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Patent Litigation in China



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CHAPTER

1

Wanhuida Patent & Technology Service

Wanhuida Patent & Technology Service

Wanhuida is a leading service provider in patent and technology legal services in China. Over the years, we have litigated hundreds of cases in the area of patents, trade secrets and technology disputes, protecting and defending our client's interests and advancing China's legal fronts. We also help clients prosecuting numerous patent applications each year. We focus on adding value to our clients.

In this service area, we have over 180 professionals. Half have experience litigating patent cases, and some have over ten years of litigation experiences. Some also have experience working for Chinese courts, China's patent office, the Patent Reexamination Board (the PRB), police and various government agencies. Our licensed patent agents cover all technical fields, including chemistry, biochemistry, pharmaceuticals, medical devices, electronic engineering, software, telecommunication, semiconductor and mechanical engineering. Most of them have advanced technical education and obtained their doctorate and master degrees in the best universities in China. Some of them also worked for industries and research institutions. Our work languages include English, French, German, Japanese, and Korean. Many of our professionals have had education and work experience outside China.

We serve both multinational and domestic Chinese clients. We are successful because our clients are successful. We are fortunate to have had the opportunity to work with some of the world's most innovative and leading companies, including Fortune 500 companies. Our clients are from a cross sector of industries, including chemical, biotechnology, pharmaceutical, mechanical, medical devices, electronics, computer, software, telecommunication, energy, equipment and manufacturing.

We offer full service to our clients' need in patent and technology, covering

litigation, counseling and prosecution. We are at the leading edge of litigation. We have litigated patent, trade secret and other technology disputes in all levels of courts up to China's Supreme People's Courts. Some of the cases have had recognized impact on the development of Chinese law. We have experience litigating all over China and we frequently litigate in China's more developed areas, including Beijing, Shanghai, Guangdong, Shenzhen, Jiangsu, and Zhejiang. Our patent litigation service also covers validity and reexamination disputes before the PRB and their subsequent administrative litigations. Some of our cases involve parallel litigations in China as well as in other jurisdictions. Our experience also extends to litigating criminal trade secret case and arbitration matters. In addition to enforcement through courts, we have done enforcement through administrative agencies, such as intellectual property offices and customs. In the year of 2018 we have handled over 830 litigations, including over 130 patent cases, about 571 investigations, 180 customs actions and 290 other administrative enforcement actions.

Obtaining evidence is the most challenging part of litigation. To support our litigation service, we have a large team of investigators and an extensive network of investigation for evidence gathering. We have had experience of obtaining difficult physical evidence for our clients. We are also experienced in dealing with technical evidence and electronic evidence and work with third party experts, such as technical appraisal and electronic evidence experts to address challenging evidence issues.

Our counseling work includes advising and representing clients in their transactional work, reviewing, drafting and negotiating licenses, conducting due diligence and investigation, and advising clients on various issues associated with a transaction. Our counseling work also covers legal opinions on freedom-to-operate, infringement, validity and patentability.

We have an experienced prosecution team. Our patent prosecution service

provides high quality and tailored prosecution services for our clients, from drafting and translating patent applications, preparing responses to office actions, to provide proactively legal advices and opinions to our clients. We work closely with our clients and promptly address our client's concerns. We aim not only to get clients' applications issues but also to obtain enforceable patent rights. Each year, we file over four thousand applications/designs for our clients, obtaining a high rate of success (significantly above industry average) granting rate. We also help clients prosecuting patents outside China. Last year, we filed more than 300 patent applications in over 35 countries worldwide.

Wanhuida is uniquely positioned to offer clients a one-stop service in the area of patent and technology, from legal advice, prosecution, investigation, to various mechanisms of enforcement. We work closely with our clients and tailor our services to achieve clients' objective with efficiency. Our recent work includes:

Successfully representing clients in a wide range of patent infringement and validity disputes in the fields of mechanical engineering, electronics and chemistry, including patents covering mechanical devices, household appliances, medical equipment, pharmaceuticals, chemicals, and so forth.

Successfully defending or challenging patent validity in the fields of chemistry, biotech, pharmaceutical, electronic and manufacturing industries and representing clients in subsequent administrative litigations;

Advising and representing clients in several major trade secret matters involving both criminal enforcement and civil litigations; and conducting investigation over a number of incidences involving breaches of confidentiality and trade secret thefts; and Advising clients in chemical, pharmaceutical, biotechnology and energy industries on dozens of freedom-to-operate ("FTO"), non-infringement, and patent validity opinions for launching new products/processes, preparing for initiating or defending

infringement actions, and assessing merits for taking invalidation actions or litigating decisions of the PRB.

Some of our patent cases are selected by courts or agencies as exemplary cases. They include cases selected as “Guiding Cases of the Supreme People’s Court on IPR Trial”, “Annual Report of the Supreme People’s Court on Intellectual Property Cases”, “Top 10/50 IPR Cases of the Chinese Courts” (released annually by the Supreme People’s Court), or “10 Exemplary Cases of the Patent Reexamination Board”. These cases have contributed to patent law development in subjects such as claim construction, claim amendment, inventiveness determination and sufficient disclosure.

Besides working on client matters, Wanhuida is also an active participant in China’s development of patent and technology laws. We understand the law and its context through years of study and practice. We also actively participate in the policy process for the development of laws. Since its creation, the firm has been closely associated with the legislative progress of Chinese IP laws and regulations. It continues to play an active role in the improvement of the Chinese legal and regulatory environment. We are involved in the processes for revising the trademark law, patent law, copyright law, anti-unfair competition law, and relevant judicial interpretations through submission of our comments to draft laws and organizing platforms for discussion and communicating with authorities responsible for policy development.

CHAPTER 2

Cases

Tyco Electronics v. PRB

Tyco Electronics Raychem NV v. The Patent Reexamination Board of the State Intellectual Property Office

- Beijing High People's Court
- Docket Number: (2013) Gao Xing Zhong Zi No. 17
- Decided, December 20, 2013

- The Supreme People's Court of China
- Docket Number: (2014) Zhi Xing Zi No. 43
- Decided, December 12, 2014
- Representing Tyco Electronics Raychem NV

1. Facts and Procedure

Tyco Electronics Raychem NV (“Tyco”) owns a patent on connectors for electric or optical fibre cables, titled “Closing Device” (ZL96194851.5, Application Date April 23, 1996 and Granted on January 2, 2002). On June 28, 2010, Ningbo Zhantong Telecom Equipment Industrial Co. Ltd. (“Zhantong”) petitioned the Patent Reexamination Board of the State Intellectual Property Office (“the PRB of SIPO or the PRB”) to declare the patent invalid, and argued that the patent lacks inventive step based on the combination of two prior arts. The PRB made a decision invalidating Tyco’s patent for lack of inventive step.

Tyco filed an administrative lawsuit against the PRB at the Beijing First Intermediate Court, which had jurisdiction over the case. The court upheld the PRB decision. Tyco appealed to the Beijing High People’s Court. The court of second instance over-

turned the PRB decision. Zhantong filed an application for retrial before the Supreme People's Court and the application for retrial was dismissed.

2. Issues and Law

The case is mainly regarding application of examination criteria on inventive step as provided in Article 22.3 of the Patent Law. According to the Guidelines for Patent Examination (“the Guideline”), typically the “three-step” method is applied in examining inventive step, including 1) determining the closest prior art; 2) ascertaining distinguishing features and the problems to be solved by the invention; and 3) evaluating the obviousness of the invention. When identifying distinguishing features, it is a common practice that firstly dividing the claim into single features and then ascertaining and comparing corresponding features in the prior arts. If a single feature is found in the prior art usually it will be deemed to be disclosed by the prior art. Following this manner, the invalidation decision held that most claim features were disclosed by the corresponding features with identical or similar structure in the closest prior art, while Tyco contended some features in the closest prior art are different in function, their roles in the whole invention and relationship with other features. The focus of this case is what factors should be considered when determining whether a claim feature is disclosed by prior art.

3. Decision and Analysis

At the second instance proceeding, the Beijing High People's Court ruled that although the closest prior art can also achieve the closing function as claim 1 of the patent, but in different manners. According to claim 1 of the patent, the closing device has a free end on which the “extension piece” and “engagement surface” are arranged,

while in the closest prior art, the two parts of the closing devices are connected with each other to the extent that there is no free end, and the manner and cooperation between components for performing the closing function are also different. Therefore, the invalidation decision has erred in ascertaining distinguishing features.

In the decision dismissing Zhantong's application for retrial, the Supreme People's Court further elucidated that: When comparing the patent with prior art, it should be noted that claim features, which are not isolated from each other, should be understood in the complete invention. The relationship between features should not be severed and their functions should be identified in the whole invention. Especially, for inventions in the mechanical field, two features with similar structure or position may serve totally different functions in two different solutions due to the differences in general idea, manner and technical effects between solutions. When determining whether a claim feature is disclosed by a corresponding feature in prior art, their functions in the respective solution should be considered.

4. Comments

The judgments of Beijing High People's Court and the Supreme People's Court teach that, in the step of ascertaining distinguishing features, it is important to fully consider the structure, function and effect of a feature in the complete solution. It is common that features with identical structure are presumed identical, yet this case serves as a point of reference that the function and the effect of the feature should also be fully contemplated. The function and effect of a feature could be reflected by its relationship with other features and its contribution to the whole invention.

Taisheng & Telier v. Hu Xiaoquan

Shanxi Zhendong Taisheng Pharmaceutical Corp. Ltd and Shandong Telier Marketing & Planning Corp. Ltd Pharmaceutical Branch v. Hu Xiaoquan

- The Supreme People's Court
- Docket Number: (2012) Min Ti Zi No. 10
- Decided, December 10, 2012
- Representing Taisheng and Telier

1. Facts and Procedure

The patentee, HU Xiaoquan owns an invention patent named “adenosine disodium triphosphate-magnesium chloride freeze-drying powder injection and its production method” (ZL200410024515.1, filed on July 21, 2004 and granted November 15, 2006). Claim 2 of this patent provides: “one Adenosine Disodium Triphosphate-Magnesium Chloride freeze-dried powder injection, characterized by comprising Adenosine Triphosphate Disodium and Magnesium Chloride, and the weight ratio of the above two components is 100mg:32mg”.

On December 18, 2005, Shanxi Zhendong Taisheng Pharmaceutical Corp. Ltd (“Taisheng”) manufactured a new drug approved by the State Food and Drug Administration (“SFDA”) named “Adenosine triphosphate disodium magnesium chloride for injection”, and Shandong Telier Marketing & Planning Corp. Ltd Pharmaceutical Branch sold this drug. The drug’s instructions and drug inspection reports all identified that the main components are Adenosine Triphosphate Disodium and Magnesium Chloride, with specification of 100mg Adenosine Triphosphate Disodium and 32mg Magnesium Chloride, and property a white or kind of white freeze-dried block or

powder. In the Drug’s instruction, it records “all accessories: sodium bicarbonate and arginine”.

HU Xiaoquan thus filed a lawsuit to the Intermediate People’s Court of Ji’nan, Shandong Province and claimed that Taisheng and Telier infringed his patent. The court of first instance found infringement. Taisheng and Telier appealed to Shangdong High People’s Court. During the second instance trial, the Patent Reexamination Board (“PRB”) invalidated the patent. Based on the PRB decision, the court of second instance dismissed the patentee’s claims. The patentee on one hand appealed the PRB decision before courts and successfully defended the patent validity; on the other hand it filed re-trial petition before the Supreme People’s Court (“the Court”). The Supreme People’s Court ordered the re-trial of the case by second instance court, and the latter found infringement. Taisheng and Telier again filed re-trial petition before the Court, which finally found the drug does not fall within the scope of the patent.

We represented Taisheng and Telier and mainly argued that claim 2 of the patent is a closed-ended claim, since the drug contains accessories which is not covered by the claim, the drug does not fall within the scope of this patent. The Court supported our argument and found that infringement was not established.

2. Laws and Issues

The Guidelines for Patent Examination allows two types of claims for compositions: open-end claims, typically featuring claim language like “comprising,” and close-end claims, typically featuring claim language like “consisting of “.

An open-end claim would cover a composition with the claimed components regardless of whether the composition also has other components, while a close-end claim would cover a composition with the claimed components only, except normal amount of impurities, nothing else could be included^[1]. The Guideline however is not

binding on courts and had not been expounded in the context of an infringement case. This case for the first time construed a close-end claim in the context of a pharmaceutical composition – whether the addition of pharmaceutically inactive excipients would place a composition outside the scope of a close-end claim.

The case involved a patent covering a composition of lyophilized powder for injection comprising adenosine disodium triphosphate and magnesium chloride. The defendant's product had the two claimed ingredients but with an added inactive excipient of arginine, known to increase composition stability. It was added together with sodium carbonate in the formulation process and retained in the final product. Adding ingredients in the formulation process is common in the art. Indeed, the patented process also added sodium hydroxide in the formulation process. The issue is whether such routinely added ingredients in formulation process would place the resulting composition that retained the ingredients outside the scope of a close-end claim. The courts of the first and second instances both found infringement because the defendant failed to prove that the added excipient substantially affects the pharmaceutical function of the composition.

3. Decisions and Analysis

Before the Court, the patentee argued infringement either because the accused product bears the essential features of the claim, i.e. containing the two active ingredients, or because it is equivalent to the claimed composition as the addition of arginine is routine in formulation processing.

The Court rules that because the patentee's claim for the formulation was drafted as a close-end one, which did not include the added excipient, the accused drug does not fall within the scope of the patent. It held that the practice of drafting close-end claims had been around since 1993^[2], with consistent directives from the Guideline.

There was a public expectation that such a claim would not cover a composition with additional components. The patentee thus was obligated to acquaint himself with the terms of arts and should bear losses resulting from inappropriate claim drafting. The patentee had made choice with the patent protection scope during the patent examination proceedings and waived certain protection scope in exchange for the granting of this patent, and thus in the patent enforcement proceedings, the scope beyond that defined by the close-end claim shall not be protected.

The patentee argued that the close-end claim only directed to the active pharmaceutical ingredient. The Court found the patent specification did not have clear corresponding description, and thus the excipient is still beyond the scope of the close-end claim.

The patentee further argued that the added excipient is insignificant and thus the drug is equivalent to the patent. The Court held that the doctrine of equivalence should not apply as it would defeat the purpose of close-end claims.

4. Comments

The decision in this case holds a strict but clear construction of close-end claims for compositions. It clarifies that except unavoidable impurities, the close-end claim does not include any other ingredient that is not defined in the claim, including excipient. The doctrine of equivalence shall not be applied to take the excluded ingredient back into the protection scope of close-end claim.

This case experienced four rounds of trial. After both the first and second instance court ruled in favor of the patentee, we collected abundant evidence and presented in-depth analysis before the Supreme People's Court, and finally defended the defendant's right. This case was selected by the Court as one of the annual exemplary cases of 2012. The case also led to a provision in the Court's judicial interpretation of

March 2016^[3], directing courts not to find infringement of a close-end claim “unless the additional features are unavoidable impurities” and making the finding generally applicable.

[1] The Guideline Pt. II Chap. 2 Sect. 3.3 para. 7 and Chap. 10 Sect. 4.2.1 para. 2 (2010).

[2] In the 2006 Guidelines, the transitional phrase “semi open-ended” was deleted, and relevant wordings were incorporated into the section of phrase “open-ended”.

[3] Interpretation of the Supreme People’s Court on Several Issues Concerning the Application of Law in Adjudication of Patent Infringement Dispute Cases (II) (Fa Shi [2016] No. 1), Article 7.

Simcere v. PRB And Li Ping

Jiangsu Simcere Pharmaceutical Research Ltd. and Nanjing Simcere Pharmaceutical Research Ltd. v. the Patent Reexamination Board of the State Intellectual Property Office

- The Supreme People's Court of China
- Docket Number: (2011) Zhi Xing Zi No. 17
- Decided, October 8, 2011
- Representing Simcere

1. Facts and Procedure

Jiangsu Simcere Pharmaceutical Research Ltd. and Nanjing Simcere Pharmaceutical Research Ltd. (“Simcere”) owns a patent on anti-high blood pressure formulations, titled “Compound Formulation of Amlodipine and Irbesartan” (ZL03150996.7, Application Date September 19, 2003 and Granted on August 23, 2006)⁽⁴⁾. On June 19, 2009, an individual, Li Ping, petitioned the Patent Reexamination Board of the State Intellectual Property Office (“the PRB of SIPO” or “the PRB”) to declare the patent invalid. During the invalidation proceeding, Simcere proposed to amend Claim 1, which claims “a compound formulation, the characteristics of the formulation is a pharmaceutical composition comprising a weight ratio of 1:10-30 of active ingredients amlodipine or its physiologically acceptable salt and irbesartan.” The proposed change would narrow the ratio to simply 1:30. The Patent Reexamination Board (“PRB”) rejected the amendment because the ratio 1:30 cannot be directly and unambiguously determined from the original disclosure. It also found the manner of amendment not within the Guideline prescriptions because changing from 1:10-30 to 1:30 concerns

only a claimed feature and is not a deletion of technical solutions. Simcere filed an administrative law suit against the PRB at the Beijing First Intermediate Court. The court sustained the PRB decision. Simcere appealed to the Beijing High People's Court. The court of second instance overturned the PRB decision. The PRB petitioned the Supreme People's Court ("the Court") to review the case for its potential impact on examination practice.

2. Law and Issues

Article 33^[5] of the Patent Law and Rule 69^[6] of its Implementing Regulations limits amendments of patent claims to the original disclosure and scope of protection. The Guidelines for Patent Examination ("the Guideline") imposes a strict "direct and unambiguous standard" i.e. an amendment is permissible only if it can be directly and unambiguously determined from the original disclosure^[7]. It further limits the manners of amendment to: deletion of claims, combination of claims and deletion of technical solutions within a claim. The Guideline is not binding on courts but is often consulted by courts. The issues before the Court are:

- 1) Whether the proposed amendment to narrow a claimed feature, i.e. the amlodipine and irbesartan weight ratio, from 1:10-30 to 1:30, is within the original disclosure and protection scope of the patent, in view of the prescribed direct and unambiguous standard for amendment set forth in the Guideline.
- 2) Whether the manner of amendment is acceptable in the light of the prescribed manners of amendment set forth in the Guideline.

3. Decision and Analysis

On the first issue, the Court rules that the amendment is permissible. It finds

the amended content in the original disclosure without applying the direct and unambiguous standard. Specifically, the Court opines that the ratio of 1:30 was given in examples albeit lack of explicit description. The examples include an optimal combination of amlodipine over irbesartan as 1:30 mg/kg, a dosage range of 2-10:50-300 mg and preparations with the two ingredients with weight ratios of 2.500:75.500 mg and 5:150 mg. It is understandable why only particular weights are given in the examples but unreasonable to limit the disclosure to the literal description.

On manners of amendment, the Court recognizes that the change is not a typical deletion of technical solutions. The Court however reckons that the justification for limiting the manners is to serve the dual purposes of protecting public reliance on the scope of protection as expressed in claims and preventing a patentee from retroactive claiming technical solutions not originally disclosed. It is not to punish imperfect drafting of claims. In this case, the ratio of 1:30 was disclosed. The change does not broaden but make the scope of protection clearer. Fairness warrants the allowance of the amendment. Furthermore, the Court states that the Guideline prescribed manners are not exclusive.

4. Comments

The findings of the case can be understood as: 1) the direct and unambiguous standard needs not to be applied rigidly in every case in deciding whether a claim amendment is within the scope of the original disclosure. Courts may directly refer disclosures in the application to decide whether the amended content is there. 2) The manners of the amendment prescribed by the Guideline must be understood in the light of the legislative purpose of Article 33, i.e. protecting public reliance on claimed scope of protection and preventing retroactive broadening of the scope. The manners are not necessarily exclusive.

Claim amendment has been a contentious issue. The Guideline's restrictive prescriptions and rigid applications give rise to widespread discontent. This case is an example of the Court's efforts in brining examination practice more in line with Article 33 of the Patent Law. The case was selected in the Annual Report of the Supreme People's Court on Intellectual Property Cases of 2011 for its significance in guiding claim amendment and the application of the relevant Guideline provisions. It may affect SIPO's examination practice as well.

[4] The patent was formerly owned by Shanghai Jahwa United Co., Ltd.

[5] Article 33 of the Chinese Patent Law (2008) provides "An applicant may amend his patent application, but an amendment to the application for an invention or utility model patent may not exceed the scope of the disclosure of the original specification and claims, ..."

[6] Interpretation of the Supreme People's Court on Several Issues Concerning the Application of Law in Adjudication of Patent Infringement Dispute Cases (II) (Fa Shi [2016] No. 1), Article 7.

Rule 69 of the Patent Implementation Regulation (2010) provides "During the examination of a request for invalidation, the patentee ... may amend his claims but may not broaden the protection scope of the original patent. The patentee ... may not amend the patent specification or drawings."

[7] The Guideline Pt. II. Chap. 8 Sect. 5.2.3 para 2 (2010) provides that an amendment is not permissible, if, to a skilled person, the amended information is different from the disclosed information in the original application and "cannot be directly and unambiguously determined from the disclosed information."

SEB v. PRB

SEB v. the Patent Reexamination Board of the State Intellectual Property Office of the People's Republic of China

- Beijing High People's Court
- Docket Number: (2018) Jing Xing Zhong No. 4547
- Decided, November. 16, 2018
- Represented SEB

1. Fact and Procedure

SEB SA owned a Chinese patent No. 200780001511.3 for a culinary utensil invention, and sued an infringer, which retaliated by filing an invalidation request against the patent. The invalidation procedure was followed by first and second instance administrative proceedings.

The subject patent concerned a cooking utensil comprising a food container and a blade, which were both relatively rotational. The core invention was that the blade comprised a turnover device, which caused the food to turnover in a specific direction under the action of the relatively rotational movement (i.e. mainly along a radial direction).

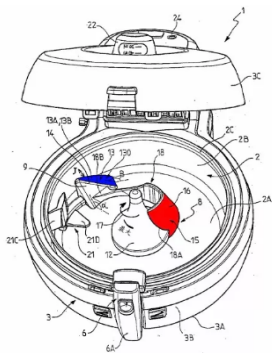


Figure 1: perspective view of cooking utensil of subject patent

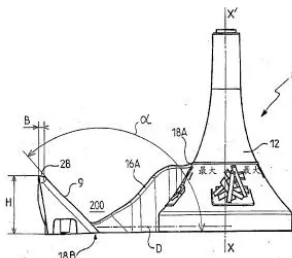


Figure 2: front view of blade of subject patent

The subject patent description and the accompanying drawings embodied Claim 1. As shown in Figures 1 and 2 above, a blade (8) in Container 2 included a turnover device (13, the blue portion in Figure 1), which was displaced in the rotational direction relative to a front reflecting plate (16, the red portion in the above image). A groove (200) for food passage was provided between the turnover device (13) and the front deflecting plate (16). The illustrated turnover device was a bevel that inclined rearward and gradually narrowed in the direction (17) in which the blade rotated relative to the container. In use, the front deflecting plate blocked food and pushed it towards the turnover device. The food was moved over the turnover device, and the inclined bevel configuration allowed it to be turned over towards the center of the container in a controlled manner (i.e. mainly in a radial direction (D)). The turnover of food was controlled in this particular direction, which enabled the device to effectively stir food and achieve good technical effects (e.g. uniform heating).

The closest prior art cited by the defendant belonged to the same technical field as the subject patent. As shown in the images below (Figures 3 and 4), it disclosed the container (8) and the blade (16) disposed therein, both of which were relatively rotatable. The blade was disposed transversely in the container and was V-shaped as a whole, so that the blade had a V-shaped groove (16C) and the first and second portions on both sides thereof (the red portions in the below figures). The first and second portions were respectively adjacent to the outer lateral wall (8B) of the container and the container center axis (X-X). In use, the first and second portions of the blade were used to block the food, allowing it to pass through the V-shaped groove, thereby achieving the turnover and stirring of the food. Due to the transversal arrangement of the V-shaped groove, the food was obviously not turned in a mainly radial direction.

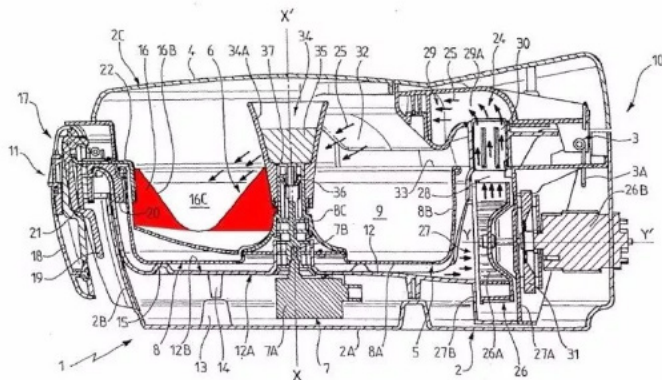


Figure 3: cross-sectional view of cooking utensil of closest prior art

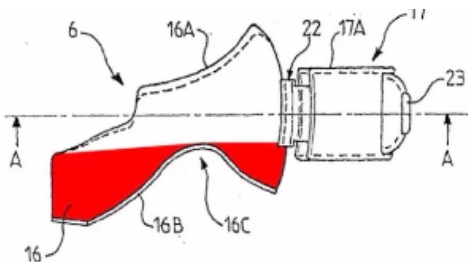


Figure 4: top view of blade of closest prior art

2. Issue and Law

Under Article 22 of the Patent Law, in order to be patented, an invention must involve an inventive step over the prior art. The invention must exhibit prominent substantive features and represent notable progress.

In determining such an inventive step, the Guidelines for Patent Examination set out the following three-step method:

- determine the closest prior art;
- determine the invention's distinguishing technical features and the technical problem to be addressed by the invention;
- determine whether there is such technical teaching as to motivate a person skilled in the art to apply the distinguishing technical features to address the technical problem in the closest prior art.

The Guidelines for Patent Examination set out three scenarios in which prior art is generally perceived to contain technical teaching:

- The distinguishing technical features are common knowledge;
- The distinguishing technical features are the technical means disclosed in the other parts of the closest prior art and the effect that such technical means achieves in other parts thereof is identical with that which the distinguishing technical features achieve in the claimed invention in order to resolve the technical problem; or
- The distinguishing technical features are the technical means disclosed in another prior art and the effect that such technical means achieves in such other prior art is the same as that which the distinguishing technical features achieve in the claimed invention in order to resolve the technical problem.
- In the above-mentioned invalidation procedure and the subsequent

administrative first and second instance proceedings, the issue in dispute focused on:

- whether or not the technical solution of Claim 1 of the disputed patent was obvious compared with the closest prior art and common knowledge; and
- more specifically, whether or not the effect of the first portion of the blade of the closest prior art was identical with that of the turnover device of Claim 1.

3. Decision and Analysis

One of the defendant's arguments in the invalidation procedure was that the general structure of the first portion of the blade of the closest prior art was similar to the turnover device of the subject patent (i.e. a bevel inclined rearward and gradually narrowed in the direction in which the blade rotated relative to the container). Therefore, the first portion of the blade of the closest prior art in combination with common knowledge achieved the same effect as the turnover device of the claim 1 of the subject patent. Based on this finding, the technical solution of the claim 1 was found to be obvious compared with the closest prior art, which meant that there was no inventive step. The Patent Re-examination Board and the first-instance court therefore sided with the defendant and upheld the invalidation request.

In order to rebut the aforesaid argument, the plaintiff studied the written description and drawings of the subject patent and the closest prior art. Based on the study, the plaintiff drew a schematic diagram, comparison drawings and physical models, which demonstrated that when considering the closest prior art as a whole, one should find out that the first and second portions of the blade worked in concert to block the food and allow it to pass through the transversally disposed V-shaped groove, rather than allowing the food to be primarily turned in a radial direction. It was therefore established that when taking into account the closest prior art as a

whole, even though the first portion of the blade was somewhat similar to the turn-over device of the subject patent, due to their different effects in the claimed invention and the prior art, a person skilled in the art would unlikely obtain the technical teaching to combine the closest prior art with common knowledge to arrive at the claim 1 of the subject patent. Thus, the claim 1 was non-obvious and involved an inventive step.

The Beijing High People's Court agreed with this argument and revoked the invalidation request in the administrative second instance proceeding.

4. Comments

This case may serve as a point of reference for assessing technical teaching. In practice – particularly in cases involving mechanics – even though a structure extracted from prior art is identical with or similar to a claimed technical feature, a technical teaching could be erroneously derived if the structure's effect is considered based only on the extracted structure alone and not the effect that the structure achieves within the whole context of the prior art.

Therefore, it would be advisable to analyze not only whether or not the prior art literally or graphically discloses a technical feature of a claim, but also whether or not the corresponding feature within the whole context of the prior art achieves the same effect as the technical feature in resolving the technical problem addressed by the claim.

SEB v. Ningbo Changli

SEB v. Ningbo Changli Plastic Electric Appliance Co.

- Zhejiang High People's Court
- Docket Number: (2018) Zhe Min Zhong No. 521
- Decided, December 24, 2018
- Represented SEB

1. Facts and Procedure

SEB SA owns an invention patent titled “ironing appliance comprising an iron and a portable base” (ZL200580005815.8, filed on August 26, 2005, granted on August 24, 2011). On May 24, 2017, SEB instituted, before Ningbo Intermediate Court, a patent infringement suit against Ningbo Changli Plastic Electric Appliance Co. (“Changli”), for manufacturing, sale and offering to sell an infringing iron.

In the court hearing, Changli made non-infringement defense by arguing that the securing means feature of Claim 1 is a functional technical feature, thus the functional feature should be narrowly construed with reference to the specific embodiment or its equivalent technical solutions.

Ningbo Intermediate Court and Zhejiang High Court held that the iron of Changli falls into the claims of the patent, and rejected Changli's non-infringement defense. The final decision found that the securing means of Claim 1 is not a functional feature, and based on this finding, ascertained literal patent infringement.

2. Issues and Law

The Judicial Interpretation (2009) No. 21^[8] defines the functional technical features of the claims and interpretation rules thereof. And the Judicial Interpretation

(2016) No.1^[9] elaborates on the situations where a technical feature may be ascertained as functional, but also makes an exception where a technical feature defined by functional expression shall not be found functional.

Changli's non-infringement defense argued that the securing means feature of Claim 1 is recited by the effect of such means "the entire ironing appliance can be carried by the handle (11) of the iron", the feature of which is a functional technical feature in accordance with the article 8 of Judicial Interpretation (2016) No.1, thus the functional feature should be narrowly construed with reference to the specific embodiment or its equivalent technical solutions.

SEB argued that: Claim 1 does limit the securing means with its effect, and does not belong to the only exclusion in accordance with provisions of Judicial Interpretation (2016) No.1. However, the feature of the securing means of claim 1 should not be considered as functional technical features. The issue of this case is whether the securing means feature of claim 1 is functional, i.e. whether there are other circumstances of exception where a technical feature defined by functional expression shall not be found functional.

3. Decision and Analysis

SEB reasoned that (1) the provision "expressed by functional expression" of the judicial interpretation should be interpreted as "expressed only by functional expression". In addition to limiting securing means by functional expression, Claim 1 also structurally limits the securing means by inclusion relations, specific shape and position relations; (2) the patent regime is based on the mechanism of "giving a granted legal monopoly in exchange for public disclosure". The patent description of this case discloses various embodiments, and the structural limitation of securing means of Claim 1 is a reasonable generalization of the multiple embodiments disclosed in the patent description, so the scope of protection thereof is corresponding to the disclosure in this patent. Therefore, the reasonably generalized scope should not be

narrowly construed due to the existence of functional expression.

The Court of Appeal, Zhejiang High Court found SEB's arguments tenable based on the reasoning that although the securing means of Claim 1 is recited by functional expression, it also clearly defines the structures, so the securing means of Claim 1 is not a functional feature. Based on this finding, the final decision ascertained literal patent infringement, without narrowly construing the securing means to the specific embodiment or equivalent solution.

4. Comments

This case illustrates how to determine the functional features. For a technical feature in a claim that is not only defined by functional expression, but also defined by the structures, components, steps, conditions or the relations therebetween, if the latter definition is a reasonable generalization of the disclosure of the patent description, such technical feature should not be deemed as a functional feature based on the functional expression, and not to be construed in an unreasonably narrow manner.

[8] Interpretation of the Supreme People's Court on Several Issues Concerning the Application of Law in the Trial of Cases Involving Patent Infringement Disputes", Fa Shi (2009) No. 21

Article 4: For the technical features expressed by the functions or effects in the claims, the people's court shall determine the content of the technical features in conjunction with the specific embodiments of the functions or effects and equivalent embodiments thereof in the written description and drawings.

[9] Interpretations (II) of the Supreme People's Court on Several Issues Concerning the Application of Law in the Trial of Cases Involving Patent Infringement Disputes" Fa Shi (2016) No. 1

Article 8: Functional features are technical features that serve to define structures, compositions, steps, conditions or the relations thereof in terms of their functions or effects in the relevant invention, unless ordinary technical personnel in this field are able to directly and clearly determine the specific exploitation methods for achieving such functions or effects by reading the claims alone.

Geobruigg v. Anping Wanyue

Geobruigg Chengdu Co. Ltd. v. Anping Wanyue Metal Wire Mesh Products Co., Ltd. and Beijing Diyingte Import & Export Trading Co., Ltd.

- Beijing IP Court
- Docket Number: (2015) Jing Zhi Min Chu Zi No. 1579
- Decided, April 17, 2017
- Representing Geobruigg Chengdu Co. Ltd.

1. Facts and Procedure

Geobruigg Chengdu Co. Ltd. (“Geobruigg”) owns a patent on wire netting for protection against rock falls, titled “Woven Wire Netting for Protection Against Rock Falls or for Securing a Top Layer of Soil, and Method and Device for Producing the Same” (ZL ZL99800172.4, Application Date February 2, 1999 and Granted on June 9, 2004). On September 8, 2015 Geobruigg filed lawsuit against Anping Wanyue Metal Wire Mesh Products Co., Ltd. (“Wanyue”) and Beijing Diyingte Import & Export Trading Co., Ltd. (“Diyingte”) for infringement of its patent and claimed damages of 6 million.

After trial, Beijing IP Court found Wanyue and Diyingte infringed the patent of Geobruigg and fully supported Geobruigg’s damage claim of 6 million.

2. Issues and Law

Article 65 of the Chinese Patent Law provides four methods for determining damages which include: 1) the loss of plaintiff, 2) the profit of the defendant, 3) ap-

propriate multiple of the amount of license fee and 4) statutory damages in the range of RMB 10,000 to 1 million. For a long time, statutory damages are applied in overwhelming majority of patent infringement cases because the plaintiff bearing the burden of proof according to the Civil Procedure Law often fails to provide sufficient evidence on damages in patent infringement cases. In 2016, the Supreme People's Court promulgated the Interpretation (II) of the Supreme People's Court on Several Issues Concerning the Application of Law in the Trial of Disputes over Infringement of Patent Rights. According to Article 27 of this judicial interpretation, under the precondition that the plaintiff has adduced prima facie evidence to prove the proceeds gained by the infringer, but the account books or materials relating to patent infringing acts are mainly controlled by the defendant, the court may shift the burden of proof to the defendant, ordering the defendant to provide evidence like account books. If the defendant without justifiable reasons refuses to provide or provide fake evidence, the court could determine damages based on the claimed damages and the preliminary evidence of the plaintiff.

In this case, Geobruigg adduced preliminary evidence on the profit of Wanyue and Diyingte, including the financial information on their official website, E-commerce shop on Alibaba and phone call record in commercial activity. Geobruigg also produced evidence on the sales price of infringing product and all kinds of major costs for production of the infringing product, the difference therebetween should be the profits of the defendants. Wanyue and Diyingte provided account books, showing much lower profits. The focus of this case is what the factors to be considered by the court in determining damages.

3. Decision and Analysis

In its judgment, Beijing IP Court ruled that: The financial information of the two

defendants Wanyue and Diyingte cannot truly reflect the proceeds gained by selling the infringing products, and therefore cannot be regarded as basis for assessing the amount of damages. The defendants fail to provide evidences that can really reflect the sales quantity and proceeds of the accused infringing products.

Regarding the data published on the defendant's website and furnished by the plaintiff Geobruigg, the defendants failed to provide rebuttals to challenge the authenticity of the evidence. The court finds such data tenable in serving as the basis for calculating the profits made by the defendant from infringing production. The data for calculating the cost and fees as provided by the plaintiff conform to the basic situations of the industry, the two defendants and the infringing product at issue. In the case that the defendants fail to provide other true and valid data, the court takes the data submitted by the plaintiff as the basis for determining the profit margin of the infringing products produced and sold by the defendants. However, upon calculating the operating profit, the income tax should not be deducted. Even though the products are not completely sold out, the profits made by the defendants from the infringement obviously exceeds the amount of compensation asserted by the plaintiff. The court therefore supports the total sum of the damages asserted by the plaintiff.

4. Comments

This is an exemplary case with damage awarded much higher than the ceiling of the statutory damages. Although the judicial interpretation of the Supreme People's Court makes it possible for the plaintiff to shift the burden of proof and pursue damages not limited to the statutory damages, the plaintiff should exhaust its effort in furnishing evidence on its loss or the proceeds of the defendant, whilst the defendant should provide counter evidence to support its profit calculating method if it argues that the damages based on the preliminary evidence produced by the plaintiff should not apply.

Bayer v. PRB And Zhao Weixing

Bayer Pharma Co., Ltd. v. The Patent Reexamination Board of the State Intellectual Property Office and Zhao Weixing

- Court: Beijing First Intermediate People’s Court,
- Docket Number: (2013) Yi Zhong Zhi Xing Chu Zi No. 896
- Decision Date: March 20, 2014
- Representing Bayer

1. Facts and Procedures

Bayer Pharma Co., Ltd (“Bayer”) owns an invention patent entitled “Compound formulation of ethinylestradiol and drospirenone to be used as a contraceptive” (ZL00815054.0, application date of August 31, 2000, granting date of October 19, 2005, priority date of August 31, 1999). A Chinese individual, Zhao Weixing filed invalidation petition against this patent before the Patent Re-examination Board (“PRB”). PRB held that a person skilled in the art has the motivation to improve the closest prior art to reach the patent when he faces the technical problem of this patent, and this patent has no unexpected technical effects. The PRB therefore declared this patent invalid for lack of inventiveness. Bayer filed administrative lawsuit against this decision. The court of first instance overturned the PRB’s decision and the court of second instance affirmed. We represented Bayer in this case.

2. Law and Issues

This case focused on inventiveness, an indispensable requirement to patent pro-

vided by the Patent Law^[10]. Inventiveness determination usually follows a three-step approach: 1) determine the closest prior art, 2) determine the distinguishing features of the invention and the technical problem solved, and 3) determine whether the claimed invention is obvious to a POSA, i.e. whether there exists such suggestions as to motivate a POSA to apply the distinguishing features to the closest prior art to solve the technical problem of the invention.^[11]

The closest prior art disclosed the pharmacokinetics research to the drug Spirorenone (“SP”). The distinguished feature of Claim 1 of this patent as compared with the closest prior art is that “Drospirenone (DRSP) is micronized”. The technical problem to be solved in this patent is to provide a DRSP formulation with rapid dissolution rate and improved bioavailability. The disputed issue of this case is, given that “micronization” is a regular technical means to improve the bioavailability of the insoluble drugs, whether the technical solution of Claim 1 of micronizing DRSP is obvious to a person skilled in the art for solving the foresaid technical problem,.

3. Decision and Analysis

The PRB held that compared to DRSP, SP only lacks a double bond, and it will be metabolized into DRSP in vivo. As SP and DRSP will generate isomers in acid condition in vitro, a person skilled in the art could “reasonably predict that they have similar metabolism and absorption in vivo.” In the light that no isomer is detected when SP is in acid condition in vivo according to the closest prior art, and that prior arts suggest to solve the problem of SP absorption limitation by means of micronization, a person skilled in the art would easily anticipate that DRSP would also not be isomerization in vivo (in the stomach). Therefore it is obvious to micronize DRSP to improve the absorption.

The court of first instance held that as to an insoluble drug which would be

isomerized in acid condition, micronization of drug will on one hand increase the dissolution rate and thus improve bioavailability, yet on the other hand increase the isomerization and thus decrease bioavailability. To predict the effect of the micronization of DRSP, it is necessary to evaluate series of factors such as “solubility, digestion and absorption in intestines and stomach”. The PRB erred in finding that “no isomerism happened in vivo or the degree of isomerism in vivo is too low to detect compared with in vitro” because “no lactone rearrangement product produced from SP was detected in blood”. The isomerization of SP is resulted from rearrangement by “merely protonation”, isomerism in vivo or in vitro “generally should” be the same. SP is isomerized in acid condition in vitro, and there is no evidence showing isomerism of SP in vivo and in vitro are of obvious difference. Furthermore, there are several factors causing the isomerized product amount too low to be detected. In the prior art, SP in vivo is in form of normal tablet rather than micronized formulation, and “the amount of dissolved SP after oral administration would be extremely low”. Besides, in the prior art, “the significant reduce of isomerized product” is likely caused by the two in vivo drug delivery conditions, “overnight fasting” and “overload water”. The court also found that the evidence in this case proved “there are physical and chemical differences, and also differences in metabolism between DRSP and SP” and thus the PRB has no factual basis to find that “DRSP and SP have similar metabolism and absorption”. At last, the court held that PRB “did not state the correlation among in vivo absorption, metabolism and isomerism when SP is in form of normal tablet or in micronized formulation”, which is the key issue for the determination whether to micronize DRSP. According to the reasons listed above, the court ordered the PRB to re-assess the inventiveness of this patent.

The court of second instance affirmed the judgment.

4. Rulings and Comments

When prior arts suggest that the distinguished technical feature has two opposite effects, it would be difficult to determine the inventiveness of a patent. The court of first instance studied common knowledge and ascertained complex technical facts. The court identified the errors made by the PRB, and provided convincing reasoning to justify its revocation of the PRB's decision. This court decision sets a good example on how to adjudicate cases with complex technical facts.

In this case we submitted 27 counter-evidences to support the facts claimed by the patentee and convinced the court why the patent should be maintained valid. Our main arguments were successfully adopted by the court, which led to the revocation of the PRB's decision.

[10] Article 22 of Patent Law (2000)

Inventive step, means that, as compared with the prior art before the application date, the invention has prominent substantive feature and notable progress, and the utility model has substantive feature and progress.

[11] Guidelines for Patent Examination (2006), Part II, Chap. 4, Sec. 3.2.1.1.

WANG Xiurong v. Bayer And PRB

WANG Xiurong v. The Patent Reexamination Board of the State Intellectual Property Office and Bayer Healthcare LLC

- The Beijing First Intermediate People’s Court
- Docket Number: (2010) Yi Zhong Zhi Xing Chu Zi No. 3548
- Decided, August 5, 2011
- Representing Bayer

1. Facts and Procedure

Bayer Healthcare LLC (“Bayer”) owns a drug compound invention patent titled “ ω -Carboxyaryl Substituted Diphenylureas as Raf Kinase Inhibitors” (ZL00802685.8, PCT application date on January 12, 2000, Entry date of national stage on July 11, 2001 and Granted on September 21, 2005) (the “Patent”). On June 24, 2010, a Chinese individual, WANG Xiurong, petitioned with the Patent Reexamination Board of the State Intellectual Property Office (“PRB”) to declare the Patent invalid mainly on the ground that the description of the Patent does not comply with the sufficient disclosure requirement of the Patent Law because the description failed to disclose any pharmacological activity data of the drug compound patent. The experimental data nonetheless was disclosed through the priority documents cited by the Patent description. The PRB thus maintained the validity of the Patent. WANG Xiurong then sued PRB before the Beijing First Intermediate People’s Court. The court affirmed PRB’s decision. We represented Bayer in both the PRB proceeding and the subsequent court proceeding.

2. Issues and Law

The case is about the judicial criteria of the description's sufficient disclosure requirement. Article 26.3 of the Patent Law (2000) provides that the patent description shall sufficiently disclose the patent's technical solution so as to enable a person skilled in the art to achieve the solution without any creative activity.^[12] For pharmaceutical compound patent, the description shall disclose pharmacological activity data to satisfy the sufficient disclosure requirement.^[13]

Guidelines for Patent Examination (2006) ("Guidelines 2006"), effective when the case was heard, clearly requires that the description shall directly record the indispensable contents for satisfying the sufficient disclosure requirement and does not permit the description to cite other document for disclosing the indispensable contents.^[14] It also requires that if the cited documents are foreign patent documents, they shall have been published before the application date of the patent at issue^[15]. However, Guidelines for Patent Examination (1993) ("Guidelines 1993"), which was applicable when the Patent was filed, do not have the foregoing restrictions.

In this case, the patent description doesn't directly record the pharmacological activity data of the compounds of the Patent, but the priority documents (a foreign family patent) cited by the patent description have clear and direct record. Under the Guidelines 2006, the patent description does not meet the sufficient disclosure requirement. The issue of this case is, whether Guidelines 1993 should be the binding law in this case, and whether the cited priority documents could be accepted as part of this patent description and hence meet the sufficient disclosure requirement of the Patent Law.

3. Decision and Analysis

The PRB found that since the Patent was filed in January of 2000 and followed Guidelines 1993 during the substantive examination, the invalidation proceeding for the Patent should also follow Guidelines 1993, which has no restrictive provisions as Guidelines 2006 does. PRB held that since the experimental data have been disclosed by the cited priority documents and can be acquired by patent examination department and the public, the person skilled in the art can achieve the technical solution of the Patent through the priority documents, and the Patent description meets the requirement of sufficient disclosure.

The Beijing Intermediate People's Court affirmed the PRB decision and ruled on two aspects: 1) According to the non-retroactivity principle prescribed by the Legislation Law, Guidelines 1993, the binding law when the Patent was filed, should be applied in the patent invalidation case. 2) Since the priority documents of the Patent was disclosed on the very date when the Patent was disclosed, the person skilled in the art can achieve the Patent's technical solution without creative activity according to the description and the priority documents. Therefore, the Patent description meets the sufficient disclosure requirement provided by the Patent Law.

4. Comments

The teaching of the case can be summarized as: 1) The non-retroactivity principle shall be followed for selecting the binding Guidelines, that is, the Guidelines applicable for the patent invalidation shall be the same Guidelines applied for the patent examination; 2) according to Guidelines 1993, disclosing experimental data by citing priority documents in the patent description meets the requirement of sufficient disclosure.

When this case was heard, Guidelines 2006, effective at that time, was widely acknowledged by the PRB as binding on all patent invalidation cases, regardless of when the patent was filed. Under that circumstance, the Patent was very likely to be invalidated. The PRB finally took our argument regarding the legal purpose of sufficient disclosure requirement by the Patent Law, and corrected its practice. We not only successfully protected the interests of the Patentee, but also pushed PRB to clarify that the Guidelines for Patent Examination should also be applied in accordance with the non-retroactivity principle. This is an example case for examining sufficient disclosure issue of the experimental data of drug compound patent.

[12] Article 26.3 of the Patent Law (2000): “the description shall clearly and completely describe the invention or utility model so as to enable a person skilled in the art to carry it out; where necessary, drawings are required.”

[13] Guidelines for Patent Examination (2006), Part II, Chapter 10, 3.1(3), Paragraph 2

[14] Guidelines for Patent Examination (2006), Part II, Chapter 2, 2.2.6, Paragraph 9

[15] Guidelines for Patent Examination (2006), Part II, Chapter 2, 2.2.3, Paragraph 3(2)

Bayer v. Shilang

Bayer Schering Pharma Co., Ltd v. Nanjing Shilang Pharma Co., Ltd

- Jiangsu Nanjing Intermediate People's Court,
- Docket Number: (2010) Ning Zhi Min Chu Zi No. 500
- Decided, October. 27, 2011
- Representing Bayer

1. Facts and Procedure

Bayer Schering Pharma Co., Ltd (“Bayer”) owns an invention patent entitled “the derivative of the quinolone formic acid and nalidixic ketone formic acid and its producing method” (ZL93100215.X, application date January 9, 1993, and granted on April 28, 1999). Bayer manufactures, sells, and exports the drugs comprising the moxifloxacin hydrochloride as active pharmaceutical ingredient (API) based on this patent. Nanjing Shilang Pharma Co., Ltd (“Shilang”), a domestic drug manufacturer, also produced, sold and offered to sell moxifloxacin hydrochloride API. Based on this, Bayer sued Shilang for patent infringement before Jiangsu Nanjing Intermediate People's Court. The court held that Shilang infringed this patent.

We represented Bayer in this case. Neither party appealed against this decision.

2. Law and Issues

The alleged patent is a chemical compound invention patent, and claims to protect a type of compound. As a practice, to prove the accused product falls within the scope of the patent, the patentee needs first to prove the formula of the accused compound, which is usually proved through technical appraisal. But in this case, Bayer did

not conduct the technical appraisal.

The disputed issue between the parties is: whether Bayer proved the formula of the accused moxifloxacin hydrochloride without technical appraisal.

3. Decision and Analysis

This case disputed over verification of the formula of the compound, which is the basis to determine whether the accused product falls within the scope of the patent. During the trial, Shilang argued that the formula of the accused moxifloxacin hydrochloride is different from that produced by Bayer. Court asked whether the parties agree to conduct technical appraisal over the accused product. Bayer argued that the current evidence is sufficient to prove that the alleged products fall within the protection scope of the patent, and the technical appraisal is unnecessary.

The court held that the related documents, online materials presented by Bayer showed that the moxifloxacin hydrochloride only has one formula. Even the formulas are written in different way in the foresaid documents and materials, a person skilled in the art can reach that they are the same formula. Bayer also presented evidences to show that moxifloxacin hydrochloride possesses a unique CAS (Chemical Abstracts Service) access account. Furthermore, the analysis certificate of the accused product produced by the infringer shows that its formula is the same as the formula of the patented product. The CAS published on the defendant's website is also identical with the CAS of the moxifloxacin hydrochloride. Therefore, the court supported Bayer's claims and held that the alleged products falls within the protection scope of this patent.

In this case, Bayer obtained the infringement evidences through notarizing the whole purchase process and keeping audio-tape recording. The court held that the tape recording is continuous, and it neither infringes others' legitimate interests nor violates any prohibitive provisions of laws. The court admitted the authenticity and

legitimacy of the evidences of tape recording. The court ordered the defendant to stop the infringement, and determined the amount of damage upon discretion substantially in favor of Bayer.

4. Comments

The finding of this case can be summarized as: if the plaintiff could provide sufficient evidence to unambiguously prove the formula of the accused compound, court may allow no technical appraisal in the verification of the formula of such compound. During this litigation, we verified the formula of the infringing products through several chains of evidence, including the information disclosed by the infringer itself as well as the information published by irrelevant third parties. The evidence helped the court break the rigid practice of replying on technical appraisal. Because of this success, we also helped client save substantial cost.

Bayer v. Mediking

Bayer HealthCare LLC vs. Beijing Mediking Biopharm Co., Ltd.

- Beijing Intellectual Property Office
- Docket Number: Jing Zhi Zhi Zi (2018) No. 1123-35
- Decided, July 20, 2018
- Representing Bayer

1. Facts and Procedure

Bayer HealthCare LLC (“Bayer”) owns an invention patent titled “ ω -Carboxyaryl Substituted Diphenylureas as Raf Kinase Inhibitors”. Bayer found that without its authorization, Beijing Mediking Biopharm Co., Ltd. (“Mediking”) displayed the information of the patented products “sorafenib” and “sorafenib tosylate” on its official website, and as an exhibitor of CPhI Shanghai (2017), publicized the products on the exhibition boards and brochures. Bayer complained to the Beijing Intellectual Property Office (“the IP Office”) about Mediking’s infringing act of offering for selling the above products, and requested the IP Office to order Mediking to immediately stop the infringement act. The IP Office issued a decision favoring the request of Bayer. The decision has been in force.

2. Issues and Law

The case is related to the infringement determination regarding offering to sell a drug^[16]. To prove the accused products are the same as the patented chemical substances, Bayer relied on the CAS number or generic name of Mediking’s products. No

technical testing of the products is involved.

Mediking argued that its act is not “offering to sell”. Mediking asserted that offering to sell can only be established with manufacturing or selling, which however they are not engaged in. What they provide is the manufacturing solutions of the products, not the products per se. They did not have the capacity to manufacture the products, and their business scope as registered did not cover manufacturing or selling the products. Their promotion was not for production or business purpose, thus cannot be categorized as advertisement. The promotion aimed at looking for partners for technical exchange and promotion, not a declaration of intention of selling the alleged infringement product. Furthermore, there was a disclaimer indicated below the product list, “The products & their intermediates which are protected by patents in countries will not be sold in those countries. The patent situation should be verified by the customer or the importer”, which proves Mediking did not implement any infringement behaviors.

The issues of the case are:

- 1) How to determine whether the accused drug falls within the protection scope of the patent, without appraising a physical product.
- 2) The determination criteria regarding the establishment of offering to sell.

3. Decision and Analysis

The IP Office holds that according to the CAS registry number, chemical name and structural formula shown in the Chinese Approved Drug Names and the CAS database search report as provided by Bayer, it can be determined that the accused products share identical chemical structures with the patented compounds, therefore falling within the protection scope of the patent.

The IP Office also finds that either the product information uploaded to the of-

ficial website, or the product information and status printed on the brochures or the exhibition boards at CPhI indicate Mediking's purpose of promoting the products.

The IP Office opines that Mediking possesses the capacity of drug production, because the business scope shown on Mediking's business license cover "being authorized to produce chemical products" and the official website reveals it owns a 100% holding GMP factory and other production enterprises.

As for the disclaimer printed on the brochures, the IP Office holds it cannot exclude the purpose of product promotion, and cannot be used as a defense to rebut the assertion of offering to sell.

4. Comments

In patent infringement disputes regarding chemical product, it is usually necessary to conduct infringement comparison by purchasing the accused product and conducting judicial appraisal, so as to determine whether the product falls within the protection scope of the patent. In the case, the petitioner does not provide any physical product, but furnishes documentary evidence to prove the accused products are the same as the claimed compounds. Mediking displayed the Chinese generic name and CAS registry number of the products on its website, exhibition boards and brochures. Bayer filed sufficient evidence demonstrating the products and their chemical structural formula can be uniquely identified by both the generic name and CAS registry number. This allows the comparison of the product with the claimed compound.

Offering to sell is an independent act of patent exploitation. It is not essentially established on the premise of physical manufacturing or selling action. Meanwhile, the declaration of intention of selling is not necessarily made on the premise of the existence of physical product. The Patent Law lists offering to sell as one of the acts of patent infringement, so as to empower the patentees a right to stop the behavior

of offering to sell before others illegally sell the patented product. It is beneficial for the patentees to protect their legitimate rights and interests more promptly and efficiently. The business scope of Mediking and the affiliated production enterprise provide a proof for its actual production capacity. According to business practice, directly publicizing the accused product in the manner of product introduction on the official website obviously aims at promoting the product, constituting an offering to sell. The behavior of listing the products and their status on the exhibition boards and brochures proves that Mediking publicizes and promotes the products. Whether the prerequisites as stipulated by law are met should be assessed in determining whether the behavior constitutes an infringement act. The disclaimer cannot deny the behavior constitutes an offering to sell.

The case explores a time and cost-efficient way for owners of pharmaceutical patents in addressing similar infringements in the future.

[16] Article 11 of the Patent Law 2008 provides, after the grant of the patent right for an invention or utility model, except where otherwise provided for in this Law, no entity or individual may, without the authorization of the patentee, exploit the patent, that is, make, use, offer to sell, sell or import the patented product, or use the patented process, and use, offer to sell, sell or import the product directly obtained by the patented process, for production or business purposes.

Article 24 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 provides, the term "offer to sell" as mentioned in Article 11 of the Patent Law refers to the declaration of intention of selling products made by means of advertisement, display in shop windows or exhibition at fairs.

Neopine v. Decathlon

Shenzhen Baixiong Neopine Trade Co., Ltd. v. Decathlon

- The Patent Reexamination Board of China National Intellectual Property Administration
- Docket Number: 35603
- Decided, April 20, 2018
- Representing Decathlon

1. Facts and Procedure

Decathlon (“Patentee”) owns the Chinese design patent ZL201430112503.9 titled “Snorkel Mask” (filing date April 30th, 2014, priority date November 6th, 2013) (“Patent”). On October 25, 2017, Shenzhen Baixiong Neopine Trade Co., Ltd. (“Petitioner”) petitioned before the Patent Reexamination Board of China National Intellectual Property Administration (“PRB”) to invalidate the Patent. The Petitioner claimed that the Patent should not enjoy the priority right, and presented evidence disclosed after the priority date but before the filing date of the Patent to destroy the novelty. The key of this case is to defend the priority of the Patent.

We represented the Patentee and successfully defended the validity of the Patent. No appeal was filed by the Petitioner.

2. Issues and Law



As provided in Article 29.1 of the Patent Law (2008), in order to enjoy the priority right, the patentee must prove the design patent has a same subject matter as that

of its priority document. Pt. IV Chap. 5 Sect. 9.2 of the Guidelines for Patent Examination (2010) (“Guidelines”) sets forth the more detailed criteria for determining “same subject matter”: (1) both of the designs in the foreign application and the subsequent application are for the same products; and (2) the claimed design in the subsequent application is clearly shown in the first foreign application. Guidelines also provides an example as to the identification of “same subject matter”: even if the back view and left view of the subsequent application are not provided in the foreign application, so long as they are clearly shown in the perspective view of the latter, it can be determined that the subject matters of the two are the same. [17]

Guidelines does not require the designs in the foreign and subsequent applications to be completely consistent. However, there is no explicit rule as to what kind of difference is acceptable and specifically, to what extent the difference can be. The Petitioner argued that the examination criteria for priority should be higher than novelty criteria, so even the difference is nuanced, partial or inconspicuous to common customers, priority right still cannot be enjoyed. In this case, the PRB panel provided an example to solve this issue.

3. Decision and Analysis

In this case, the first foreign application only has three views but the Patent has six, so many features in the design of the Patent are not displayed in the views of the foreign application. The differences between them claimed by the Petitioner are shown in the below table.

<p>Design of the first foreign application</p>			
<p>Design of the Patent</p>			

The panel held that difference 1 as shown in the above table results from the removal of Decathlon's trademark. This difference is nuanced and cannot make the subject matters different. Difference 2 and 3 are the results of photographing from different distances and angles. The blue part of difference 3 is the mask belt. The foreign application also has such belt, which is not displayed in its three views. For difference 4, the Petitioner argued that the foreign application only has one line on the valve whilst the Patent has two. Actually, after enlargement of the picture, it could be seen that the foreign application also has two lines. For difference 5, 6 and 7, although the foreign application doesn't display the features directly, they nonetheless exist and can be seen by combining the three views together. Therefore, in fact, the three differences don't exist. As a result, the PRB identified that the subject matters of the two are the same, and hence, maintained the priority and the validity of the Patent.

4. Comments

Different jurisdictions employ different patent prosecution regimes. So there usually comes the inconsistency between the views of the foreign priority application and the subsequent application when claiming foreign priority right. Meanwhile, invalidation case regarding this kind of priority issue is rare and it is also difficult for the patentee to overcome the defects.

During the proceeding, we represented the Patentee in conducting in-depth legal research and during the hearing, we compared the two designs by enlarging the pictures and demonstrating with real snorkel mask product. We explained to the panel the differences are primarily caused by the cartographic process and can all be found in the foreign application. We argued that Petitioner's claimed criteria that nuanced and partial difference destroys priority have no legal basis. As illustrated by the

Guidelines, law doesn't require rigidly that the pictures in the subsequent application and the foreign application to be absolutely the same.

The panel accepted our arguments. So long as the claimed design is clearly shown in the foreign application, the subject matters are the same, and the nuanced difference or defect caused by cartography, such as angle and distance, has no bearing on the identification of same subject matter. This case provides detailed criteria and guidance in adjudicating priority disputes for design patent as well as its prosecution.

[17] Article 26.3 of the Patent Law (2000): "the description shall clearly and completely describe the invention or utility model so as to enable a person skilled in the art to carry it out; where necessary, drawings are required."

IKEA v. Taishen Chen

IKEA (China) Investment Co., Ltd. v. Taishen Chen

- Patent Reexamination Board
- Docket No.: 5W112540
- Decision made on November 27, 2017
- Representing IKEA

1. Facts and Procedure

A patent owner Taishen Chen sued IKEA (China) Investment Co., Ltd., and Guangzhou IKEA Co., Ltd. (jointly as “IKEA”) before Guangzhou IP Court on the ground that IKEA infringed his utility model patent by manufacturing, selling and offering to sell three types of lamp products, and requested the court to order injunction and award compensation. IKEA initiated invalidity action against the patent at issue before the Patent Reexamination Board (“PRB”).

We represented IKEA in successfully invalidating the patent at issue, and consequently, Guangzhou IP Court dismissed the civil case. The adverse party did not pursue litigation against the PRB decision.

2. Issues and Law

The Patent Law requires that patent claims and description shall be clear. Article 26.3 prescribes “The written description shall contain a clear and comprehensive description of the invention or utility model so that a person skilled in the art can carry it out”. Article 26.4 prescribes “The written claim shall, based on the written descrip-

tion, contain a clear and concise definition of the proposed scope of patent protection.” In practice, however, the PRB seldom invalidates patents for the said formality issues. In our case, the PRB declared the patents invalid because the description did not sufficiently disclose the technical solution and the patent claims are not clear.

3. Decision and Analysis

The patent at issue requests protection of a foldable double layer lantern. The main dispute in this case centers the technical feature in claim 1 “elastic supporting frame (4) is set respectively in the cavity of the outer shade (2) and inner shade (3).” The patentee alleged that the accused infringing products fall within the protection scope of the patent (see Fig. a as follows). The accused infringing product is also a foldable double layer lamp, but it only has one supporting frame set in the inner cavity. The supporting frame also supports the outer cavity because the inner and outer cavities share the same upper and lower ends.

After careful study of the patent claims and description, we found that although the patent at issue is a foldable double layer lantern, with its inner shade and the outer shade consisting of latitudinal frames and longitudinal frames crossing each other (see Fig. b from the patent). For this structure, a person skilled in the art is unable to know how to fold the lantern. Consequently, the description does not clearly and sufficiently disclose the technical solution. The feature of claim 1 “elastic supporting frame (4) is set respectively in the cavity of the outer shade (2) and inner shade (3)” is not clear either.



Fig a. Accused infringing product

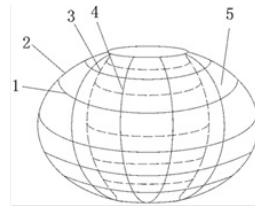


Fig b. Patent

In the PRB hearing, the patentee construed the technical solution as “the inner shade and outer shade have latitudinal frames, and only one longitudinal frame is set in the center of the cavity.” The patentee tried to expand the scope of its patent to cover the IKEA product. We pointed out that the patent description explicitly records that longitudinal frames are respectively set in the inner shade and in the outer shade, and the drawings of the patent also corroborate this feature. Therefore, the patentee’s explanation is obviously in conflict with the patent specification.

The PRB at first was very cautious about declaring the patent invalid. After our detailed analysis, the PRB adopted our argument and found that the patentee’s explanation in the hearing contradicted the technical solution recorded in the patent. A person skilled in the art is unable to obtain a clear and applicable technical solution from the patent specification. The PRB hence declared all the claims of the patent invalid for insufficient disclosure and unclear patent claim.

4. Comments

The PRB usually examine the novelty and inventiveness of an invention or utility model to assess patent validity, and rarely declares a patent invalid for formality issues like insufficient disclosure or unclear claim. In this case, the PRB found the description of the patent does not sufficiently disclose the technical solution and thus the protection scope of the patent is not clear, which is rarely cited as ground for patent invalidity by the PRB.

This case originated from the patent infringement lawsuit against IKEA over several popular products in the Chinese market. We successfully invalidated the patent at issue and the adverse party lost the right basis of the infringement case.

This is IKEA's first patent infringement case in China. Our success increased the client's confidence in Chinese patent legal system.

CHAPTER



Articles

Three Supreme Court Cases On Pharmaceutical Patents

(Originally published by Managing Intellectual Property)

With some ten thousand cases a year, Chinese law on patent litigation is dynamic. Courts, particularly the Supreme People's Court (the Court), lead the advancement of the law. This article seeks to convey a sense of these developments through three key decisions.

The Sincere Case – amendment of patent claims

The Patent Law Article 33 limits amendments of patent claims to the original disclosure and scope of protection. The Patent Examination Guideline (the Guideline) only permits amendments if they can be directly and unambiguously determined from the original disclosure. It further limits the types of amendment to: deletion of claims, combination of claims and deletion of technical solutions within a claim. The Guideline's restrictive prescriptions and rigid applications give rise to broad dissatisfaction. From 2010, the Court has taken up eleven cases addressing issues involving amendments of claims to remedy the situation. The Sincere case is an example of their efforts.

Sincere Pharmaceutical held a patent for anti-high blood pressure formulations of amlodipine and irbesartan. In an invalidation proceeding, Sincere proposed to amend a claim establishing its formulation of "a pharmaceutical composition comprising a weight ratio of 1:10-30 of active ingredients amlodipine or its physiologically acceptable salt and irbesartan." The proposed amendment narrowed the ratio to sim-

ply 1:30. The Patent Reexamination Board (PRB) rejected the amendment because the ratio 1:30 cannot be directly and unambiguously determined from the original disclosure. The PRB's decision was maintained by the court of first instance but overturned by the court of second instance. The PRB petitioned the Court to review the case.

The Court permitted the amendment. It found the amended content in the original disclosure without applying the direct and unambiguous standard. Specifically, the Court opined that the ratio of 1:30 was disclosed in examples in the patent specification. The examples included an optimal combination of amlodipine over irbesartan as 1:30 mg/kg, a dosage range of 2-10:50-300 mg and preparations with the two ingredients in weight relationships of 2.500:75.000 mg and 5:150 mg. The examples did not give an explicit description of a generally applicable ratio of 1:30. But examples could only describe specific weights. These weights are all consistent with the claimed ratio. To a person skilled in the art, the ratio is disclosed. The Court also stated that an inquiry into whether all weights corresponding to the ratio can fulfill the inventive purpose should be made under Article 26.4 instead of Article 33.

The Court recognized that the amendment was not a typical deletion of technical solutions. It however noted that the justification for limiting the types of amendments is to protect public reliance on claims and to prevent broadening of their scope, not to punish imperfect claim drafting. In this case, the amendment did not broaden the scope of the claim, it clarified it. The Court also stated that the list of permitted amendments in the Guideline is not exhaustive.

The Court's efforts have advanced rationales for practice concerning claim amendments. A newly released Guideline last month also reflects a more flexible approach. It states that "the specific types of amendments are generally limited to deletion of a claim, deletion of a technical solution, further limitation to a claim [by reciting features in other claims] and correction of an apparent error".

The Telier case - close - end claims

The Guideline allows two types of claims for compositions: open-end claims, typically with claim language like “comprising,” and close-end claims, typically with claim language like “consisting of”.

An open-end claim would cover a composition with the claimed components regardless of whether the composition also has other components, while a close-end claim would cover a composition with the claimed components only. The Guideline however does not bind courts and had not been expounded in the context of an infringement case. The Telier case for the first time construed a close-end claim in the context of a pharmaceutical composition – whether the addition of pharmaceutically inactive excipients would place a composition outside the scope of a close-end claim.

The case involved a patent covering a composition of lyophilized powder for injection consisting of adenosine disodium triphosphate and magnesium chloride. The defendant’s product had the two claimed ingredients but with an added inactive excipient of arginine, known to increase composition stability. It was added together with sodium carbonate in the formulation process and retained in the final product. Adding ingredients in the formulation process is common. The issue was whether such routinely added ingredients in the formulation process would place the resulting composition outside the scope of a close-end claim. The courts of the first and second instances both found infringement because the defendant failed to prove that the added excipient substantially affected the pharmaceutical function of the composition.

Before the Court, the patentee argued for infringement either because the accused product bore the essential features of the claim – containing the two active ingredients, or because it was equivalent to the claimed composition as the addition of

arginine is routine in formulation processing.

Because the patentee's claim for the formulation was drafted as a close-end one, which did not include the added arginine, the Court took issue with it. It held that the practice of drafting close-end claims had been around since 1993, with consistent directives from the Guideline. It held that there was a public expectation that such a claim would not cover a composition with additional components. The patentee thus had a duty to know the terms of the art and should bear losses resulting from inappropriate claim drafting. Moreover, the doctrine of equivalence should not apply as it would defeat the purpose of close-end claims.

The decision in the Telier case holds a strict but clear construction of close-end claims for compositions. The case led to a provision in the Court's judicial interpretation of March 2016, directing courts not to find infringement of a close-end claim "unless the additional features are unavoidable impurities" and making the holding generally applicable.

The Lilly case

Low damages for infringement have been a perennial problem. The Patent Law prescribes four methods for damage determination: patentee's loss, infringer's gain, multiples of royalties and discretionary damages capped at Rmb1,000,000. Most cases use the last option due to lack of evidence and the underdevelopment of the other methods. Damages are critical to the pharmaceutical industry for sustaining innovation.

The Court has been leading efforts to increase damages by encouraging exploratory practices, such as imposing damages above the statutory cap and demanding production of financial information held by defendants, coupled with aggressive adverse inference. Consequently, sporadic large damage awards have appeared but reasoned

guidance is wanting.

In this case, Lilly sued Watson for infringing its patented manufacturing process for olanzapine, an antipsychotic drug. The Jiangsu Higher People's Court found Watson infringing and ordered it to pay damages of Rmb500,000 for the period of infringement up to 2003. The decision was based on the fact that olanzapine was a "new product," and that Watson had failed to prove the difference of its manufacturing process. Although Watson asserted the use of its own process as filed with the regulatory authority, the court found that, according to a technical appraisal, the process did not work.

With infringement confirmed, Lilly then sued for damages resulting from Watson's use of the process between 2003 and 2011. Lilly gathered evidence from two sources. Based on a report assessing Watson's potential losses if it stopped manufacturing, Watson's monthly profit for selling olanzapine was about Rmb1,660,000 and the total profit for the relevant period was Rmb151,060,000. An extensive market investigation indicated that for the relevant period Watson had hospital sales of Rmb186,914,143, retail sales of Rmb64,975,343. Subtracting the cost of materials (Rmb86,522,830), the gross profit was Rmb165,366,656. Picking the lower of the two profit numbers, Lilly claimed damages of Rmb151,060,000.

The Jiangsu Higher People's Court awarded Lilly damages of Rmb3,500,000. Both parties appealed to the Court. Unfortunately, the Court did not address the damage issue. Instead, it re-opened the issue of infringement. Taking in new trade secret evidence submitted by Watson, the Court declared itself satisfied with Watson's assertion of using its own manufacturing process, different from the claimed process. We'll have to wait for another case for the Court's guidance on damage determination.

Courts are expected to play a leading role in IP protection. Future decisions will give further guidance as they provide specific context for the application of the statu-

tory laws, which inevitably fall behind facts. The precedential value of cases is gaining recognition in China. The Court has required all decisions be made public promptly and encouraged the use of cases in judicial decision making. We expect more illumi-



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Ms. Honghui Hu is a Partner at Wanhuida. She is dual qualified both as patent attorney and as attorney-at-law in China. Honghui has abundant experience in prosecuting and litigating patent and technology-related matters, with her technical expertise primarily focusing on chemistry, chemical engineering, pharmaceuticals and food technology. She excels in advising clients on intricate matters like patent validity analysis, freedom-to-operate, as well as infringement risk assessment.

Analysing The Different Elements Of Patent Litigation

(Originally published by Managing Intellectual Property)

Understanding patent litigation is essential to any company's IP strategy. More and more multinational companies are starting to think about litigating their patents or at least plan for patent litigation in China in case they ever need to sue.

One important reason for knowing patent litigation in China is that products made in China flood every corner of the world and the best strategy is always to stop infringement from the source.

Another reason is that the risk of being sued for patent infringement in China cannot be underestimated. China has been top patent filer since 2011 and the ever-growing number of registered patents, in particular utility models, increases the likelihood of litigation. It is, therefore, always better to be prepared.

Moreover, Chinese IP legislation and judicial practice have achieved significant improvements in recent years, which makes litigation in China more and more predictable.

Statistics shows that China has become active in patent litigation. According to the annual report of the Supreme People's Court, Chinese courts received 12,357 civil patent cases for the first instance in 2016, and from November 2014 to June 2017, the three IP courts[1] had concluded 7,041 civil patent cases.

Rights under protection

The Chinese patent law grants patentee the right to prevent any entity or person from exploiting its patent without permission. Exploiting refers to manufacturing,

using, offering to sell, selling, or importing the patented product, using the patented process, and using, offering to sell, selling, or importing products obtained directly from the process.

Jurisdiction

Four-level court system and two-instance trial

The Chinese judicial system has four levels of courts, the District People's Court (county or district level), the Intermediate People's Court (city level), the Higher People's Court (province level), and the Supreme People's Court (state level). A lawsuit can go through at most two instances. Once the first instance court (the trial court) makes a judgment, either party can appeal to the court on the next level (the appellate court), the decision of which will be final.

Jurisdiction by forum level

Traditionally, most patent disputes are heard for the first instance by the Intermediate People's Courts specified by the Supreme Court and can be further appealed to the Higher People's Courts. However, the Higher People's Court acts as the trial court for patent cases of significant impact on society and large amount of damages. The Supreme People's Court will be the appellate court, if these cases are appealed.

Since 2014, three IP courts have been newly founded in Beijing, Shanghai and Guangzhou, and some IP tribunals of intermediate courts were reformed into special IP tribunals to consolidate the jurisdictions exercised by several adjacent intermediate courts before. Noteworthy is the fact that the possibility of establishing IP appellate courts is being actively explored, which if being sanctioned by the legislature, will push the patent disputes jurisdiction to a more centralized level.

Territorial jurisdiction

A patent owner may start proceedings at a court either where the infringer is

based or where the infringement activities take place. Infringement activity refers to any of manufacturing, using, offering to sell, selling and importing. As a strategy, in many cases the plaintiff prefers to bring the case before the court where the seller is based to avoid the home advantages of the infringing manufacturer if the alleged infringing products are being distributed in different places.

Limitation period

The limitation period for filing patent infringement proceedings in China is three years from the date when the plaintiff obtains knowledge of the infringement, or the date when the plaintiff should have known.

Burden of proof

Generally, it is the plaintiff's burden to prove infringement unless the patent is a process for the manufacture of a new product. Evidence that the plaintiff needs to provide may include the following:

- Evidence of patent right and identity of the parties
Evidence of patent right includes the patent right certificate, the patent specification, and the proof of paying the annual fee and/or the official record of Patent Register. Plaintiff is required to provide its company registration certificate, an identity certificate of legal representative and if attorneys are entrusted, the power of attorney signed by the representative.
- Evidence of infringement
Typically, it should include a purchased sample of the infringing product together with formal invoice. Product manuals are often used to assist proving the infringing product falls within the scope of the patent.

- Evidence of damages

Theoretically, damages could be awarded based on the plaintiff's loss, the infringer's profit, reasonable royalty or statutory damage up to 1 million RMB. As it is often difficult to prove the plaintiff's actual losses, it is more practical to prove the infringer's profit obtained by selling the infringing products, using an account book or other such documents. In many cases, such evidence is controlled by the infringer, so it is an arduous task for the plaintiff to obtain them. Nonetheless, based on the plaintiff's request, the court may order the infringer to submit counter evidence and if being refused, may identify the profits in the amount claimed by the plaintiff.

When collecting evidence of infringement in China, it is preferable to have the process of purchasing the infringing product notarized, as notarized evidence usually carries more weight.

Trial proceedings

Actions are initiated by filing a complaint with the court. The complaint should specify the claims, supporting facts, the evidence that will be referred, and the identity information of the parties. If the case is accepted, a notice of acceptance will be issued. A notification of the appointment of the panel of judges will usually be sent together with the notice of acceptance, or separately in some cases depending on the court. The court will serve a copy of the complaint and these two notifications to the defendant, who then has 15 days (30 days in a foreign-related case) to file a defense. After receiving the defense and serving it to the plaintiff, the court will review the complaint, defense and related evidence and may conduct further investigation on its own if necessary.

The court will set a timetable, which usually gives at least 30 days for each party to submit evidence. The parties may agree a different timetable for the submission and exchange of evidence, which needs to be approved by the court. The exchange of evidence provides an opportunity for the parties to review and assess their cases and supporting evidence. A member of the judges' panel will supervise the process of exchanging evidence and may hear the parties' arguments on the main issues shown by evidence.

There will usually be a series of pre-hearings and at least one formal hearing. The pre-hearing may cover a variety of subjects including the admissibility of evidence, procedural grounds, claim construction, infringement analysis, non-infringement defense, investigation of technology and the parties' arguments. If technical questions remain unclear or disputed, the court may appoint one or more experts for technical advisory or technical appraisal.

Once the court has completed its investigations, it will set a date for the formal hearing, which all judges of the panel should attend. A formal hearing will usually include the following stages:

1. checking the identity of the participants;
2. opening remarks;
3. the plaintiff's brief;
4. the defendant's brief;
5. the plaintiff's rebuttal;
6. the defendant's rebuttal;
7. the optional introduction of witness who has made an affidavit;
8. the court's investigation;
9. the parties' statements; and
10. the closing remarks.

Judgment and appeal

The court usually delivers its judgment within a few months after the last hearing, depending on the complexity of the case. After the first instance court renders its decision, the plaintiff or defendant has 15 days to appeal to the higher court. Foreigners that do not have an address in China have 30 days to appeal after receiving the decision. The second instance proceeding is similar, but because the investigation and fact finding in the first instance should have clarified many issues, the second instance proceeds much faster.

Time

A straightforward patent infringement case before most intermediate courts will generally take 6 to 12 months. For domestic cases, judges are under pressure to conclude them within the prescribed time, but for foreign-related cases, there is no fixed time frame. Because the newly established IP courts or special IP tribunals have broader jurisdiction and generally have larger caseloads, it takes more time for the courts to proceed. For instance, the first instance before Beijing IP Court could take 2-3 years because it also has the exclusive jurisdiction over appeal cases on the validity of patents and trademarks.

Some alleged infringers also seek the invalidation of a patent when they are accused of infringing the patent. Infringement litigation may be suspended depending on the practice of different courts and judges' estimation of the chances of the invalidation case.

Costs

The cost of a patent infringement case involves an official fee, disbursement and

the attorney's fee.

To initiate infringement litigation, the plaintiff should pay the court fee first, which is between 0.5% and 2.5% of the claimed damages and calculated cumulatively. Mostly a large part or all court fee is finally borne by the losing party.

Besides the court fee for initiating litigation, the plaintiff may also claim disbursement for preparing for and proceeding with the litigation, for example, the cost of producing evidence, travel, or the fee paid to experts for technical appraisal. If the judges deem the disbursement or part of it as reasonable, such a claim could also be supported in the judgment.

Usually each party bears its own lawyer's fee in China. Lawyer's fees may vary greatly and it is difficult to determine whether they are reasonable. Therefore, although the plaintiff may claim the lawyer's fee as disbursement, the courts usually tend to award only a limited portion.

Injunction

If the plaintiff requests for injunction relief, the courts usually support permanent injunctions where they find infringement, unless the injunction would harm public interest. Interim injunction is also available in China but rarely granted by the courts. To get interim injunction, the plaintiff should prove at least the following aspects: 1) it is likely that the plaintiff will win the case; 2) there is irreparable harm to the plaintiff if interim injunction is not granted. The plaintiff also needs to post deposit for the interim injunction which will be a guarantee to cover the possible damages to the defendant if the injunction is wrongful.

Damages

The court will assess damages on the basis of the plaintiff's losses or the defendant's profits. If there are appropriate documents for such an assessment, the plaintiff may apply for the court to audit the documents and assess the damages.

If it is difficult to determine damages on either of the two bases and there is a relevant and reasonable patent licensing fee that can be referred to, the court could impose damages based on one to three times of such royalties.

If no reasonable patent licensing fee can be referred to, the court may instead impose statutory damages of up to RMB 1,000,000 (about US\$150,000), considering comprehensive factors such as the patented subject, the period of trading and the price at which the infringing product was sold. Research has shown that statutory damages are awarded in 95% of court cases and the average amount of damages is not high for lack of sufficient damages evidence.

It is, however, at the discretion of the court to render damages beyond the statutory cap where clear evidence indicates so. Many Chinese courts are trying to have the patent owner compensated sufficiently by allocating the burden of proof in a more reasonable manner. In a recently awarded decision, for example, the Hangzhou Intermediate People's Court did a nice allocation of this burden and imposed RMB 2,000,000 (approximately US\$300,000) damages on defendants.[2] It should be expected that the average damages decided by the Chinese courts will increase gradually to a reasonable level.



Johnson Li

Johnson Li joined Wanhuida as a Senior Partner on January 1, 2018. Johnson is qualified both as attorney-at-law and patent attorney in China. His practice focuses on litigating intellectual property disputes, advising on patent invalidation and licensing matters, managing IP portfolio as well as planning and executing IP-related protection, defense and enforcement strategy. Johnson has abundant experience in representing clients before various levels of Chinese courts and administrative authorities. Several of his cases were

selected to be included in the annual exemplary cases of the Supreme Court and the local courts.

Analysing Supreme Court Cases On The Doctrine Of Equivalents

(Originally published by Managing Intellectual Property)

To find whether a technical solution falls within the scope for protection of a patent, literal infringement and doctrine of equivalence are the major rules to reference. Literal infringement is easy to understand - the accused technical solution is found to be falling within the scope for protection of a patent if its features are identical with every feature of a patent claim. Doctrine of equivalence means the accused technical solution is also found to be falling within the scope for protection of a patent if its features are not identical with but equivalent to every feature of a patent claim. Doctrine of equivalence is a good supplement which grants the patentee fair protection, but determining what is equivalent could be complex. Without explicit provision in the Patent Law, China's doctrine of equivalence is established through judicial practice and was first provided as a uniform rule by the judicial interpretation issued by the Supreme People's Court (the Court) in 2001. To determine equivalence, courts will examine each technical features of the accused technical solution and ascertain whether they use substantially the same means, perform substantially the same function and produce substantially the same effect so much so that it may be contemplated by a person of ordinary skills in the art without inventive effort.

Despite of the uniform rule of doctrine of equivalence, lots of questions still remain unsolved. For instance, how to coordinate this doctrine with other rules about limitation to patent protection scope? How to apply doctrine of equivalence in different scenarios? What's the limitations for the application of doctrine of equivalence? These questions are answered or remain to be answered in judicial practice. We select

several cases decided by the Court to illustrate some of these rules.

The Zhilian Heat Supply case - coordination of all elements rule and doctrine of equivalence

The Zhilian Heat Supply case discussed the coordination of all elements rule and doctrine of equivalence. In the early years of judicial practice, there has been little discussion on how to coordinate the doctrine of equivalence with other rules on limitations to the scope for protection of a patent claim. Courts usually and merely assess whether the accused technical solutions is of substantially equivalent means, function and effect as that of the patent. This case for the first time clarified how to coordinate the doctrine of equivalence and all-element rule.

The all-element rule requires that for finding infringement, the alleged infringing technical solution shall have all the technical features recorded in the patent claim. It was widely held that if an accused technical solution contains most of the technical features of the patent claim with only some features missing or revised to make the technical effect less superior to that of the patent, courts should still apply doctrine of equivalence and find infringement. In the Zhilian Heat Supply case, the Court clarified the boundary of doctrine of equivalence and the all-element rule.

The patent at issue is about a device for supplying heat. It uses an automatic air exchange device so that normal air pressure is maintained in the system even if the system is not running smoothly; it also adopts water seal method to achieve system sealing and to reduce system oxygenation.

The defendant who was an ex-employee of the patentee invented the accused heat supplying device based on the patent at issue. The accused heat supplying device adopted gravity seal method to achieve system sealing and to reduce system oxygenation. It has most of the features of the patent claim except for two features related to

two of many parts of the device. Lacking these features, the accused device sometimes is unable to maintain normal air pressure. Therefore, it does not perform as well as that of the patent at issue.

The lower courts found that the defendant should be acquainted with the patent and the removal of two technical features from the accused device was purported to avoid being found infringement. The two missing technical features made the accused device exhibit inferior technical effect, but it still has equivalent function and effect as that of the patent. The lower courts thus found infringement based on doctrine of equivalence.

The Court disagreed. The Court took the all-element rule into consideration to determine whether doctrine of equivalence should apply. The Court held that if the alleged infringing technical solution lacks one or more technical features of the patent claim, or the technical solution has one or more technical features that are neither identical nor equivalent to the corresponding technical features in the claims, courts shall not find infringement because the all-element rule is not satisfied. Whether the lack of a patented technical feature in the alleged infringing technical solution leads to deterioration of technical function or technical effect is not a factor to be considered. Since the accused heat supplying device lacks two technical features of the patent claim, doctrine of equivalence shall not apply.

The case was selected as an exemplary case of 2009 due to its break-through finding that if the all-element rule is not satisfied, doctrine of equivalence shall not apply.

The Hot-water Bag case - doctrine of equivalence and process patent

The Hot-water Bag case discussed the application of doctrine of equivalence for process patent. A process patent claim often consists of steps one following another in sequence. The sequence of steps is usually viewed as limitation to the scope of pro-

tection to the patent. If the patent is silent over whether some of the steps could be switched in sequence, it becomes an un-solved issue as to whether change of the step sequence still falls within the patent scope by application of doctrine of equivalence.

In the Hot-water Bag case, the Court addressed this issue and held that the technical function and technical effect for switching the order of steps should be considered. This case was selected as an exemplary case of 2013.

The patent at issue is about a process for manufacturing hot-water bag. The patent claim at issue consists of steps of the manufacturing process in sequence. The steps in dispute focus on step 6, adhering the bag mouth to the plug of the bag body through thermal bonding, and on step 7, trimming the outer shape of the bag body. The process sued in this case has the same steps in the exact sequence as that of the patent claim except for step 6 and step 7. It reversed the sequence of step 6 and step 7.

The defendant argued that his arrangement of sequence has better technical effect. It can save space occupied by the processed products in the subsequent steps, which is convenient for rapid processing; it improved processing quality and enabled the products to directly enter the inspection process.

The Court disagreed. The Court found there is little technical effect claimed by the defendant. The main purpose of trimming in step 7 is to make the hot water bag body look presentable and close to end product. Trimming in step 7 has very limited technical effect to save space occupied by the processed product as claimed by the defendant, and putting step 7 ahead of or after step 6 does not have substantial influence to step 6. The Court thus found that changing the sequence of step 6 and step 7 has no substantial influence on the whole process, the switch of these two steps have substantially equivalent technical function and technical effect, and thus doctrine of equivalence should apply.

In the Hot-water Bag case, the Court summarized the rule for the process patent.

The Court will not necessarily take sequence of steps in the process patents as limitation to the scope of patent protection, instead, the Court will evaluate whether the steps must be implemented in a specific order and whether switch of steps will cause substantial differences to technical functions or technical effects to determine whether doctrine of equivalence should apply.

The Automatic Steam Exhaust Valve case - stricter limitations to application of doctrine of equivalence

The Automatic Steam Exhaust Valve case comprehensively discussed the limitation to doctrine of equivalence and the Court applied stricter rule for application of doctrine of equivalence in this case.

The patent at issue is about a structure of anti-blocking automatic steam exhaust valve used for plumping for the purpose of preventing the leaking of water during heat supply process. The dispute focuses on a feature that “the upper surface of the cap is tapered”; in the accused infringing product, the corresponding structure is “flat”. The defendant argues that according to the patent, the tapered surface of the cap is to increase the sensitivity of the switch to prevent the water leaking, but the flat surface of the cap has no such function.

The lower court found that doctrine of equivalence should apply because the defendant’s product is of substantially equivalent means, function and effect with that of the patent claim at issue.

The Court disagreed. The Court found that the two structures around the disputed feature at issue, “the upper surface of the cap is tapered” and “the upper surface of the cap is flat” were two technical means already commonly known by a person skilled in the art when the patent was filed. The patentee chose to limit the patent claim as the “tapered surface” rather than “flat surface”. This means that the patentee

has excluded the latter feature from the protection scope of its patent. Doctrine of equivalence shall not apply here, otherwise without certainty and predictability on the scope of patent protection, public interest will be prejudiced. The Court's stand indicated a much more conservative rule: if some technical feature had existed prior to the patent filing date but was not included in the patent claim, the patentee would be unable to ask it back by claiming equivalence.

The court also discussed the rationale of doctrine of equivalence. Doctrine of equivalence is to find a balance between the reasonable protection to the patentee and the public interest. On one hand, given that new technology might emerge after the patent filing date when the infringement occurs, it would be unfair to the patentee if the infringer could circumvent infringement liability by simply replacing some technical features of the patent with new technology without inventive effort. On the other hand, the public rely on the patent claims to exercise limitation to the patent scope, and doctrine of equivalence shall not be abused to harm the public reliance interest. Doctrine of equivalence shall not be abused and the application of this doctrine shall be considered in concert with other rules like all-element rule, dedication to the public and estoppel to reasonably balance the patentee's interest and the public interest.

The Automatic Steam Exhaust Valve case is also a turning point of the Court's attitude toward doctrine of equivalence. The Court reviewed the past judicial practice and found that along with the development of patent regime in China, quality of patent drafting has been improved, and the Patent Office now applies stricter requirement on patent drafting. Therefore, the significance of doctrine of equivalence in granting fair protection over poorly drafted patent has been waning. The application of doctrine of equivalence should be more rigid and cautious.

Because of its comprehensive consideration of application of doctrine of equivalence, this case was selected as one of the exemplary cases of 2015.



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The Viability Of Trade Secret Protection In China

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Innovation is essential for China's continued economic growth. Faced with rising labour costs and alarming pollution levels, the Chinese economy can no longer focus solely on 'Made in China'; it must now strive to 'Create in China'. This shift is apparent in the latest government directives.

Strong protection of IP rights is crucial for innovation. Trade secrets are the most common and often most critical form of IP right. Although trade secrets have been protected by statute for over two decades and numerous cases on the subject have been heard, questions are still frequently asked regarding the viability of trade secret protection in China. This chapter outlines the framework for trade secret protection in China and its evolution over the past two decades, highlights some of the vexing problems that can arise in this regard and aims to provide tips to enhance the prospects of protection.

Legal framework

Trade secrets were an unknown concept in China until the early 1980s. In the years of the centrally planned economy, enterprises were encouraged to share their know-how. The concept of trade secrets initially became familiar to businesses involved in cross-border transactions and then spread more widely. By 1993, civil trade secret protection was formally enshrined in the Anti-unfair Competition Law. Criminal protection was subsequently added in 1997.

The law defines a 'trade secret' as technical or operational information:

- which is not known to the public;

- which is capable of bringing economic benefits to the rights holder and has practical applicability; and
- which the rights holder has taken protective measures to keep confidential.

The law identifies four different acts that constitute infringements of trade secrets. First, 'thou shalt not steal': trade secrets may not be obtained through theft, the promise of gain, coercion or other improper means. Second, one may not disclose, use or allow others to use trade secrets that have been obtained through such acts. Third, honour your obligations: trade secrets under a person's control must not be disclosed or used – whether by that person or others – in breach of contract or in violation of obligations. Fourth, one may not obtain, use or disclose a trade secret in the knowledge of an association with any of the preceding types of misconduct.

In practice, the proscribed acts correlate to one of three typical scenarios:

- Trade secrets are misappropriated from a competitor and exploited;
- A former employee of a competitor who was formerly entrusted with trade secrets is hired and the trade secrets are exploited; or
- Trade secrets are misused by a person to whom they were entrusted.

The vast majority of trade secret cases involve the last two scenarios and thus, unfortunately, a breach of trust.

The law requires that an act of infringement have consequences in order for it to qualify as a crime. If the infringement results in significant damages to the rights holder, the perpetrator shall be subject to imprisonment for up to three years and/or a fine. If the damages are particularly significant, the term of imprisonment shall range from three to seven years. 'Significant damages' are regarded as damages exceeding Rmb500,000 and 'particularly significant damages' as damages exceeding Rmb2.5 million.

Thus far, probably over 1,000 trade secret cases have been heard by the courts, with civil cases concentrated in the developed coastal areas and criminal cases more evenly distributed throughout China. Like all IP cases, trade secret cases have evolved with the development of new legal techniques, procedures, evidentiary rules and methods of adjudication. Compared with other IP cases, however, the fail rate for plaintiffs is high and there are occasional abuses from the perspective of defendants, particularly criminal defendants.

Over the years, through the efforts of the Chinese IP community, parties, courts and professionals, some of the earlier uncertainties associated with trade secret protection have been resolved. However, issues with enforcement remain, for which solutions at times are dependent more on luck than on the rational process of law. There follows a discussion of several issues on which progress has been made, and those for which it is still urgently needed.

Establishing the existence of a trade secret

Trade secret protection begins with a trade secret. The plaintiff must first show that the matter involves a trade secret – that is, information which:

- is not known to the public;
- has value; and
- is subject to protective measures.

In a judicial interpretation the Supreme People's Court has defined information which is 'not known to the public' as information which is "generally unknown or not easily accessible to those in the art". It further illustrates the concept with examples of information which is known to the public, including common knowledge or practice, information that has been disclosed to the public and information relating to features

such as the size or structure of a product, which are directly observable.

Illustrating what is 'known' rather than 'not known' reflects the problem of proving the negative (ie, things that do not exist). One of the uncertainties in this regard is who should bear the burden of proof. Some suggest that this should rest with the plaintiff, because it bears the burden of proof in general. Others argue that it should rest with the defendant, because it is more effective to prove the positive (ie, what is known to the public). This uncertainty has now largely been resolved. Under the current practice, the plaintiff bears the burden of proof, but the standard of proof has been lowered. If the plaintiff can prove how the information was developed, its efforts to keep the information confidential and other attributes of the information that are consistent with its confidential nature, it will likely have established that the information is not known to the public, unless the defendant can prove otherwise. In the case of technical information, the plaintiff must often produce an expert opinion, alongside evidence that the information could not be obtained through a reasonable search.

Nonetheless, several issues require further clarification:

- What is the extent of the search required of the plaintiff?
- Is obviousness a factor in deciding whether information is known to the public?
- Can the defendant's theft of the information support a finding of not known to the public?
- Does information that can be obtained through analytical means constitute information which is known to the public? This issue is sometimes confused with the so-called 'reverse engineering' defence, which requires evidence showing that the defendant in fact obtained the information through technical analysis.

The requirement to prove that proper measures have been taken to keep the

information confidential can be a challenge for plaintiffs which have made less than diligent efforts in this regard. Many cases involve employees, whether current or former. According to the judicial interpretation: “in order to prevent the disclosure of information, reasonable measures have been taken by the right holder which are due under specific circumstances in terms of the commercial value of the information.”

The reasonableness of protective measures has been a hotly contested issue. As case law has developed, this inquiry now generally focuses on two questions:

- Do the measures clearly express the rights holder’s intent to keep the information confidential? In this regard, the rights holder must not only have expressed its intention to keep the information confidential through agreements or corporate policies, but also have identified the specific information to be kept confidential.
- Are those measures effective and appropriate? Effective measures should prevent people from obtaining the information without breaching agreements or using legally proscribed means. For instance, it is not enough merely to mark the information as ‘confidential’; mechanisms such as circulation control, training and auditing must be in place to ensure that corporate policies are followed.

Proving the reasonableness of protective measures can still be a frustrating experience, particularly when the value of the trade secrets is added to the mix. In evaluating reasonableness, one underemphasised aspect is the need to share information within the context of business operations. Information – including highly valuable information – must often be shared with persons of trust in order to generate a competitive advantage therefrom.

Once the existence of a trade secret has been established, the next step is to prove that infringement has occurred. This is without doubt the most difficult step for the

rights holder, as typically it will come to suspect the infringement only once competing products appear on the market and will lack any presentable evidence. It is generally impossible to find direct evidence of infringement, except in those rare cases where it fortuitously falls into the rights holder's lap.

Some progress has been made in this regard, in the form of a shifted burden of proof. If the rights holder can show that the defendant has information that is substantially similar to its trade secret and had access to its trade secret, then the onus will be on the defendant to prove that it obtained the information from a legitimate source, such as through its own R&D efforts or reverse engineering. In the case of technical trade secrets, an expert appraisal is generally required to prove substantial similarity.

To prove access, the rights holder may present evidence of secrecy agreements and disclosure records. To prove trade secret access by a former employee of the rights holder, job descriptions or access records may be used. This burden shift development has facilitated successful enforcement in some cases. It has proved particularly useful in cases where former employees of the rights holder have moved to a new company which is now selling the suspect products. Some courts have also interpreted the duty of confidentiality very broadly, finding it applicable under contracts, corporate policies and the fiduciary duties of corporate officers.

Despite this progress, however, proving infringement is often still a challenge. In many cases the suspect products do not incorporate the trade secret. For example, if source code is the secret, the product may carry binary code only. In other cases the secret may be a manufacturing process and there may be no evidence of the process used in the suspect products. Where the trade secret is the result of research, it can also be difficult to prove access. Moreover, sophisticated infringers can hide traces of access by avoiding any formal connection with the rights holder – for example, by

paying off a former employee of the rights holder without establishing a formal business relationship.

These issues necessitate the further development of legal tools such as the burden-shifting regime, which balance the need to protect trade secrets and freedom to operate without undue risk of litigation. It may thus be helpful to develop approaches that take more factors into consideration in deciding whether to shift the burden of proof in this way. For example, taking into account all circumstantial evidence presented by the plaintiff, if the court is convinced that a probable cause of infringement exists, it could impose limited and targeted discovery on the defendant.

Damages

The difficulty of obtaining evidence is an important factor that pushes rights holders towards criminal enforcement: if the case is accepted by the police, the chances of securing evidence of infringement are much greater. However, a key issue in criminal proceedings is that of damages.

The Interpretation of Anti-unfair Competition Law provides that damages may be assessed using the methods set out in the Patent Law – that is:

- the rights holder's actual losses;
- the infringer's gains;
- a reasonable multiple of royalties; or
- statutory discretionary damages of between Rmb10,000 and Rmb1 million.

Where an infringement renders a trade secret known to the public, damages may be determined on the basis of the commercial value of the trade secret, which will be determined on the basis of factors such as the cost of R&D, the revenue generated through exploitation of the trade secret, the benefit that can be obtained and the du-

ration of the competitive advantage.

Although the law sets out numerous methods for calculating damages, statutory damages are the norm in practice; the other methods are not yet well developed. Unfortunately, in criminal trade secret cases, statutory damages are considered inapplicable. Thus, the determination of ‘significant or particularly significant damages’ (ie, losses of Rmb500,000 to Rmb2.5 million) in criminal trade secrets cases becomes highly certain.

If the defendant made profits and kept honest records, the court may determine damages on the basis of the infringer’s gains. However, trade secret infringers are notorious for not keeping good records. Lost profits are difficult to prove because of the unspecified causation requirement. The contribution of the trade secret to the profit is also a vexing issue with no predictable solution – particularly where the trade secret is only part of, or a precursor to, the technology that underpins profit-generating products or services. Reasonable royalties – the method with the best prospect for calculating trade secret infringement damages – frequently meets with the irrational requirement of evidence of an existing prior arm’s-length transaction in which the misappropriated trade secrets were licensed for a fee. The chance of such a licence existing is rare at best. The value of a trade secret is just as hard to prove, because the plaintiff can seldom furnish evidence of the R&D cost of the trade secret at issue; this is not how financial records are organised.

The difficulties in calculating damages are not limited to trade secret cases, and the various causes and potential solutions are beyond the scope of this chapter. However, in criminal trade secret cases, one particular issue is worth examining: whether the law requires an accurate quantification of damages. The plain language of the law would suggest otherwise: it uses terms that are qualitative rather than quantitative (‘significant’ and ‘particularly significant’). It would be improper to read the judicial

interpretation of Rmb500,000 to Rmb2.5 million as converting this qualitative requirement into a quantitative one; such a conversion would be beyond the scope of a judicial interpretation. The numbers should rather be understood as providing a reference for the magnitude of damages. Discretion should be afforded in the final determination of 'significant' by taking account of calculable damages as well as other factors that can assist in the qualitative determination.

Conclusion

The foregoing discussion provides a general picture of the progress made and challenges remaining for the protection of trade secrets in China. Twenty years is a short period for legal development and there is a growing need for the protection of trade secrets as China steps up its drive to innovation. The Civil Procedure Law 2013 extended the application of preliminary injunctions in trade secret cases. In 2014 China established three specialised IP courts – in Beijing, Shanghai and Guangzhou – which will have jurisdiction over technical trade secret civil cases. The courts are giving careful consideration to issues including damage determination. And the injustice of stealing trade secrets is gaining broad recognition. These positive developments give reasons for hope that new legal tools will be developed to address difficult issues in trade secret protection and improve the viability of protection.



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Antitrust Scrutiny In China Of FRAND-Committed Standard Essential Patents

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Antitrust Scrutiny in China of FRAND-Committed Standard Essential Patents[1]

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Introduction

Technical standards can enable multiple companies and other organizations in a competitive field to collaboratively develop platforms for new products using contributions from multiple innovators. Standard setting organizations (SSOs) often foster such collaboration by enacting rules requiring participants to identify patent rights likely essential to the standard during the standard setting process, and to commit to license standard essential patents (“SEPs”) on fair, reasonable, and non-discriminatory (FRAND) terms.[2] Standard setting is generally regarded as procompetitive, as standards can reduce costs, promote competition and follow-on innovation, expand output, and ultimately increase consumer welfare.[3] However, SEPs can also invite attention from antitrust regulators, both in the United States and abroad. This article

examines recent developments that have occurred in one important country, China.

Background

FRAND commitments can and do vary from one SSO to another, but some patterns have emerged. “Fair” licensing can be understood to mean that the patent holder should generally license on terms that are not anticompetitive and would not constitute an antitrust violation or patent misuse.[4] “Reasonable” licensing can be understood to require that the royalty paid on a particular patent should generally be proportionate to the value of that patent to the standard and that the total royalties paid by a licensee to all SEP holders are not unreasonable in aggregate.[5] “Non-discriminatory” licensing can be understood to generally mean that the SEP holder will treat all potential similarly situated licensees similarly and refrain from withholding licenses from new market entrants.[6]

Does a FRAND commitment change the rules of patent enforcement? On one hand, the right of a patent holder to bring suit for injunctive relief against an alleged infringer is a basic patent right. On the other hand, arguments have been made that a FRAND commitment should be construed as a promise by the patent holder to license the patent, which runs contrary to the right to enjoin others from practicing it.

Some SEP holders have brought infringement suits against prospective licensees and, in certain cases, have sought injunctive relief. Some antitrust regulators have indicated that a FRAND commitment may prevent the patent holder from seeking injunctive relief, at least under some circumstances, and have gone so far as to charge SEP holders with violations for requesting injunctive relief on a FRAND-encumbered patent.[7]

Compared to the U.S., China has a relatively short history of antitrust law. Most antitrust enforcement in China is conducted pursuant to the 2008 Anti-Monopoly

Law, and reported decisions are sparse. Thus, Chinese antitrust law remains in flux and continues to evolve. However, early indications suggest that China's competition authorities and courts are inclined to scrutinize injunction seeking on FRAND-encumbered patents for potential antitrust violations.

Chinese Courts May Not Recognize a Right to Seek Injunctions for Infringement of SEPs

In 2008, the Supreme People's Court of China, the nation's highest court, published an advisory opinion on SEPs, which provides insight into the court's position on injunction seeking on patents subject to FRAND commitments.[8] The case involved a construction engineering standard promulgated by the Ministry of Construction, where the patent owner had participated in the standard setting effort. The court's opinion, published as Min San Ta Zi No. 4, stated that because of the FRAND commitment, third party exploitation of technology covered by SEPs "does not constitute patent infringement" and that SEPs must be licensed at a rate "significantly lower than the normal license fee." [9] However, Dr. Zhipei Jiang, the former chief IP judge of the Supreme People's Court at the time when the advisory opinion was issued, later opined that the opinion is limited to the specific case, is not a judicial interpretation and has no generally application.[10]

More recent indications from the Supreme People's Court suggest that practicing SEPs without authorization constitutes infringement but injunctive relief may not apply:

Regarding patents included in non-mandatory national, industrial or local standards, where an accused infringer contends non-infringement because implementing standards needs no authorization from the patentee, the people's court generally should not support such a position. But, where a patentee violates the

FRAND principle, and negotiates in bad faith the licensing terms for exploiting patent included in the standards, and henceforth if the accused infringer contends that it should be stopped from exploiting the patent, the people's court should generally support such a position.

The licensing terms for standards-related patents should be negotiated between the patentee and the accused infringer. If an agreement cannot be reached after ample negotiation, they may request the people's court to make a determination. The people's court should determine the licensing terms in accordance with the FRAND principle and in consideration of the extent of inventiveness of the patent, its role in the standards, the technical field to which the standards belong, the nature of the standards, the scope for the implementation for the standards, relevant licensing terms and other factors.

If other laws or administrative regulations have provisions on the patent of the implemented standards, those provisions should be observed.[11]

The State Administration of Industry and Commerce (“SAIC”), one of the antitrust enforcement agencies responsible for non-price enforcement, issued rules concerning IPR and antitrust earlier this year. One such rule provides that “[w]ithout justifiable reasons, operators with dominant market position shall not eliminate or restrict competition by refusing to license other operators to use their intellectual property on reasonable terms if such intellectual property constitutes an essential facility for business operation.”[12] It remains to be seen how this rule will be used in future enforcement efforts.

Chinese Antitrust Authorities and Courts Have Prohibited Injunction Seeking on SEPs

There is some early indication that Chinese antitrust authorities are considering action to prevent SEP holders from seeking injunctive relief. On two recent occasions, the Chinese Ministry of Commerce (MOFCOM) has conditioned approval of high tech acquisitions on promises to refrain from seeking injunctions. In 2014, MOFCOM conditioned approval of Microsoft's acquisition of Nokia's Devices and Services business on a proviso that Microsoft would honor all existing FRAND terms on Nokia's SEPs and "refrain from seeking injunctions over such SEPs against smartphones produced by Chinese producers." [13] In 2012, MOFCOM conditioned approval of Google's acquisition of Motorola Mobility on a promise that "Google shall continue to fulfill the FRAND (fair, reasonable, and nondiscriminatory terms) obligations of Motorola Mobility regarding the latter's patents." [14] A plausible interpretation of these orders is that injunctive relief for an SPE is in fact permissible under Chinese law, and thus the orders are spelling out, as part of a merger decision, a commitment to give up that remedy.

Moreover, in the recent *Huawei v. IDC* case, a Chinese court found that a SEP owner had abused its patent rights and thereby violated Chinese antitrust law by seeking an injunction in a U.S. court against an alleged infringer. In 2011 InterDigital (IDC), an American patent licensing company, brought suit against Huawei, a Chinese smartphone manufacturer, in the District of Delaware as well as the U.S. International Trade Commission (ITC). [15] In both fora, IDC requested injunctions against Huawei for alleged infringement of seven SEPs owned by IDC. [16]

Huawei subsequently sued IDC in China, alleging an antitrust violation, and the Chinese trial court in Shenzhen found for Huawei, holding that IDC's injunction seeking in the United States was an abuse of dominance and a misuse of IDC's patents. [17] The

trial court ordered IDC to resume licensing negotiations, placed a cap on the royalty rate IDC could receive from Huawei, and awarded Huawei ¥20M CNY in damages (approximately \$3.2M USD).[18] IDC appealed, and in October 2013 the trial court's decision was affirmed by the Guangdong Higher People's Court.[19] The court characterized IDC's attempt to seek an injunction as a patentee negotiation tactic:

Given that IDC breached its FRAND duties; IDC filed actions against Huawei in Delaware court and ITC to seek injunction remedy for its SEPs while the two parties were still in negotiating stage, requesting Huawei to stop using its SEPs Huawei was in good faith during the whole negotiation process, while the goal for IDC to file these actions was to force Huawei to accept the unreasonably high royalty rates; SEP holders may not force a good faith negotiating party to accept terms for using SEPs; IDC's conduct therefore constitutes abusing its dominant market position.[20]

Conclusion

Antitrust law in China is rapidly evolving. However, the evidence to date suggests that both Chinese antitrust enforcers and Chinese courts may impose antitrust scrutiny on SEP holder conduct in negotiating license agreements and seeking injunctive relief. SEP holders should take caution to ensure a good faith negotiation process occurs before taking enforcement action. Even going to court in another country to request an injunction against a Chinese defendant for alleged infringement outside of China may be subject to antitrust scrutiny within China, as evidenced by the *Huawei v. IDC* case. This area will remain an important one to watch in the months and years to come.

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[2] Some standard-setting organizations use the term “reasonable and non-discriminatory” (“RAND”) for the licensing obligations that attach to SEPs, rather than “FRAND”. “RAND” and “FRAND” are generally synonymous, and for simplicity we use the term “FRAND” throughout.

[3] See, for example, Deborah Platt Majoras, Chairwoman, Fed. Trade Comm’n, Remarks Prepared for Standardization and the Law: Developing the Golden Mean for Global Trade, Recognizing the Procompetitive Potential of Royalty Discussions in Standard Setting 2 (Sept. 23, 2005), available at <http://www.ftc.gov/sites/default/files/documents/publicstatements/recognizing-procompetitive-potentialroyalty-discussions-standardsetting/050923stanford.pdf>.

[4] See David N. Makous & Mina I. Hamilton, Compulsory IP Licensing and Standards-Setting, Standard-Essential Patents and F/RAND, *Aspatore* (2014), 2014 WL 1234517; see also Am. Bar. Ass’n Comm. on Tech. Standardization Section of Sci. & Tech. Law, Standards Development Patent Policy Manual 22 (Jorge L. Contreras ed., 2007).

[5] See *Microsoft Corp. v. Motorola, Inc.*, C10-1823LR, 2013 WL 2111217 (W.D. Wash. Apr. 25, 2013) (“From an economic perspective, a [F]RAND commitment should be interpreted to limit a patent holder to a reasonable royalty on the economic value of its patented technology itself, apart from the value associated with incorporation of the patented technology into the standard.”)

[6] Makous & Hamilton, *supra*.

[7] See, e.g., Kenneth M. Frankel, International Antitrust Investigations of Injunctions Sought for Infringement of Standard-Essential Patents with FRAND Commitments, *AIPLA Antitrust News*, May 2014; Geoffrey D. Oliver, Johannes Zöttl & Christian Fulda, Fast-Forward for FRAND Disputes in Europe, *AIPLA Antitrust News*, May 2013; Paul Ragusa & Brian Boerman, Acquisition of Standard Essential Patents: Issues to Consider Before Making the Deal, *AIPLA Antitrust News*, January 2013.

[8] See Koren W. Wong-Ervin, Standard-Essential Patents: The International Landscape, *ABA Intellectual Property Committee Newsletter*, Spring 2014, available at http://www.ftc.gov/system/files/attachments/keyspeeches-presentations/standarlessential_patents_the_intl_landscape.pdf, citing SPC Min San Ta Zi No. 4 (2008), “Letter re whether Chaoyang Xingnuo Corporation’s exploitation of a patent in an industrial standard context constitutes patent infringement,” available

in Chinese at http://www.chinaiprlaw.cn/show_News.asp?id=13651&key=%B1%EA%D7%BC.

[9] *Id.*

[10] Dr. Zhipei Jiang on the Reply of the Supreme People's Court regarding Standard Patent: http://www.dgips.cn/qyzs_detail.asp?nid=430.

[11] Interpretations of the Supreme People's Court on Certain Issues Concerning the Application of Law for the Trial of Patent Infringement Dispute Cases (II) (Draft for public comments), Article 27 (2014)

[12] Provisions on the Prohibition of the Abuse of Intellectual Property Rights to Exclude or Restrict Competition (SAIC Order 74, 2015), Article 7(1).

[13] See Becky Koblitz, Microsoft-Nokia: China's MOFCOM Quietly Slips Into the Debate about Injunctive Relief for FRAND-Encumbered SEPs, *Antitrust Law Blog*, Apr. 23, 2014, available at <http://www.antitrustlawblog.com/2014/04/articles/articles/microsoft-nokia-chinas-mofcom-quietly-slipsinto-the-debate-about-injunctive-relief-for-frandencumbered-seps/>.

[14] Announcement No. 25, 2012 of the Chinese Ministry of Commerce – Announcement of Approval with Additional Restrictive Conditions of the Acquisition of Motorola Mobility by Google, available at <http://english.mofcom.gov.cn/article/policyrelease/domesticpolicy/201206/20120608199125.shtml>.

[15] Florian Mueller, *InterDigital Sues Huawei, ZTE and Nokia Over 3G Patents*, *Foss Patents*, Jul. 26, 2011, available at <http://www.fosspatents.com/2011/07/interdigitalsues-huawei-zte-and-nokia.html>.

[16] *Id.*

[17] Michael Han & Kexin Li, *Huawei v. InterDigital: China at the Crossroads of Antitrust and Intellectual Property, Competition and Innovation*, *Competition Policy International Asia Column*, Nov. 28, 2013, available at <https://www.competitionpolicyinternational.com/huawei-v-interdigital-china-at-the-crossroads-ofantitrust-and-intellectual-property-competition-andinnovation/>.

[18] *Id.*

[19] *Id.*; for the text of appellate court's decision (in Chinese), see <http://www.gdcourts.gov.cn/gdcourt/front/front/content.action?lmdm=LM43&gjid=20140417030902158689>.

[20] *Huawei Technology Ltd. v. InterDigital Technology Corporation*, Yue Gao Fa Min San Zhong Zi 306, (Guangdong Higher People's Court, 2013), p. 57, para 1.



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Balance Between Patent Protection And Disclosure

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Under the patent system, technical disclosure is traded for protection. The two fundamental objectives of the Patent Law – namely, the protection of patentees' personal interests and the promotion of the public interest in scientific and technological progress – hinge on the balance of patent protection and disclosure.

Legal framework

Article 26, Paragraph 4 of the Patent Law provides that "the claims shall be based on the description". Such 'claims' mainly define the scope sought to be protected by the patent, whereas the 'description' embodies more the patentee's technical contribution that is disclosed to the public. This is therefore a key mechanism devised to balance protection and disclosure under the Patent Law.

Further, the Patent Examination Guidelines specify that the technical solution for which patent claims can request protection must be a solution that a person skilled in the art can obtain directly or generalise from the patent's description. The scope of the claims cannot exceed the description.

Case law

In addition to the Patent Law and the Patent Examination Guidelines, the Supreme Court has rendered judgments regarding a patent description's support of the claims in a number of typical cases. These judgments are of guiding significance in the application of Article 26, Paragraph 4 of the Patent Law in practice.

Xu Wenqing In the 2005 case Xu Wenqing, the Supreme Court referenced the Patent Examination Guidelines in ascertaining the judicial adjudication rules, which are identical to those of the examination guidelines regarding the matter of support.

Eli Lilly In the 2010 case Eli Lilly, the Supreme Court further elaborated that the following generalisation will exceed the scope disclosed in the description:

If the generalization of the claims would cause a person skilled in the art to have reason to doubt that one or more subordinate concept(s) or option(s) contained in the superordinate generalization or parallel generalization cannot resolve the technical issue which the invention proposes to resolve and achieve an identical technical effect.

One of the claims of the patent in question involved the delimitation and protection of a method of preparing a pharmaceutical by using such factors as the raw materials, quantities, reaction temperature and solvent.

The Supreme Court held that the generalisation of the claim in question contained numerous other solutions that could not resolve the technical issue that the invention proposed to resolve, such that a person skilled in the art could not easily deduce – from the permutation and combination of various reaction conditions – the solution that could resolve the technical issue by way of conventional experimentation or reasonable inference. Instead, the court held that a great deal of repeated experimentation or excessive labour would be required to determine the claim's scope. Therefore, the scope of the claim's generalisation was overly broad and thus not supported by the description.

Sensormatic Electronics In 2017, on the basis of the criteria established in Eli Lilly, the Supreme Court clarified in Sensormatic Electronics the means for determining the "technical issue that the patent proposes to resolve". The Supreme Court held that:

- the provision "the claims shall be based on the description" addresses the correlation between the claims and the description; and

- the relevant content recorded in the description should be taken as the fundamental basis in determining the technical issue that the patent in question proposes to resolve and the technical effect that it aims to achieve, which the court can determine by considering:
 - the background technology recorded in the description and the defects existing therein;
 - the invention's objective;
 - the technical issue to be resolved by the invention;
 - the beneficial effect recorded in the summary of invention; and
 - the content relating to the technical issue and the beneficial effect in the specific embodiments.

However, the "technical issue actually resolved" referred to in the determination of a patent's inventive step is determined anew based on the technical features that enable the claims to be distinguished from the closest prior art and cannot directly serve as the basis for determining whether the claims are based on the description. The provision that a patent's inventive step and claims must be based on its description stipulate and regulate the legitimacy of the claims from different perspectives. Even if the claims involve inventive step, whether the various technical features – including the distinguishing technical features – recorded therein are properly generalised and whether the technical solution delimited by the claims as a whole is properly generalised still require determination based on Article 26, Paragraph 4 of the Patent Law.

In *Sensormatic Electronics*, the patent in question concerned a marker used in magnetomechanical electronic article surveillance systems. The Supreme Court held – after comprehensively considering such content in the patent's description as the

background technology, the invention's objective, the beneficial effects and the specific embodiments – that the improvements made by the patent in question to the background technology mainly lay in using a specific material to fabricate the bias element in the marker, such that the marker could be deactivated more easily and would not be accidentally deactivated in a conventional operating environment.

The great majority of the claims for the patent in question were not delimited by the specific material of the bias element, but rather by the properties or parameter range of the materials or marker. The Supreme Court held that claims so delimited included numerous other bias elements made from known and unknown substances and that a person skilled in the art would have to go through a great deal of selection and experimental verification to confirm which specific materials could resolve the technical issue that the patent in question proposed to resolve and achieve the technical effect that it proposed to achieve. Accordingly, the court held that the claims' scope of protection exceeded the extent fully disclosed in the patent's description and the extent of the patent's technical contribution and therefore failed to take the description as their basis.



Johnson Li

Johnson Li joined Wanhuida as a Senior Partner on January 1, 2018. Johnson is qualified both as attorney-at-law and patent attorney in China. His practice focuses on litigating intellectual property disputes, advising on patent invalidation and licensing matters, managing IP portfolio as well as planning and executing IP-related protection, defense and enforcement strategy. Johnson has abundant experience in representing clients before various levels of Chinese courts and administrative authorities. Several of his cases were

selected to be included in the annual exemplary cases of the Supreme Court and the local courts.

Prior Agreement On Monetary Compensation For Repeat Infringement Is Supported By The Court

In a prior patent infringement lawsuit, the defendant undertook not to infringe the plaintiff's patent again, and agreed to pay liquidated damages if found in repeat infringement. In the follow-up repeat infringement lawsuit, the court supported the plaintiff's claim of liquidated damages.

In 2005, SEB SA filed an application before the State Intellectual Property Office for a patent entitled "fryer that can coat oil automatically", which was granted in September 2009 with the patent No. 200580018875.3.

In 2011, SEB SA filed a civil lawsuit against Zhongshan City GOLDLABO Electric Appliance Co., Ltd. (hereinafter "GOLDLABO") before the Guangzhou Municipal Intermediate People's Court for infringing the above patent. At the hearing, the parties reached a mediation agreement. According to the mediation agreement, GOLDLABO was to stop producing and selling the infringing products immediately, and promised not to produce, sell, offer for sale the infringing products in the future. In case of breach, GOLDLABO was to pay 500,000 RMB to the plaintiff as fixed damages. The Guangzhou Intermediate People's Court endorsed the agreement.

In July 2012, SEB SA found that GOLDLABO was producing and exporting the infringing fryers again, and sued GOLDLABO before the Zhongshan Municipal Intermediate People's Court, requesting the Court to award a monetary compensation in accordance with the above said agreement.

On December 27, 2013, the Zhongshan City Intermediate People's Court made a judgment ordering GOLDLABO to stop the infringement immediately, destroy the infringing products in stock, and pay a compensation of 500,000 RMB to SEB SA for

the economic loss, according to the mediation agreement signed in 2011.

Comments

In patent infringement cases, since it is difficult to determine the losses of the patentee or the profits made by the infringers, the court often awards an amount within the limit of the statutory damages provided by the Law. The amount of monetary compensation for IP infringement disputes is generally low and the infringer is prone to repeat the infringement, since the risk is worth taking, considering the profits to be made. If the defendant refuses to sign such an agreement, it indicates that he is likely to repeat the infringement and needs to be closely watched; if the defendant agrees the agreed amount can be higher than the actual losses of the patentee, and such an agreement will be a strong deterrent. So far as such practice does not run against the Patent Law, Torts Liabilities Law and Contract Law, the court should recognize this kind of agreement as legally binding and enforceable.

It is worth noting that on December 7, 2013, the Supreme Court analyzed the legal nature of such prior agreement for monetary compensation in its court decision of No. (2013) Min Ti Zi 115 re-trial, and ordered the infringer to pay full monetary compensation of 500,000RMB according to the agreement on the monetary compensation of repeat Infringement signed on the occasion of a previous lawsuit.



Zhang Shuhua

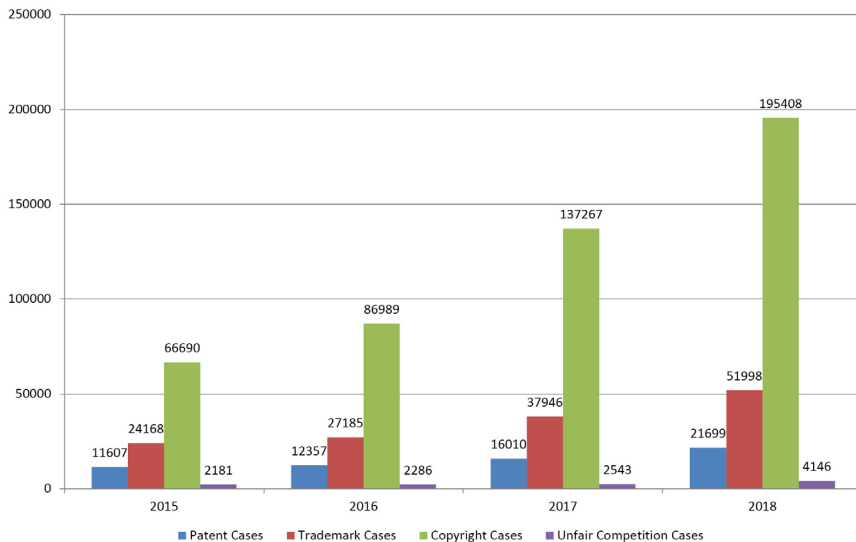
Mr. Zhang Shuhua (Mark) is a Partner of Wanhuida. He has worked as an IP lawyer since 1998. He has rich experiences in litigating and enforcing various kinds of IP rights in China, particularly for patents and trademarks. He also advises clients on building up and maintaining IPR portfolios and developing IPR protection strategies. Over the years, Mark has worked on hundreds of matters before courts and administrative agencies, winning many landmark cases and advancing clients' interests. Mark has also published dozens of articles cov-

ering a broad spectrum of issues from evidence rules, calculation of damages, conflict of IP rights, construction of patent claims to domain name arbitration. Mark holds an LL.M. degree from Stanford Law School and an LL.B degree from Peking University. He is a member of the China Bar and New York State Bar Association.

CHAPTER 4

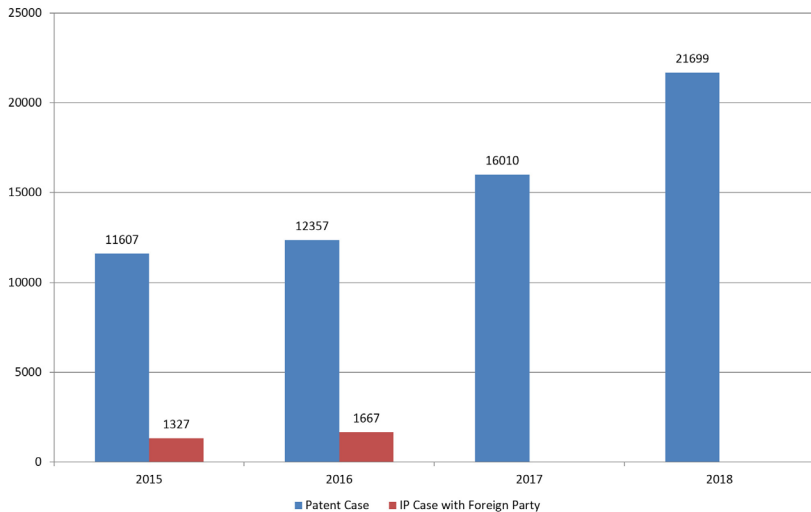
Statistics

Amount of all IP Infringement Cases Received by Courts (2015-2018)



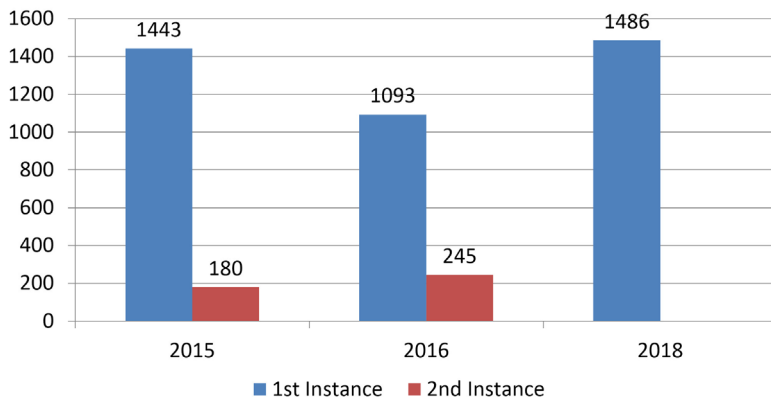
Note: all the statistics come from official reports.

Patent Infringement Cases (first instance court 2015-2018)



The number of IP cases with foreign party is not only include patent case but also other type of IP cases. The related statistics for 2017 and 2018 are not disclosed by official report.

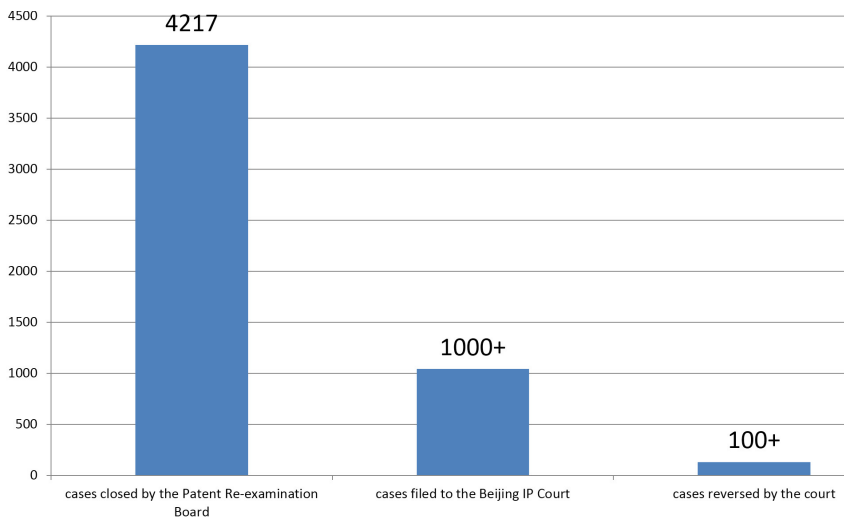
Patent Administrative Cases Received by Beijing Courts



The number of patent administrative cases received by Beijing Courts in 2017 is not found.

The statistics of the second instance cases in 2017 and 2018 are not found.

Patent Invalidation Cases in 2018



All IP Administrative Cases – reversal rate of 2nd instance judicial review

