

Patent Litigation in China

Outline, Key Considerations and Case Study



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China Sinda Intellectual Property

Dual-Track System

- Both administrative and judicial actions are available for patent cases.
- Administrative: Patent Affairs Administrations (PAAs) and Customs.
- Judicial: People's Courts (civil and criminal).
- The vast majority of patent cases are handled through judicial actions.
- Varied experience, skill and consistency in both courts and administrative agencies.

Administrative Actions

- PAA's main functions: infringement disputes; ownership and inventorship disputes; inventor reward and remuneration, and counterfeiting cases.
- PAA advantages: fast, inexpensive, more effective for simple cases.
- PAA disadvantages: no damages, poor consistency, not really effective for cases involving technical issues, often result in judicial review.
- Customs: recordation of rights, petition for protection with evidence and bond, investigation and seizure; but not really effective for most patent cases.

Court System

- The People's Courts
 - Supreme:** highest national court,
 - High:** provincial or municipal level,
 - Intermediate:** city or regional level,
 - Basic:** district and county level.
- Two-instance court system.
- First instance courts for patent cases: designated by Supreme People's Court.
- Intermediate level IP Courts established in Beijing, Shanghai and Guangzhou since late 2014.
- Judicial Interpretations by the Supreme Court.

Patent Applications with the SIPO in 2014

	Total	Invention	Utility Model	Design
All Applicants	2,361,243	928,177	868,511	564,555
Domestic Applicants	2,210,616 (94%)	801,135 (86%)	861,053 (99%)	548,428 (97%)
Foreign Applicants	150,627	127,042	7,458	16,127

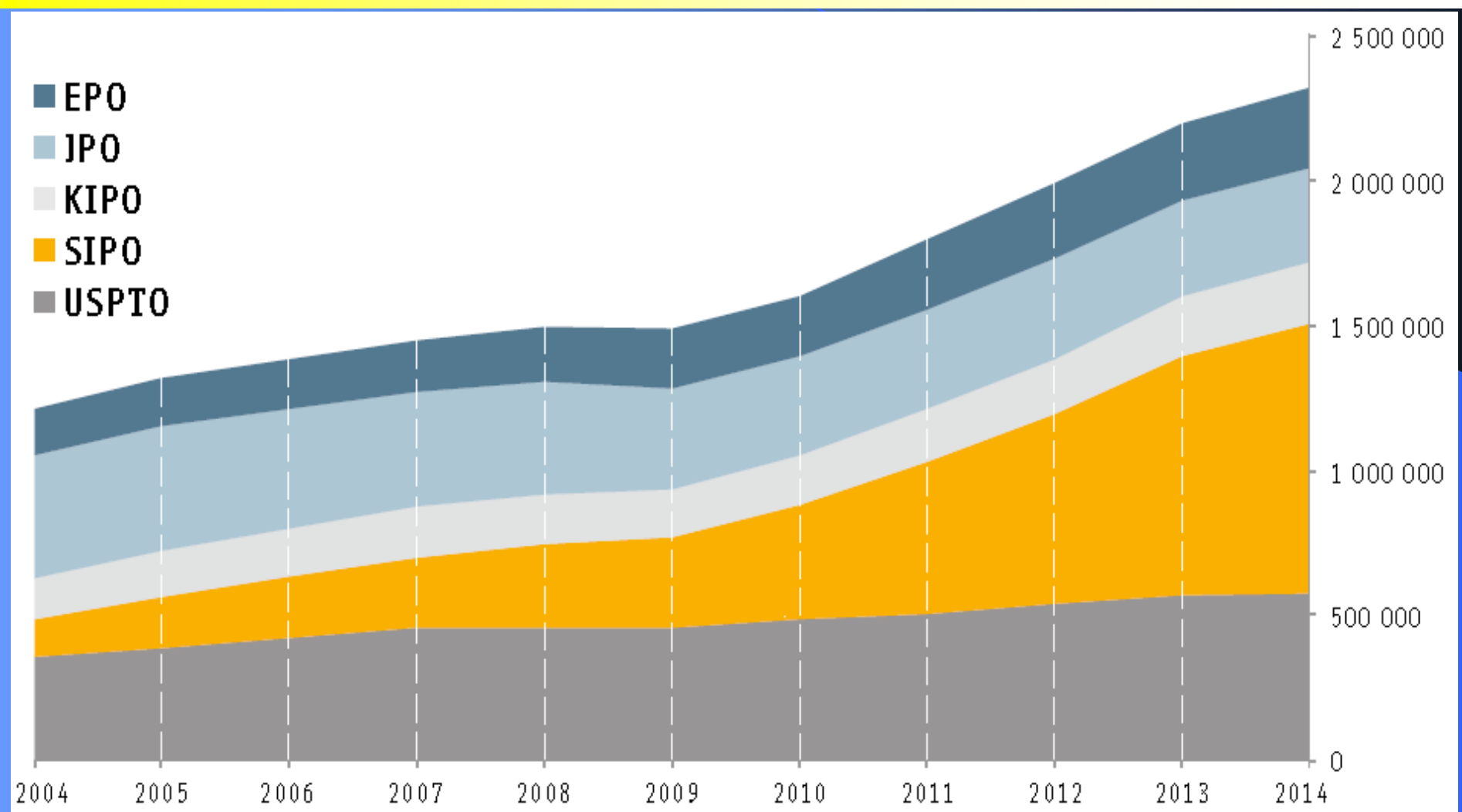
USPTO: 615,243 (utility patents 578,802)

JPO: 333,128 (patents 326,033)

EPO: 274,174

KIPO: 210,317

IP5 Offices



First Instance Civil IP Cases (2014)

Total	Patent	Trade mark	Copy right	Tech Contract	Unfair Compet.	Others
95,522	9,648	21,362	59,493	1,071	1,422	2,526

First Instance Closing Rate: 85% (settlement/withdraw, no appeal).

First Instance Closing Rate by settlement/withdraw: 66%.

Appeal Rate: 45% (for cases with first instance decisions).

Appeal Reversal Rate: 4.6%.

Cases Involving a Foreign Party: 1.80% (based on concluded cases).

U.S. Patent cases: 6,401 (2013 filed with all Fed. District Courts).

EU Patent Cases: about 2,100? (Germany: about 1,300?)

First Instance IP Cases in Beijing Courts (2014)

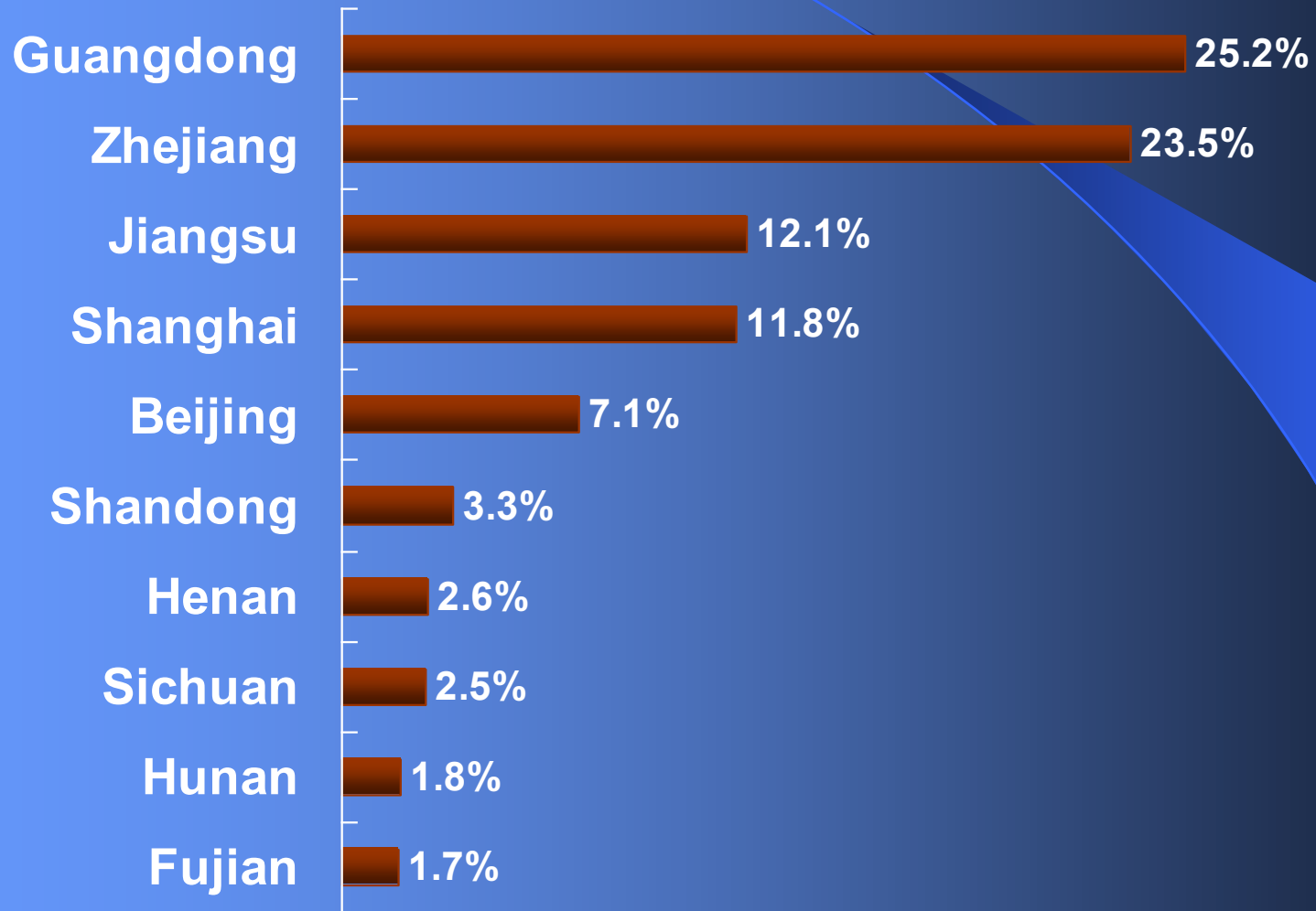
Total	Patent	Trade mark	Copy right	Tech Contract	Unfair Compet.	Others
11,780	1,110	1,006	8,953	184	183	344

Patent cases include administrative cases.

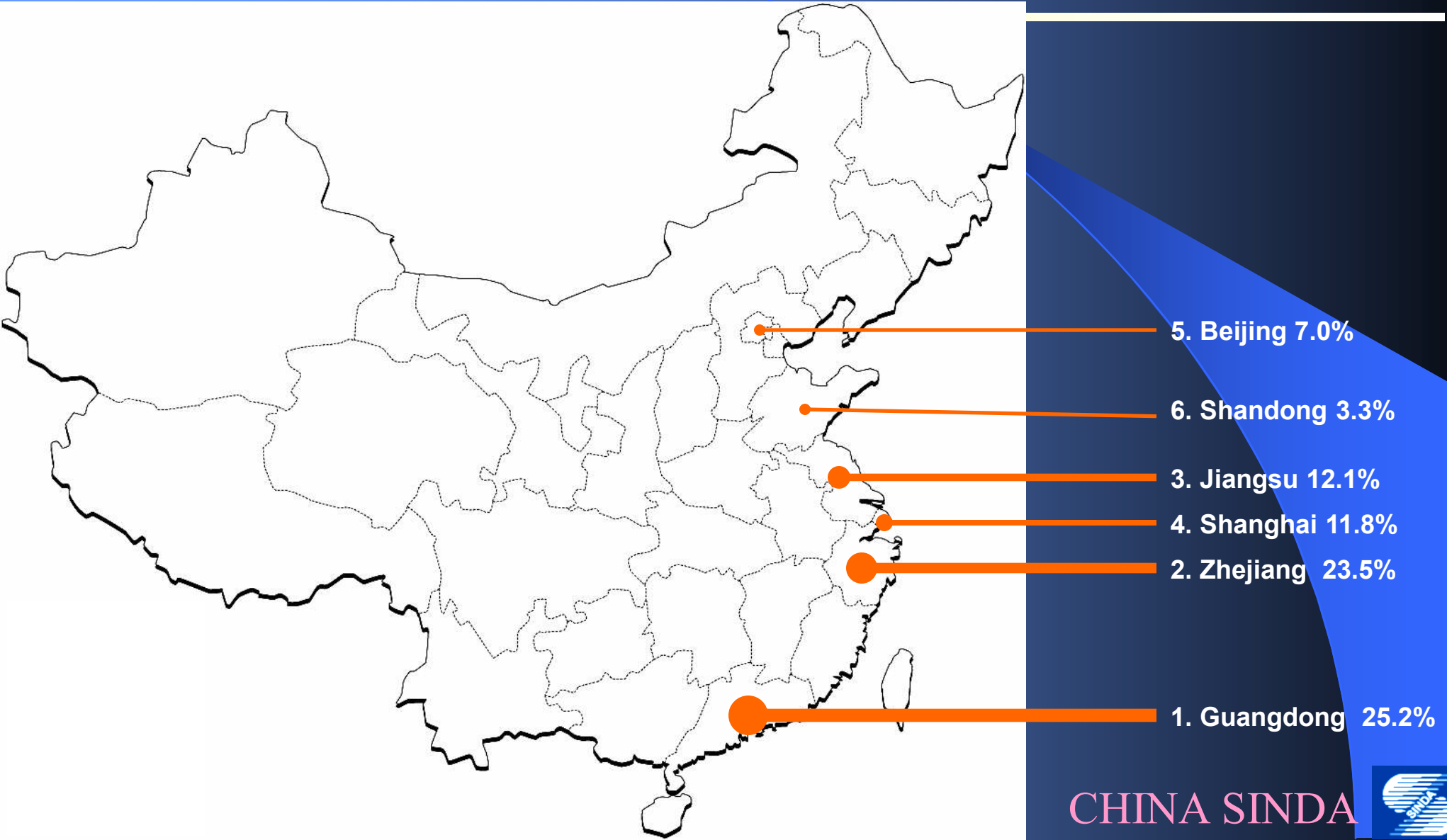
U.S. District Courts with Most Patent Cases in 2013:

- Eastern District of Texas: 1,495
- District of Delaware: 1,336
- Central District of California: 399

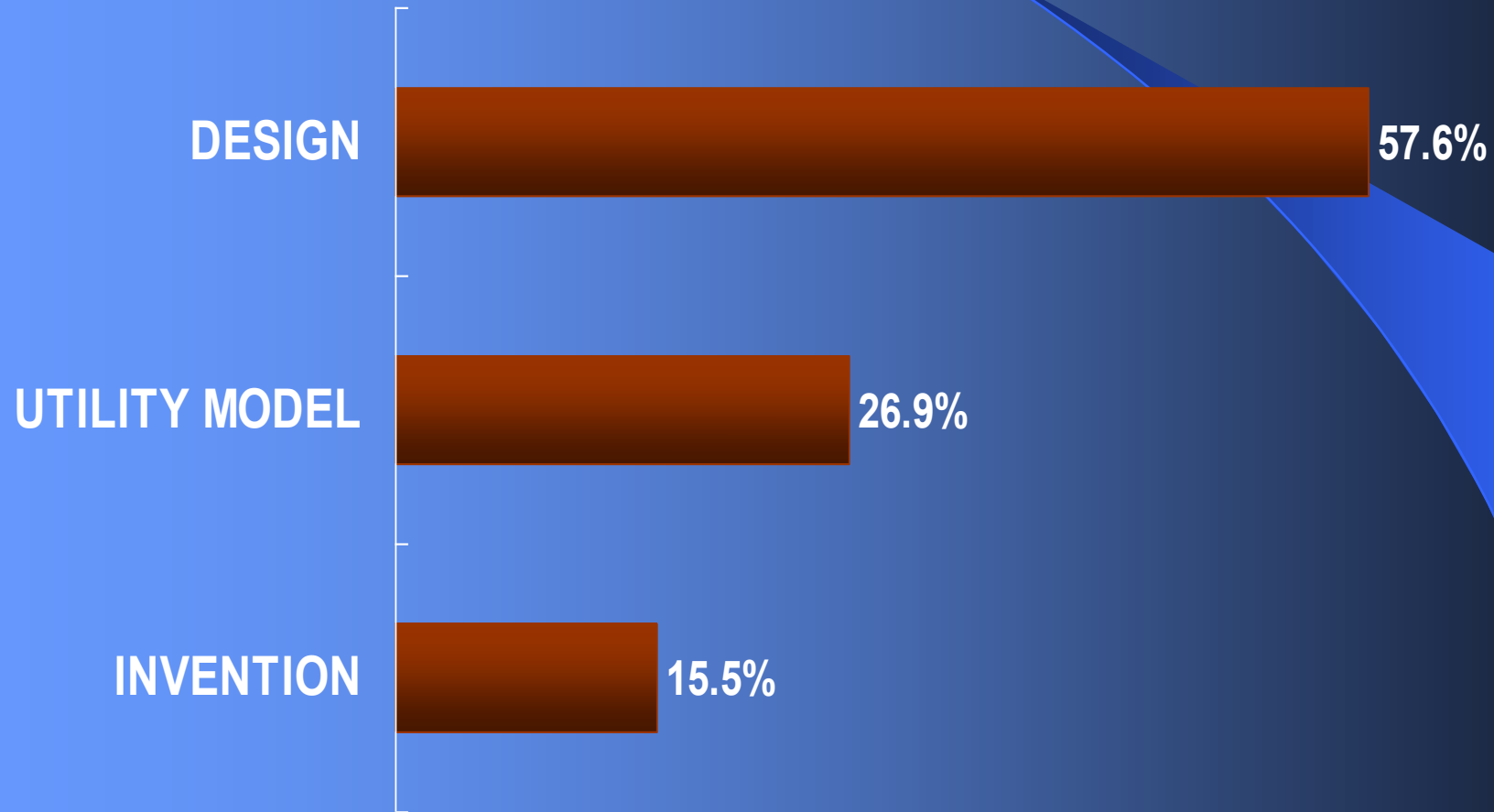
First Instance Civil Patent Cases: Top 10 Provinces



Top Provinces in Civil Patent Cases



Patent Types in First Instance Civil Cases



Typical Process for Patent Infringement Case

- Complaint filed by Plaintiff, with required documents and evidence.
- Case docketed by court, usually in 2-6 weeks.
- Defendant served by court, usually in 4-8 weeks.
- Evidence exchanging period set by court, usually about 30 days.
- Answer filed by Defendant, within 30 days of serving.
- Notice of Court Hearing.
- Court Hearing(s).
- Supplementary observations may be filed by the parties.
- Court Decision.

Jurisdiction and Standing

- Subject matter jurisdiction: High Courts and designated Basic and Intermediate Courts.
- Territorial jurisdiction: Defendant's domicile or infringement place.
- Standing: patent owner and interested party (including legal heir and specifically authorized licensee).
- Co-owners have to agree, but may waive rights in a specific case.

Declaratory Judgment

- Available under Chinese Civil Procedure.
- Supreme People's Court Judicial Interpretation (2009):
 - (1) patentee warned third party regarding infringement,
 - (2) third party requested, in writing, initiation of formal legal action by patentee,
 - (3) third party may bring DJ action if, one month after written request or two month after receiving the warning, patentee does not initiate formal legal action or withdraw warning.

Preliminary Injunction & Evidence Preservation

- Technically Pre-Suit: could be prior to the initiation of legal proceeding.
- Requirements for Injunction: ongoing or imminent infringement, irreparable harm.
- Requirements for Preservation: evidence may disappear, be destroyed, or be difficult to obtain at a later time.
- Court may require bond.
- Ruling within 48 hours.
- Petitioner must initiate legal proceeding within 15 days.

Bifurcation of Infringement & Invalidity Issues

- Invalidity is not a defense in infringement case.
- SIPO has sole initial jurisdiction over validity of patents, but its decisions can be appealed to the Court (Beijing No. 1 Intermed. Court, now Beijing IP Court).
- Accused infringer almost always files invalidation request with SIPO and petitions the court to stay the infringement case.
- Invention patents, utility models and design patents are treated differently, but court mostly has discretion.
- Invalidation case may proceed in parallel with infringement case.

Commonly Used Defenses

- Non-Infringement.
- Practicing prior art (Judicial Interpretation):
 - Applicable to both literal and equivalent infringement situations.
 - All accused features are identical with, or have no substantive difference from, a single technical solution in a single prior art reference.
 - Common knowledge may be combined with the single prior art to prove “obvious variants.”

Remedies

- Permanent injunction, damages (by courts), and administrative penalties (by PAAs).
- Damages determined, in order, by loss suffered, profit gained, or times of reasonable royalty.
- If difficult to determine, court may set legal damage amount up to RMB¥1,000,000 (US\$150,000).
- No enhanced damages for willful infringement, but administrative penalty could be four times profit gained, up to ¥200,000 (US\$30,000)
- Damage amount may include “reasonable costs” for the patentee.

Considerations for the Patentee

- Pre-suit investigation and preparation: information about the accused, evidence gathering, jurisdiction, validity issues.
- Strength of the patent: additional prior art search and in-depth analysis?
- Warning letter: may be effective for certain accused, but most are ignored; also potential DJ and invalidation proceedings initiated by the accused.

Considerations for the Patentee

- Petition for evidence preservation: for both infringement and damage determinations.
- Detailed infringement analysis: not necessary at filing of complaint.
- Technical report and expert testimony: may be useful in certain cases, but could be cause for court to appoint experts or judicial appraisal.
- The accused may file multiple invalidation requests against the patent.



Considerations for the Accused

- Invalidation request against the patent; additional grounds and evidence may be filed within one month.
- Warning letter: respond according to the nature of the letter, but prepare the case as usual.
- Consider filing petition disputing jurisdiction.
- Petition for staying infringement case based on invalidation request.

Considerations for the Accused

- Detailed non-infringement analysis: not necessary at filing of Answer.
- Be careful when submitting any evidence containing own business information.
- Use “practicing prior art” defense whenever possible.
- Consider requesting judicial appraisal.
- Consider filing new invalidation request based on new evidence or grounds.

Damage Awarded: Top 10 Cases

Case	Final Judgment Amount (US\$)
Schneider Electric vs. Chint Group	25,000,000
CEPT vs. Fujikasui & Huayang Electrical Power	8,200,000
Beijing Zhongqian Electro-Mechanical Equip. Co. vs. Beijing Qingda Tech. Co.	4,130,000
Pan Duhua (individual) vs. Zhejiang Jinyi Group	2,114,000
Beijing Leader & Harvest Electric Tech. Co. vs. Beijing Hiconics Tech. Co.	1,616,000
Xiangbei Welman Pharmaceutical Co. vs. Suzhou Erye Pharmaceutical Co.	813,000
Beijing Institute of Solar Energy vs. Dongguan Mengte Electrical Equipment Co.	718,200
Chongqing Longteng Industrial Trading Co. vs. Chongqing Dianjiang Insulation Materials Co.	570,000
Guangxi Wuzhou Pharmaceutical Co. vs. Shaaxi Yongshou Pharmaceutical Co.	488,000
Shandong Joyoung Home Appliances Co. vs. Jinan Zhengming Trading Co.	488,000

Pharmaceutical IP Case Statistics

- No official statistics.
- Patent cases with published court decisions in the past 10 year: 288 found.
- 40 of the 288 cases involved foreign entities.
- Foreign entities, all but in one case patentees, received favorable decisions in 19 of the 40 cases.

Beijing Court Administrative Patent Case Statistics (2013)

- Lawsuit rates against PRB decisions relatively stable: 6% (reexam) and 25% (invalid).
- First Instance cases: 694 (158 reexam, 536 invalid).
- Cases involving foreign party: 249 (35%).
- First Instance reversal rate: 11% (6% reexam, 12% invalid).
- Second Instance cases: 397 (appeal rate of about 50%).
- Second Instance reversal rate: 11%.
- Beijing court overall final reversal rate: 13% (11% reexam, 15% invalid).
- Type of patent: Reexam (~100% invention); Invalid (45% invention, 40% utility, 15% design).

Shanghai Court IP Case Statistics (2009 – 2013)

- Total civil case: 14,137 (CY 63%, TM 16%, PT 11%).
- Cases involving foreign party: 8.5%.
- Total requested damages: US\$770 million (\$54,000 per case; foreign cases account for 37%).
- Percent of cases with court decisions: 21% domestic, 38% foreign.
- Foreign party winning rate: 85% (in decision cases).
- Patent cases involving invention patents: 22.5%.
- Plaintiff winning rate in patent cases: 60%.

Zhizhen vs. Apple – The Patent

- Shanghai Zhizhen Network Tech. Co. owns Chinese patent related to “a chatting robot system,” filed 2004, granted 2009.
- Relevant technology, Xiao-i Robot, in operation since 2004.
- Claim 1, the only independent claim, recites:

A chatting robot system, comprising at least: a user; and a chatting robot, the chatting robot having an artificial intelligence server and its corresponding database, the artificial intelligence server having artificial intelligence and information service functions, the chatting robot also having a communication module, said user conducting various conversations with the chatting robot through an instant messaging platform or short message platform, characterized in that, the chatting robot also has a query server and its corresponding database and a game server, and the chatting robot is provided with a filter for distinguishing whether the user language received by the communication module is a formatted language or a natural language, and forwarding said user language to corresponding servers based on the distinguished results, said corresponding servers comprising the artificial intelligence server, the query server or the gaming server.

Zhizhen vs. Apple – Infringement Case

- Zhizhen sent Apple Inc. and its trading subsidiary in Shanghai letters on May 8, 2012, requesting settlement of “infringement issues” through negotiation.
- After receiving no response, Zhizhen sued Apple Inc. in Shanghai First Inter. Court on June 21, 2012.
- Apple Inc. claimed that it did not have an office in China for receiving court documents. Diplomatic channel processes were initiated by the court.
- Four court hearings in July and August 2013 and March and October 2014, but no decision.

Zhizhen vs. Apple – Infringement Case

Zhizhen's assertion:

- The Siri application, preinstalled in many Apple products, is infringing its patent.
- Submitted a judicial appraisal report, which confirms that Siri infringes the Zhizhen's patent.
- Demo in the court by interfacing the client side Siri app into the server of the Xiao-i Robot, and obtained the same result as the client of Xiao-i Robot has obtained.
- Pushes Apple to disclose its Siri technology to the court, so that the court could make a determination by comparing the two technologies.

Zhizhen vs. Apple – Infringement Case

Apple's defense:

- Server for the Siri app is located outside of China.
- The Siri app does not infringe the patent, only the users of the Siri could be infringing.
- The judicial appraisal report has formal deficiencies and the method adopted, namely the “black-box” testing method, is “absurd” since it tries to identify a technical solution through functionalities and results.
- Did not produce any evidence to refute the Demo.
- Refused to disclose its own technology.

Zhizhen vs. Apple – Invalidation Case

- Apple filed invalidation request with PRB in Nov 2012, based novelty, inventiveness, sufficiency of disclosure, support, clarity and essential technical feature.
- PRB decision in Sept 2013, upholding the patent in whole.
- Apple appealed to Beijing First Interim. Court, which formed a five-judge panel for the case.
- First court hearing in Feb 2014; second court hearing on July 8, 2014, during which judgment was announced, upholding the PRB decision.

Zhizhen vs. Apple – Invalidation Case

- Apple further appealed to the Beijing High Court in August 2014.
- High Court held hearing in October 2014, and issued judgment on April 21, 2015:
 - (1) Zhizhen's patent is invalid in whole due to insufficiency of disclosure, lack of support, indefiniteness and lack of essential technical feature;
 - (2) PRB's decision and No. One Court's judgment are canceled;
 - (3) PRB to issue new invalidation decision, as per court's judgment.



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THANK YOU!

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