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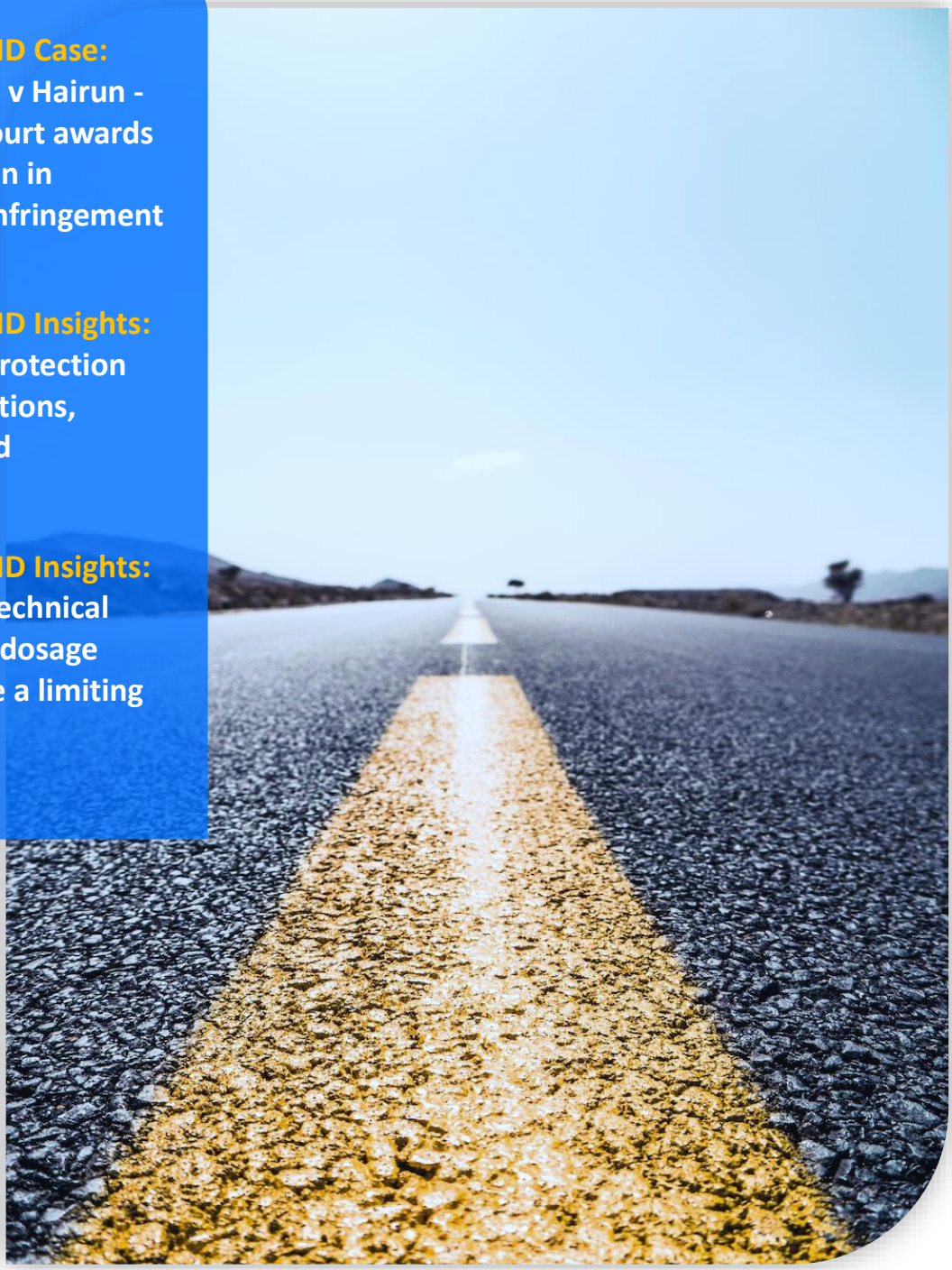
- **n° 45 WHD Case:** TM | Huaihai v Hairun - Chongqing court awards Rmb30 million in damages in infringement suit
- **n° 42 WHD Insights:** PT | Patent protection defences: Options, strategies and procedures
- **n° 43 WHD Insights:** PT | CNIPA: technical features of a dosage regimen have a limiting effect



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n° 45 WHD Case: TM | Huaihai v Hairun - Chongqing court awards Rmb30 million in damages in infringement suit

Paul Ranjard and Nan Jiang, 20 April 2023, first published by *WTR*

Background

Huaihai Holding Group ('Huaihai') is a leading Chinese manufacturer of tricycles, motorcycles, scooters and e-bikes, created in 1976. The main trademarks of the group are 淮海 (HUAIHAI) and 淮海 HUAIHAI, which were registered on 20 May 1988 in Class 12 (tricycles and motorcycles). The trademark for tricycles was recognised as well known nationwide in 2011.

On 13 November 2013 Huaihai, citing its 淮海 mark registered in Class 12, filed a request for the invalidation of the trademark depicted below (HUAIHAI), which was registered on 14 November 2008 in Class 4 (lubricant products) by Huaian Hairun Petrochemical Ltd ('Hairun'):

Huaihai claimed that the use of its well-known trademark on lubricant products, which are closely related to tricycles, was likely to create confusion between the two companies.

The case went all the way to the Supreme People's Court (SPC), and Hairun's trademark was finally invalidated on 31 December 2020. The SPC found that:

- the products designated by the two trademarks (tricycles and lubricants) were somehow associated;
- the cited prior mark had a high reputation; and
- Hairun obviously attempted to free ride on the reputation of Huaihai.

During the length of the proceedings (a period of 13 years), Hairun used its infringing mark and its infringing products were extensively distributed in dozens of provinces and municipalities in China. Hairun did not even cease using the infringing mark after the mark was declared invalid by the SPC.

In January 2022 Huaihai initiated a trademark infringement and unfair competition suit against Hairun, its affiliated company Jiangsu Haina Petroleum Products Ltd, as well as two local dealers, before the Chongqing No 1 Intermediate Court. The plaintiff sought the immediate cessation of the infringement and compensation of Rmb30 million to cover its losses and costs. The plaintiff adduced evidence to prove that the defendants had profited in an amount exceeding Rmb245 million from the infringing activity during the period between 2008 and 2018 and, considering the defendants'

bad faith, claimed that punitive damages (amounting to twice the economic losses) should apply. However, the plaintiff opted to assert damages of Rmb30 million in this case.

Chongqing court decision

On 24 October 2022 the Chongqing No 1 Intermediate Court ruled in favour of the plaintiff, awarding the full amount claimed based on the following reasoning:

- The court concurred with the SPC regarding the close association between the goods designated by the two trademarks and the likelihood of confusion.
- The court rejected the defendants' argument that, by waiting for many years, the plaintiff had been negligent in exercising its rights. The court specified that the complaint had been filed within the statute of limitations, since the term should be calculated from the date of the SPC decision invalidating the trademark.
- The court was satisfied that, based on the evidence, the defendants' profits during the period between 2008 and 2018 exceeded Rmb245 million.
- The final issue was whether, during the period preceding the invalidation of the litigious trademark - a period during which the trademark was thus valid - the business activity that had retroactively become infringing could be sanctioned by an award of damages in favour of the plaintiff. The defendants argued that, since the trademark was valid during this period, they had a "right to use" the trademark and should not be held liable for compensation since the activity was legal. The court analysed Article 47 of the 2019 Trademark Law, which provides that, when a trademark is declared invalid, it shall retroactively be deemed to be non-existent ab initio. However, such retroactivity does not apply to judgments or rulings rendered in favour of the trademark owner, or to contracts signed by the trademark owner, among others, made and executed prior to the invalidation decision. In this case, the court found that the non-retroactivity exception provided by Article 47 did not apply since the owner of the invalidated trademark was the infringer itself. Further, the court noted that the amount of profit yielded by the infringer was much higher than the amount claimed and, therefore, awarded the full Rmb30 million requested by Huaihai.

Comment

The main issue in this case was whether damages should be paid by the owner of the infringing trademark in relation to the period preceding the invalidation of the mark (ie, the period during which the mark was registered). The courts, in several decisions, have refused to award such damages unless the bad faith of the infringer was established; the draft amendment of the Trademark Law agrees with these decisions, as it adds the condition of bad faith in favour of the "retroactive" infringer. The present case clearly reiterates that the invalidation of a trademark is retroactive, and that the exception provided by Article 47 does not apply in favour of the infringer. The court also took into account the obvious bad faith of the infringer.

Wanhuida represented Huaihai in the trademark infringement and unfair competition proceedings.

n° 42 WHD Insights: PT | Patent protection defences: Options, strategies and procedures

Feng Zheng and Xiaoyang Yang, 3 April 2023, first published by *MIP*

Chinese law provides for several defences to a patent infringement accusation, including the non-infringement defence, prior art defence and invalidity defence. In case the defendant is a distributor rather than a manufacturer of the accused product, the legitimate source defence may also apply. These defences are directed at establishing the legitimacy and/or nonliability of the accused from different angles and can be used either alone or in combination with one another.

Non-infringement defence

Under Chinese law, infringement of a patent includes both literal infringement and equivalent infringement. A non-infringement defence is thus raised to show that neither literal nor equivalent infringement is present. The non-infringement defence is available to various entities in the supply chain, ranging from suppliers, manufacturers, distributors to end users.

Whether a non-infringement defence is successful largely depends on how patent claims are construed. In other words, how do technical features of the accused product correspond to those of the allegedly infringed patent? In interpreting a patent claim, Chinese courts usually start with scrutinising internal evidence, and then move on to external evidence provided internal evidence is insufficient. Internal evidence in this context refers to the description, drawings and prosecution dossier of a patent, and external evidence mainly concerns evidence not directly related to the patent. This includes textbooks, reference books or other common knowledge evidence proving how a person of ordinary skill in the art (POSITA) would interpret the patent claims.

In the case of literal infringement, the patentee is obliged to establish that every element recited in a claim has identical correspondence in the accused product. Equivalent infringement hinges on the finding of equivalency. Equivalency under Chinese law means the accused product includes a technical feature which, though different from a feature of the patent at issue, performs substantially the same function. It must be performed in substantially the same way, to achieve substantially the same technical effect, and such a technical feature can be easily conceived of by a POSITA without any creative work.

File wrapper estoppel frequently operates to limit claim construction. Under China's dual track system, patent infringement and patent validity proceedings are determined by the judiciary and the CNIPA respectively (though the CNIPA invalidity decision is also appealable before the court), yet the two proceedings are often closely intertwined. Courts would examine how the patent claims are being interpreted by the patentee not only during the prosecution stage but also during a patent invalidity proceeding. Chinese law mandates that a patentee be estopped

from reclaiming what he has given up in exchange for the grant of the patent during prosecution or from maintaining the patent's validity in a patent invalidity proceeding.

Prior art defence

The prior art defence is set forth in Article 67 of the Chinese Patent Law, which states as follows:

"In a patent infringement dispute, where the alleged infringer has evidence to prove that the technology or design exploited by it or him forms part of prior art or its prior design, such exploitation does not constitute infringement of patent right."

The prior art defence does not concern the examination of the inventiveness of the patent at issue over the cited art; instead, it asks whether the technical solution of the accused product falls within the scope of the cited art.

The test for prior art defence centers on whether a cited art discloses all technical features identical with or equivalent to the technical features of the accused product. Prior art defence does not compare the patent at issue to the cited art, and hence does not address the matter of patent validity. Under China's dual track system, the success in raising the prior art defence in infringement proceedings does not necessarily mean the patent at issue will be invalidated in a patent invalidity proceeding.

In general, the cited art should disclose all the technical features of the accused product for the purpose of establishing prior art defence, and combining the cited art with another prior art document is not allowed. However, combining the cited art with common knowledge in the art may be acceptable (Peng Jie v. Yang Ning Shi, Supreme People's Court, 2022).

Prior art that may serve as the basis for a prior art defence is not limited to published articles or patent documents. A product that is made available to the market prior to the filing date of the patent at issue could also be eligible. Multinational corporations should take heed as they have increasingly become the targets of malicious patent enforcement actions in China.

Multinational corporations, which often manage patent portfolios from a global perspective, may choose in certain scenarios not to file some patents in China. An opportunist, seeing a chance for a windfall, files a patent application for products that have already been available in the market and are yet protected by any patents in China. If with any luck, the patent is granted by the CNIPA, the opportunist will not hesitate to assert the granted patent against the true inventor.

To rebut the infringement accusation, the true inventor (accused infringer) is obliged to meet the high evidentiary bar set by Chinese law, proving that the accused product had been available to the public prior to the filing date of the asserted patent, which could be onerous. This is because the accused infringer must prove the selling of the accused product predates the filing date of the patent. In case the products were sold years ago, the accused needs to prove that the earlier model is identical to the

existing accused product. To avoid such risks, multinationals should keep proof of the technical solutions disclosed by the products of strategic importance, either by filing patents in China or by publishing detailed technical solutions in a way which allows easy evidence collection in the future.

Although a conflicting application is not deemed as prior art under Chinese practice, the conflicting application defence is also recognised under Chinese law and has been treated by courts in a way analogous to the prior art defence. A conflicting application is a patent application filed before the filing date of a patent at issue but published thereafter. Nevertheless, it would be more difficult to establish a conflicting application defence under Chinese law, as the cited conflicting application must alone disclose all technical features of the accused product. It cannot be used in combination with a prior art document or common knowledge in the art.

Invalidity defence

Invalidity defence in this context refers to the patent invalidity proceeding the accused infringer files to attack the validity of the patent at issue. It is one of the most frequently used defences to counter a patent infringement accusation under Chinese law, available to all entities in the supply chain.

An invalidity proceeding provides many advantages strategy-wise. Firstly, an invalidity proceeding attacks the very foundation on which the infringement accusation is based, i.e., the validity of the asserted patent. Under Chinese law, an invalidated patent is deemed to be non-existent from conception, thereby rendering the invalidation accusation moot.

Secondly, even if the patent cannot be invalidated in its entirety, claim amendments or explanatory remarks made by the patentee during invalidity proceedings to maintain patent validity could be used against them should file wrapper estoppel be breached.

Thirdly, once an invalidity proceeding is initiated, upon the request of the accused infringer, the court hearing the infringement dispute may stay the trial pending the invalidation proceeding. Hence, the filing of the invalidation request can buy the accused infringer more time to formulate their litigation strategy and arguments for the infringement dispute.

Last but not least, an invalidity proceeding moves much faster than an infringement action, with the former taking approximately six to eight months and the latter at least one year. As such, the result of the invalidity proceeding may help the accused infringer to assess their chance of winning the civil case and adjust their litigation strategy accordingly.

Procedure-wise, the request to invalidate the patent at issue is to be filed with the CNIPA. The CNIPA's Patent Re-examination and Invalidation Department will have a panel of senior examiners to determine the validity of the patent, independent of any parallel infringement action before the court. Several invalidation grounds are accepted by the CNIPA, including unpatentable subject matter, clarity, support, sufficiency, lack of an essential technical feature, lack of novelty, obviousness and

lack of practical applicability, with novelty and obviousness being the most common. Though possible in theory, it is relatively rare for a patent to be invalidated solely on formality grounds. More often, formality grounds such as clarity and support are strategically used in combination with novelty and obviousness attacks to force the patentee to limit the claims or make explanatory remarks which may later backfire in the infringement proceeding.

Legitimate source defence

A legitimate source defence is applicable to a distributor who had no knowledge that the accused product infringes the patent at issue. Article 77 of Chinese Patent Law reads:

"Any person who, for production and business purposes, uses, sells or offers to sell a patent infringing product, without knowing that it was made and sold without the authorisation of the patentee, shall not be liable to compensate for the damage of the patentee if he can prove that he obtains the product from a legitimate source."

As such, a legitimate source defence acknowledges the infringing nature of the conduct of the accused infringer but exempts it from the liability to pay damages. However, the accused infringer may still be liable for indemnifying a patentee for the reasonable expenses the latter has incurred for stopping infringement. A legitimate source defence is not available to manufacturers who are the source of the accused products. Manufacturers in this context include those who commission the production of the accused product for sale to a third party.

Chinese law adopts a bifurcated test for legitimate source defence, which asks:

- Whether the accused infringer acted in good faith; and
- Whether the accused product has been lawfully obtained.

The accused infringer bears the burden of proof to establish the lawful obtaining of the accused product, from which the good faith can generally be assumed. To that end, the accused infringer should produce evidence showing the obtaining of the accused product complied with the common business practices in the field. Typically, this means showing the accused product has been purchased from an identifiable source at a reasonable price in the normal course of conducting business. Acceptable evidence includes a purchase contract between the accused infringer and the vendor, a corporation registration of the vendor, a payment record, a tax receipt, and others.

It should be noted that a cease-and-desist letter previously sent to the accused infringer may serve as prima facie evidence attesting that the accused infringer has acted in bad faith. This is assuming the letter provides sufficient information, based on which the accused infringer should have known the sale of the accused product would be infringing. Such information usually includes information on the accused product, the patent number, title and patent certificate of the patent the accused product is believed to infringe, a comparison between the accused product and the patent and the contact information of the patentee, to name a few.

Under Chinese law, an accused infringer may resort to several defences in response

to a patent infringement accusation. It would be advisable to consult local counsel as to what options are available and how such options can be utilised in the most effective way.

n° 43 WHD Insights: PT | CNIPA: technical features of a dosage regimen have a limiting effect

Jianhui Li, 11 April 2023, first published by *MIP*

In the pharmaceutical field, there are inventions that address newly discovered dosage regimens for known drugs, such as new dosage or administration intervals, rather than new indications.

As to the technical features embodied in claims based on a dosage regimen – such as administration object, method, route, dose, and time interval – the EPO adopts a different approach from the CNIPA.

The EPO explicitly recognises the patentability of use claims that are limited to a dosage regimen, whereas the CNIPA is of the opinion that the distinguishing features of an administration process cannot be used to establish novelty in a use claim. Consequently, it is difficult to patent inventions involving a new dosage regimen in China.

A critical case

In invalidation decision No. 54827, the CNIPA set forth the reasoning and criteria in assessing novelty regarding product claims incorporating the technical features of a dosage regimen in the field of medicine.

Zoetis Services LLC owns an invention patent, No. ZL200780048424.3, which relates to a vaccine for treating canine diseases. Claim 1 of the patent presents a distinguishing technical feature from exhibit 1, which is described as "the vaccine is formulated and administered subcutaneously in a first dose, orally in a second and third dose." This feature, if interpreted literally, appears to be a description of the drug administration process, which would be categorised as a simple feature of drug use, thus does not have any impact on the drug structure or composition, nor does it limit the scope of the claims.

On November 10 2021, a petitioner launched an invalidity attack against the patent at issue, arguing that adjusting the vaccine dosage form, excipients, and other composition in so far as it adapts to different routes of administration is a conventional technical means in this field, which is common knowledge among technical personnel and is devoid of novelty.

The argument was rejected by the CNIPA, which ascertained the novelty of claim 1 based on the following reasoning: the patented product is a combination of subcutaneous injection formulation and oral formulation, whereas exhibit 1 fails to explicitly disclose the combination product of subcutaneous injection and oral formulations of the vaccine comprising canine distemper virus, canine adenovirus type-2, canine parainfluenza virus and the attenuated strains of canine parvovirus as presented in claim 1. The CNIPA therefore concluded that claim 1 incorporates a distinguishing technical feature and has novelty.

Exploring the CNIPA's rationale

It is common knowledge in the art that injection and oral dosage forms usually contain different excipients. In the present patent embodiment, the combination of injection and oral dosage forms does indeed produce a good immunological effect, and the substantial contribution of the invention is the combination of the injection and oral dosage forms. Moreover, the petitioner had not raised any objection to the patentee's interpretation of the scope of protection.

Taking into account various parameters – including the literal interpretation of claim 1, the material contribution of the invention, and the consensus of the parties over the scope of protection of the patent at issue – the CNIPA affirmed that claim 1, in its essence, protects a combination product.

The CNIPA specifically underlined the language in which claim 1 is phrased, "the vaccine is formulated…", to be exact. The collegial panel opined that the language attests that claim 1 is not a mere feature of the drug administration method but a feature that would indirectly affect the product's preparation, suggesting that the product is a combination of two dosage forms, namely the injection formulation and the oral formulation, and their respective excipients thereof.

As a result, the CNIPA, in assessing novelty and inventiveness of the patent, focused on ascertaining whether the corresponding combination product was disclosed in the prior art, rather than solely on whether the drug administration method was disclosed.

In China, dosage regimen is generally viewed as a feature of drug administration, which, in principle, does not have a limiting effect on the product. The patent at issue pertains to the improvement of a dosage regimen.

The reason why the CNIPA finds a technical feature of a dosage regimen has a limiting effect could be boiled down to the language employed in drafting the claims. As a matter of fact, the interpretation of the drafting language "the vaccine is formulated…" remains controversial in practice, as it is neither unequivocally correspondent to the administration process, nor entirely unrelated to the pharmaceutical preparation process.

Based on the consensus of both parties over the scope of protection, the CNIPA employed a tactful approach, finding that the subject matter to be protected by the claims is essentially a combination product that involves different administration routes, which may have implicit limitations on the form of drug formulation.

A pivotal determination

In the field of medicine, whether the technical features of a dosage regimen could limit the patented product and distinguish it from the prior art is often at the centre of the debate. Therefore, it is pivotal to determine whether a technical feature embodied in the form of a dosage regimen is a simple feature of drug administration that directly affects the determination of the scope of protection of such claims, as the assessment of novelty and inventive step may hinge on the finding.