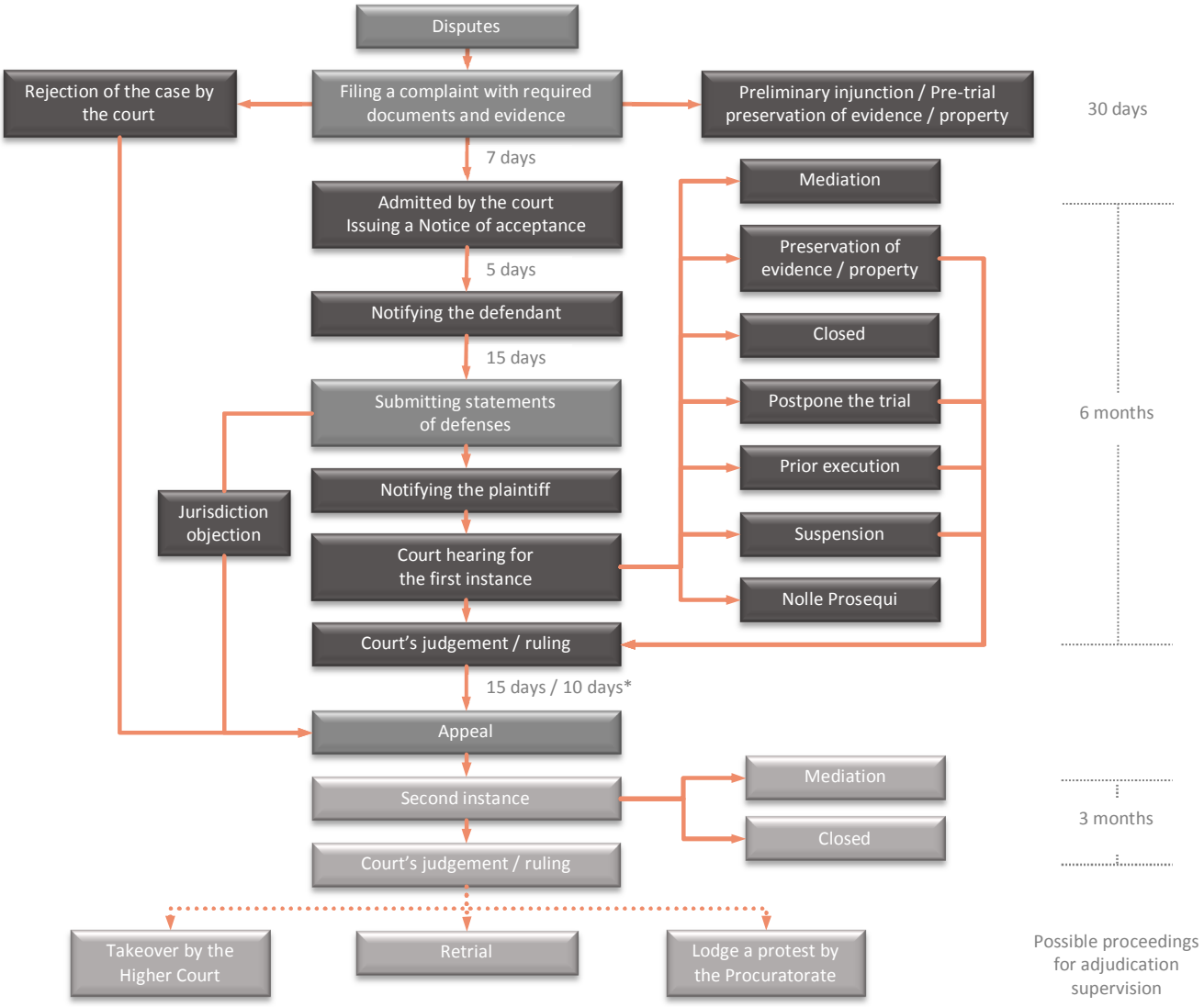
QUESTIONS AND ANSWERS

PATENT LITIGATION IN CHINA

Part II: Procedure and Argument

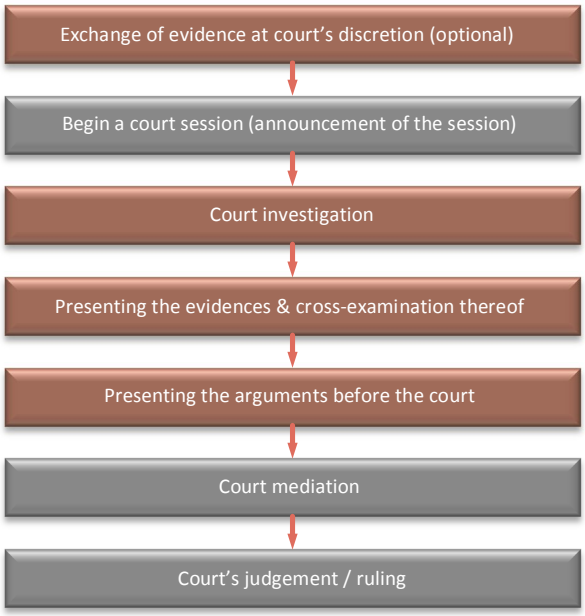
By Mr. Daniel Jiang and Ms. Minjie Liu

1. What is the process of a typical civil infringement litigation case?



* For cases where at least one of the following occurs: a party is a foreign entity, or any subject of the action or factum juridicum existed outside of China - the time limit is extended to 30 days.

2. What is the process of a typical first instance court session?



3. How long does it usually take for a typical patent infringement case in the first instance?

Generally speaking, the first instance takes no longer than six months, but foreign cases (i.e. at least one party is a foreign entity) are not subject to this limitation. On average, a patent infringement case in the first instance will be closed within six to twelve months.

The Supreme People's Court published "Some Rules Set Forth by the Supreme People's Court for Strictly Abiding by the Time Limits for Case Hearing and Execution", containing common time periods in civil cases that will not count towards the time limits for case hearing or for execution:

- Period within one month after the court decides to delay the case hearing because the parties to the case, their agents, or defense counsels have applied for the presence of an additional witness/es, the provision of new evidence, or additional expert evaluations or inspections;
- In a civil or administrative case, period during which a public announcement or evaluation is being made;
- Period during which opposition to court jurisdiction raised by the parties to the case or by another court is being heard; and
- In a civil or administrative case or in an execution procedure, the period during which an audit, assessment or liquidation is being made by relevant professional agencies.

4. Do you have any IP case statistics?

In 2014, the first instance civil cases closing rate (no appeal) was 85%. 66% of all the first instance civil cases were closed either by settlement or by withdrawal. The appeal rate for first instance civil decisions was 78%. The following are some of the IP case statistics collected by the Supreme People's Court from 2008 to 2014.

	IP-related first instance civil cases admitted	IP-related first instance civil cases closed	Patent related first instance civil cases admitted	Patent related criminal cases	Cases involving a foreign party
2014	95,522	94,501	9,648	1	1,716
2013	88,583	88,286	9,195	1	1,697
2012	87,419	83,850	9,680	63	1,429
2011	59,612	58,201	7,819	1	1,321
2010	42,931	41,718	5,785	2	1,369
2009	30,626	30,509	4,422	N/A	1,360
2008	24,406	23,518	N/A	N/A	N/A

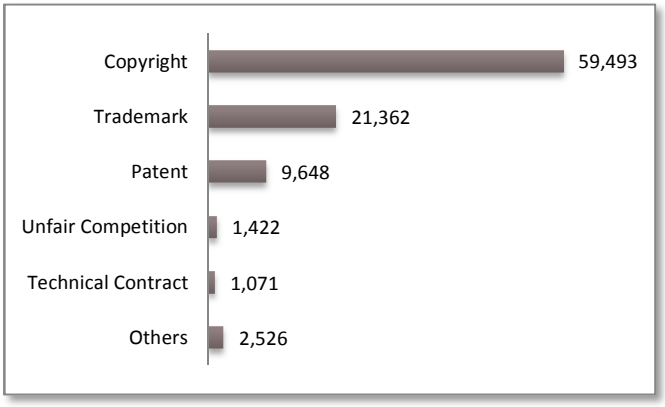
5. Why has the number of IP litigation cases increased so significantly in the past ten years?

Contributing factors may be: an increasing awareness of intellectual property protection; an increasingly effective judicial system, whereby rule of law has become more entrenched compared to other areas; and the government's encouragement to settle disputes by legal approaches. Here, legal approaches are not limited to litigation, and may also include mediation and arbitration.

Moreover, there were 2.36 million patent applications admitted to the SIPO in 2014, with China being number one in terms of application volume of trademarks for over ten years. There are significant numbers of IP rights granted in China, and the right holders are beginning to enforce their rights. IP litigation and IP licensing have followed as a corollary of this. Also, such an increase in IP litigation is an indication that judicial process yields effective remedies for IP-related disputes.

6. How many IP cases did the Chinese courts handle in 2014?

In 2014, the Chinese courts received a total of 95,522 first instance civil cases, 9,918 first instance administrative litigations, and 11,088 first instance criminal cases relating to IPRs. Here is a bar graph for the breakdown of civil cases.

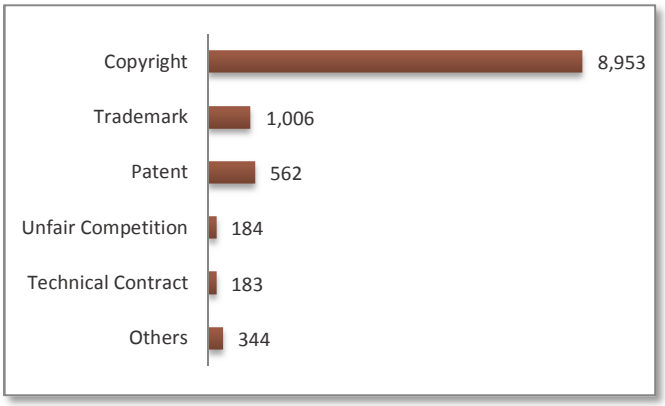


7. The number of patent litigation cases is very high. Are they mostly Invention Patent related cases?

No. In China, there are three forms of patent protections: Invention Patents, Utility Model Patents and Design Patents. According to the China Patent Infringement Litigation Status Research Report (covering 1985-2013), about 50% of the patent litigation cases were Design Patent cases, around 30% were Utility Model Patents and only 20% were Invention Patents.

8. How many IP cases did the courts in Beijing handle in 2014?

In 2014, the courts in Beijing* received a total of 11,232 first instance civil cases relating to IPRs.



* After its establishment on 6 November 2014, the Beijing IP Court started to accept IP-related civil and administrative cases and the intermediate courts in Beijing no longer received new IP related disputes.

9. What are the commonly used defenses for Patent infringement?

- Defendant's technology does not infringe the plaintiff's patent;
- Deemed as non-infringement according to Article 69 of Chinese Patent Law:
  a) obtained directly from the patentee or any authorized party by the patentee,
  b) defendant already produces the identical product before filing of application for the patent, but has to maintain within the original scope,
  c) temporarily passes through the territory, territorial water or territorial airspace of China,
  d) for the purpose of scientific research and experimentation, and
  e) for the purpose of providing information needed for the regulatory examination and approval; and
- Practicing prior art (Article 62 of Chinese Patent Law and Judicial Interpretation).

10. Can I use invalidity as a basis for infringement?

No. Initiation of an invalidation process is not considered as an act of infringement under Chinese law. However, very often, once the plaintiff files the infringement suit, the defendant would try to invalidate the patent right in question.

11. If I file an invalidity request with the Patent Re-examination Board (PRB), will the court stay the infringement case?

According to Articles 9-11 of the Several Provisions of the Supreme People's Court on Issues Concerning the Application of Law in the Trial of Cases on Patent Disputes:

Where, in a case involving a dispute over infringement upon an Invention Patent or over infringement upon a Utility Model or Design Patent which has been sustained by the PRB:

- When the defendant files a Request for Patent Invalidation within the period of submitting statements of defense, the court may rule not to suspend the action.

Wherein cases involving a dispute over infringement upon a Utility Model or Design Patent,

- When the defendant files a Request for Patent Invalidation within the period of submitting statements of defense, the court shall suspend the action in the absence of:
  a) a positive search report or a patent assessment report provided by the plaintiff,

b) clear evidence that the technology used by the defendant is in the public domain,

c) clear evidence that the defendant's request for invalidation is obviously untenable, and / or

d) at the court's own discretion.

When the defendant files a Request for Patent Invalidation after the expiration of the period of submitting a statement of defense, the court shall not suspend the action, unless it deems the suspension is necessary after review.

12. How to enforce a Utility Model Patent?

The enforcement of a Utility Model Patent by the court is basically the same as that of an Invention Patent. During the infringement litigation, according to Article 8 of the Several Provisions of the Supreme People's Court on Issues Concerning the Application of Law in the Trial of Cases on Patent Disputes, as required for the adjudication of a case, the People's Court may require the plaintiff to submit an official search report or a patent assessment report. Where the plaintiff fails to submit the report without any justifiable cause, the People's Court may render a ruling to suspend the action or rule to order for the plaintiff to assume any potential adverse consequences.

13. Is it possible to enforce an Invention Patent, when it is still pending?

Enforcement of a pending patent application is possible only retroactively. Invention Patent applications are protectable after they are published. However, when the patent application is pending, the most the applicant can do is to present the alleged infringer with a warning letter and to collect infringement evidences.

Please note that the warning letter in this case is not a warning letter in a traditional sense. Since the application is still pending, the letter could only remind the alleged infringer that they should have paid an appropriate fee for exploitation of invention.

According to Article 68 of Chinese Patent Law, during the period from the publication of the application to the granting of the patent right, the prescribed timeframe to institute legal proceedings by the patentee to demand the said fee is two years counted from the date on which the patentee obtains or should have obtained knowledge of the exploitation of his invention by another person. However, where the patentee has already obtained or should have obtained knowledge before the date of the granting of the patent right, the prescribed timeframe should be counted from the date of grant.

14. Why do I need a pre-suit investigation?

Chinese civil litigation has a system which is partially similar to that of discovery / disclosure processes in the USA and the UK respectively, but it is at the court's discretion. In most infringement cases, the plaintiff bears the burden of proof. In other words, the evidence for:

- the right to sue (e.g. ownership of a valid IP right),
- infringement act(s),
- damage incurred, and
- the direct relation between the infringement act(s) and damage,

shall be presented by the plaintiff to the court. Therefore, evidence to identify the alleged infringer (definitive information), and the infringing acts are very important, hence the obvious need for pre-suit investigation.

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