.cn/en/infol/article.jsp?a\_no=32034&col\_no=126&dir=200611*, where the accused defendant was forced to pay damages despite its assertion that it received accused bicycle frames from a third party to the suit and thus should not bear any compensatory liability with "Patent Infringement of the Design 'Children's Early Education Machine'" *english.ipr.gov.cn/en/infol/article.jsp?a\_no=2783&col\_no=126&dir=200604*, where an accused co-defendant was deemed to infringe the patent but did not have to take responsibility for compensation due to distributor status.