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How to litigate patents in China

Benjamin Bai, **Peter Wang** and **Tony Chen** of Jones Day explain how to enforce a patent in the world's most litigious country for patent disputes

In 2006, China saw 573,178 patent applications filed at the State Intellectual Property Office (SIPO). SIPO granted 268,002 patents in 2005, an increase of 25.2% over 2005, 223,860 to Chinese applicants and 44,142 to foreign applicants. In the same year, holders of Chinese patents filed 3,196 new patent suits, an increase of about 8.4% over 2005. Since 2005, China has been the world's most litigious country for patent infringement disputes, surpassing the US in the number of patent infringement cases filed: 2,947 for China and 2,720 for the US.

Foreign parties have brought less than 5% of these cases so far, but they are increasingly becoming involved in litigation as either defendants or plaintiffs. It is likely that patent litigation will become an important part of the business strategies for any company doing business with or in China. So it is essential to understand how to litigate patents in Chinese courts.

Procedure

The courts

China's judicial system consists of four levels of courts: 1) the Basic People's Court; 2) the Intermediate People's Court; 3) the Higher People's Court; and 4) the Supreme People's Court. China has a two-instance judicial system – the decisions of the court of first instance can be appealed, as a matter of right, to the court at the next level up, which makes what essentially is a final decision.

Because of the complexity of patent cases, the Supreme People's Court, so far, has designated about 62 courts (mostly Intermediate People's Courts) around the country to be first-instance courts for adjudication of patent infringement claims. If the damages claimed exceed a certain amount, such as Rmb¥100 million ($12 million), Higher People's Courts are the courts of first instance, and appeals as a matter of right go directly to the Supreme People's Court. (Different Higher People's Courts might have a different minimum amount of damages for plaintiffs to file a first instance case there.)

Jurisdiction

Patent infringement cases must be filed where the infringer is domiciled or where the infringement has taken place. Places of infringement include not only places where infringing acts have taken place but also places where the consequences of infringement have reached. To avoid litigation in a defendant's home court, plaintiffs might wish to join as additional defendants distributors of the infringing product in jurisdictions more favourable to the plaintiffs.

Limitations period

China has a two-year statute of limitations for patent infringement, which runs from the date the patentee knew or should have known about the infringement. For continuing infringement, the patentee can generally still obtain an injunction against the infringement even if it failed to file a suit within the two-year limitations period, as long as the patent rights still are in force. However, damages will be limited to those suffered in the last two years.

Bifurcated proceedings

China is a civil law country and has adopted many aspects of the German patent law system. For example, like Germany, China has a split system: infringement is determined by the courts and invalidity challenges are heard by SIPO's Patent Reexamination Board. Some infringement actions can be stayed in favour of SIPO invalidation proceedings – generally those involving design patents or utility model patents (which are not substantively examined by SIPO before grant) – but courts are less likely to stay infringement actions involving invention patents (which are substantively examined before grant). Less than 10% of invention patent infringement cases have been stayed in light of an invalidation proceeding. In those cases, defen-

dants generally presented convincing evidence to show that the patent in suit is most likely to be invalid. So invention patentees should expect parallel infringement and invalidity actions in the courts and SIPO respectively. An infringement action will last between six and 18 months in the first instance if not stayed, and it is not anomalous to find judgments of infringement on patents that subsequently are invalidated by the slower SIPO invalidation proceedings.

Preliminary injunctions

Article 61 of the Chinese patent law authorizes courts to issue injunctions before or during infringement actions. Chinese courts must consider the following factors in determining whether to issue preliminary injunctions:

- whether there is patent infringement;
- whether the patent holder will be irreparably harmed in a manner for which monetary damages are inadequate compensation if the infringing act is not enjoined;
- whether the patent holder has provided an adequate bond; and
- whether issuance of a preliminary injunction would prejudice the public interest.

In practice, obtaining a preliminary injunction in most patent infringement cases, especially before a suit is filed, has been difficult and is becoming increasingly so. Both infringement and irreparable harm must be clearly proven – a burden that is not easy to meet in China, given its stringent evidentiary requirements and lack of discovery procedures. About two years ago, the Supreme People's Court tempered any earlier enthusiasm for the issuance of these injunctions by issuing an instruction to the lower courts urging caution in issuing preliminary injunctions and noting that preliminary injunctions should not be issued in cases involving non-literal infringement or complicated technologies.

There is no US-style, pre-trial *Markman* hearing for claim construction in China

Evidence

Because there is no US-style discovery in China, plaintiffs must collect and submit their own evidence to meet their burden of proof regarding patent infringement and damages. Chinese courts generally accept evidence only in its original form. Evidence can come from private investigations, raid actions, overseas litigation, or defendants' employees. A notary public is often used to authenticate evidence. Evidence obtained from previous administrative proceedings or preliminary injunction proceedings sometimes can be used in subsequent infringement litigation. However, evidence obtained in violation of the law is not admissible and, if admitted, could constitute reversible error on appeal. So the proper and thorough gathering of evidence before and during the initial stages of litigation is critical to Chinese practice, and the importance of evidence-related planning and strategy to the overall success of any patent litigation in China cannot be overstated.

Overseas evidence

Evidence obtained in foreign countries is admissible in Chinese courts but must be notarised by a local notary public in the foreign country and then legalized by the applicable Chinese embassy or consulate. Any documentary evidence in a foreign language must be translated into Chinese by a court-authorized translation company.

Benjamin Bai

Benjamin Bai is a partner in Jones Day's Houston and Beijing offices, where he focuses on global patent litigation and prosecution. In the US, he regularly counsels clients on enforcement strategies for their IP and advises them on minimizing the risk of infringement. Bai also advises clients on effective strategies for building a global patent portfolio to maximize its value. He has prepared and prosecuted 1,000 patent applications worldwide involving subject matter as diverse as polymers, rubber compositions, chemical processes, well completion fluids, oil services technology, pharmaceutical compositions, biomaterials, animal feeds, lubricants, semiconductor devices, consumer products and drill bits.

Bai also leads a number of China-related IP projects. He is handling a range of patent infringement and trade secrets misappropriation cases in China for multinational companies. He is experienced in obtaining patents and trade marks for multinational companies in China and providing strategic advice on how to enforce their IP there. Bai also counsels Chinese clients on how to build a global patent portfolio, enforce their patent rights and handle patent infringement suits overseas.

Bai received a BSc in polymer chemistry from the University of Science and Technology of China, a PhD in chemistry from Rice University and a JD from the University of Texas. He is registered to practise before the USPTO and is licensed in Texas.

Evidence preservation

Article 65 of the Chinese civil procedure law empowers a court to seek evidence from any relevant party but it is seldom used in practice. A more often-used procedure in patent litigation is evidence preservation, as provided under Article 74 of the Chinese Civil Procedure Law. Where it is likely that evidence could be destroyed, lost or difficult to obtain later, a party may seek *ex parte* a court order to preserve the evidence. The court might demand the requesting party to post a bond. An evidence preservation evidence order is typically enforced by the judges. These orders can be effective, as the respondent generally will not be notified in advance and might be required to comply by providing the relevant documentation and evidence on the spot. In the execution of the order, the court can question the respondent, order production of documents, take samples of the infringing product, and conduct an inspection of premises. Any evidence obtained from evidence preservation efforts should be admissible in the subsequent court proceeding. Evidence preservation has become a powerful tool in patent litigation in Chinese courts. To prevent its abuse, however, most courts will require that the applicant present some preliminary evidence showing ongoing or imminent infringement before issuing an order.

Evidence submission

Evidence must be submitted to the court within a prescribed time limit. Generally, the time limit will be designated by the court, and must not be fewer than 30 days running from the day after the parties receive notice of the court's acceptance of the case and notice to respond to the suit. The deadline can be extended by the agreement of the parties with the court's approval.

Generally, new evidence may not be submitted beyond the time limit. Before trial, there generally is an evidence hearing at which the parties exchange the evidence on which they intend to rely and explain the relevance of the evidence to the disputed issues before the court. Parties are given the opportunity to question or object to each other's evidence. At trial, all evidence must be presented and examined by the parties, and without this examination no evidence is admissible.

Peter Wang

Peter Wang is a partner in Jones Day's Shanghai office, where he leads the Chinese litigation and antitrust/competition practices.

Wang has more than 12 years of litigation and arbitration experience in the US, China and around the world. He regularly advises clients inside and outside of China on complex commercial and international litigation, including patent, trade secrets, copyright, and other technology and IP matters. Some representative matters include: *First American Corporation v Sheikh Zayed bin Sultan Al-Nahyan* (civil RICO action with related criminal, civil, and regulatory investigations and litigation), *Hong Yi Construction v Thomson Consumer Electronics* (RICO and contract action), *Allied Signal v BFGoodrich* (private antitrust litigation defending proposed acquisition), and *Arista Records v Launch Media* (copyright infringement litigation relating to online radio).

Wang also regularly advises on China and US-related antitrust/competition issues. He has helped handle several government antitrust investigations of proposed mergers and acquisitions, including America Online's merger with Time Warner and Procter & Gamble's acquisition of Clairol from Bristol-Myers Squibb. In addition, he has been involved in several antitrust litigation matters, including on behalf of BFGoodrich in connection with its acquisition of Coltec.

Tony Chen

Tony Chen is a partner in Jones Day's Shanghai office and has 13 years of experience working with hi-tech and biotech companies in the US and China. His practice focuses on patent prosecution and litigation, technology transfer, and the formation of technology start-ups. He is a consultant to the Shanghai government on the life science industry and IP matters.

Chen practised patent law for six years in San Diego and represented a wide range of hi-tech and biotech companies in patent litigation, prosecution, and licensing. His life science IP practice covered genetic engineering, drug therapeutics, medical devices, chemistry, diagnostics, herbal medicine and DNA chips.

Before this, Chen was the first in-house patent counsel for Watson Pharmaceuticals, a generic drug and specialty pharmaceutical company, where he was responsible for IP strategy and litigation. In 2000, Chen founded a biotechnology company in Silicon Valley to develop technologies for drug discovery.

Chen received his JD from Harvard Law School and his Bachelor's degree in cell biology from the University of Science and Technology of China. He studied molecular biology at Vanderbilt University before beginning his legal studies. He is a member of the California Bar and is admitted to practise before the USPTO. He is fluent in Chinese and English.

Infringement determination

There is no US-style, pre-trial *Markman* hearing for claim construction in China. Claim construction and infringement analysis occur at trial, which might last between half a day and a couple of days. Generally, judges take the following steps when determining infringement: they construe the proper scope of the patent in suit; they analyze the relevant technical characteristics of the accused product or process; and they compare the indispensable technical features of the patent claims with those of the accused product or process. Infringement can be literal or under the doctrine of equivalents. If complicated technologies are involved, a court is likely to engage an expert institution in China to assist with claim construction and infringement analysis. Parties may use their own experts. In reality, the court generally adopts the expert institution's conclusions on claim construction and infringement.

Claims

Under Chinese patent law, the scope of an invention or utility model patent is determined by the terms of the claims. The descriptions and drawings may be used to interpret the claims. This principle is consistent with US claim construction law, but Chinese courts have yet to develop sophisticated canons of construction to guide the application of the principle. Moreover, China is not a case law country. Judges dealing with complicated claim construction issues are left with few guidelines. This situation heightens the need for experienced lawyers to shepherd judges through the analysis to arrive at a correct claim construction.

Doctrine of equivalents

There is no statutory basis for finding infringement under the doctrine of equivalents in China, but the Supreme People's Court has sanctioned the application of the doctrine in one of its judicial interpretations. According to its Judicial Interpretations on Application of Laws in Trials of Patent Related Lawsuits issued in 2001, an equivalent feature means a technical feature that: 1) easily can be conceived by a person skilled in the art without inventive skills; and 2) performs substantially the same function in substantially the same way and achieves substantially the same result as the feature recited in the claims.

Prosecution history estoppel

As with the doctrine of equivalents, there is no statutory basis for the application of the doctrine of prosecution history estoppel. However, the doctrine has been applied in patent infringement cases in China, especially by the Beijing Higher People's Court, to limit the scope of claims and/or equivalents. Under this doctrine, the patentee is estopped from covering the subject matter limited, removed or abandoned during the patent examination or invalidation proceedings by way of written statements or amendments to obtain the patent.

Remedies

The two most common remedies for patent infringement are permanent injunction and monetary damages. Once infringement is established, permanent injunction is generally issued as a matter of law. Infringement damages are assessed on the basis of the following factors in descending order of importance: 1) the actual loss suffered by the patentee; 2) the profits made by the infringer due to infringement; 3) a multiple of reasonable royalty; or 4) quasi-statutory damages. Quasi-statutory damages are so called because they are not explicitly provided in the patent law, but in a judicial interpretation from the Supreme People's Court. The amount ranges from ¥5,000 to ¥500,000. The upper limit is likely to be increased to ¥1 million soon.

If neither the patentee's loss nor the infringer's gain can be ascertained, damages are calculated with reference to the reasonable royalty of a patent licence. According to a judicial interpretation issued by the Supreme People's Court, damages can be a multiple, normally between one and three times, of the reasonable royalty. If there is no royalty, or if the royalty is obviously unreasonable, courts often resort to quasi-statutory damages. The court may, at the request of the patentee, include reasonable expenses and all or part of attorney fees into the damages award. However, recovery of all attorney fees is unlikely.

If the infringer's profits are to be used as a basis for assessment of damages, evidence preservation becomes an essential tool to enable the patentee to obtain the necessary sales and accounting information from the defendant. In practice, the assessment of damages is often a difficult and complicated process, which explains why damages awards in China are often low by US standards. (Low damages awards are not a phenomenon unique to China. They also are prevalent in most countries with civil law systems and limited or no discovery, such as Germany.) However, there is no statutory limit on the amount of damages that can be awarded, and some Chinese judges have stated that they would award high damages if presented with admissible evidence to support them.

Understanding essential

While patent litigation in China is still in its infancy, China is becoming a fertile ground for patent disputes, not just between Chinese and multinational companies, but also among multinational companies. Contrary to widespread belief, multinational companies can successfully enforce patents in China, although only given enough skill, experience, and understanding of the Chinese system.