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**What Multinational Companies Need to Know About Patent  
Invalidation and Patent Litigation in China**

*J. Benjamin Bai, Peter J. Wang, and Helen Cheng*



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# What Multinational Companies Need to Know About Patent Invalidation and Patent Litigation in China

By J. Benjamin Bai,\* Peter J. Wang,\*\* and Helen Cheng\*\*\*

## I. INTRODUCTION

¶1 In 2005, China saw 476,264 patent applications filed at the State Intellectual Property Office (SIPO). The SIPO granted 214,003 patents in 2004, an increase of 12.5% over the course of a year. Of these, 171,619 patent applicants were Chinese and 43,384 were foreign. In China, as elsewhere, more granted patents inevitably lead to more litigation. In 2005, holders of Chinese patents filed 2,947 new patent suits,<sup>1</sup> an increase of about 15.6% from 2004. While foreign parties have brought fewer than 5% of these cases so far, they have increasingly become involved in the litigation, both as defendants and plaintiffs.

¶2 In addition to court actions, multinational companies are beginning to find themselves respondents in patent invalidation proceedings before SIPO. Viagra, an erectile dysfunction drug made by Pfizer, generated about \$1.7 billion in worldwide sales in 2003. Viagra's active ingredient is a substance called sildenafil citrate. The use of sildenafil in treating erectile dysfunction is patented by Pfizer around the world. The Chinese patent on Viagra was granted by SIPO on September 19, 2001. Immediately after the grant, a dozen Chinese pharmaceutical companies and individuals filed petitions to invalidate the Chinese Viagra patent. Some argued that the patent failed to provide a detailed description under Article 26 of the Chinese Patent Law. Others claim that the patent lacked novelty under Article 22 of the Chinese Patent Law. On July 4, 2004, SIPO issued a decision to revoke the patent for insufficient disclosure. Dissatisfied with the decision, Pfizer appealed the revocation decision to the Beijing First Intermediate People's Court. On June 2, 2006, the Intermediate Court rendered a decision reversing the revocation and remanded the case to SIPO for further determinations. It was reported that several of the Chinese companies recently have appealed the intermediate court's ruling to the Beijing Higher People's Court. Therefore, the Viagra patent battle continues in China.

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<sup>1</sup> This is more than the 2,812 new patent infringement suits filed in the U.S. in 2005. Thus, China has become the most litigious country in the world for intellectual property disputes.

¶3 Apparently, Pfizer is not the only multinational company whose patents are under attack. GlaxoSmithKline (Glaxo), Europe's largest drug maker, faced a similar legal challenge to its Chinese patents on the popular antidiabetic drug, Avandia. The Avandia drug entered the Chinese market in the second half of 2000, with sales doubling consistently over the following years. The Chinese diabetic drug market is estimated to be more than \$7 billion per year. A group of Chinese drug makers filed petitions to revoke Glaxo's patent on rosiglitazone, one of three patented ingredients in Avandia. An oral hearing for the invalidity proceeding before SIPO was set for August 18, 2004. However, at the beginning of the oral hearing, Glaxo voluntarily abandoned its patent on rosiglitazone. It is reported that a group of Chinese drug companies currently are challenging Glaxo's second patent on Avandia in an invalidation proceeding before the Chinese Patent Reexamination Board.

¶4 While all of these challenges involved pharmaceutical patents, non-pharmaceutical patents owned by multinational companies in China are equally susceptible to attack. Perhaps, the above events are merely the tip of the iceberg in regard to patent challenges in China. It is foreseeable that in the near future both patent invalidation and patent litigation will become an important part of the business strategies for multinational companies operating in China. Therefore, it is essential for multinational companies to understand how to effectively handle such proceedings. This article explains the conduct of Chinese patent invalidation proceedings and provides an overview on patent litigation in Chinese courts.<sup>2</sup>

## II. PATENT INVALIDATION BEFORE SIPO

### A. *Chinese Patent Reexamination Board*

¶5 The Chinese Patent Reexamination Board (PRB) has sole jurisdiction over patent validity issues, regardless of whether there is a parallel patent infringement proceeding.<sup>3</sup> Invalidation cases typically are decided by a collegiate panel of three to five members, including one panel chair, one chief examiner, and one or three associate examiners. Most cases are handled by a panel of three, whereas a single member panel decides simple cases. When a case has domestic or international significance, raises a complex legal question, or involves potentially large economic loss, a five-member panel will examine and decide the case. The PRB is required to adhere to the laws and to base its decision on the facts in the records. The principles adopted by the PRB in invalidation proceedings are prescribed in the Chinese Guidelines for Patent Examination. Several important principles are set forth as follows:

¶6 ***Non Bis in Idem.*** The same patent cannot be subject to multiple attacks on the same grounds and evidence. However, a second petition based on new grounds or evidence not previously considered can be accepted by the PRB.

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<sup>2</sup> It should be noted that there are administrative remedies for patent infringement in China. Administrative enforcement of patents in China can be an effective substitute for, or an adjunct to, patent litigation in Chinese courts.

<sup>3</sup> Like the Germany patent system, Chinese courts do not adjudicate the validity of the patent-in-suit. A defendant in a patent infringement suit must raise any validity challenges in a separate invalidity proceeding before the PRB. However, the existence or threat of an infringement suit is not a prerequisite for filing a patent invalidity petition.

¶7 **Ex Officio Investigations.** The PRB may conduct *ex officio* investigation of the case that it examines. Where necessary, the panel may use evidence of general knowledge, such as technical dictionaries, technical manuals, textbooks, etc., which is in the public domain in the relevant technical field.

¶8 **Consolidation of Examination.** If more than one petition for invalidation of a patent has been filed, the proceedings should be consolidated and handled together to the extent possible.

¶9 **Opportunity to Be Heard.** Before an adverse decision is rendered against an interested party in an invalidation proceeding,<sup>4</sup> such party will be given an appropriate opportunity to present its arguments and comments on the facts and evidence of the case upon which the PRB bases its decision.

¶10 **Public Hearing.** Except in a confidential case as required by law or regulation, all other oral hearings are held publicly, and the decision of the PRB is published and circulated publicly. However, voting by collegiate panel members is not open to the public.

¶11 **Confidentiality.** Before the decision of the PRB is made, no member of the panel can express or suggest its opinions to any party without permission. *Ex parte* communications or meetings with members of the panel are prohibited.

¶12 A collegiate panel is involved in all procedural and substantive aspects of an invalidation proceeding. Panel members review evidence submitted by interested parties, determine its credibility, and verify facts of the case. The members also conduct oral hearings, if requested. After oral hearings, the panel reaches its decision by majority vote.

### B. Grounds for Invalidation

¶13 Under Article 45 of Chinese patent law, any entity or individual who considers the grant of a patent to be contrary to relevant provisions of the law may request the PRB to declare the patent invalid. There is no deadline for filing such a petition as long as it is filed after the patent is granted. The patentee can also file a petition to have its patent declared partially invalid in light of certain published prior art. Grounds for filing a petition for invalidation of a patent are set forth in Rule 64.2 of the Implementation Regulations of the Chinese Patent Law (Implementation Regulations) as follows:

¶14 **Unprotectable Subject Matter.** The subject matter of a patent is not in conformity with the definition for invention, utility model, or design patent as prescribed by the Chinese Patent Law. *Rule 2 of Implementation Regulations.* The subject matter of a patent is contrary to the laws, social morality, or is detrimental to public interest. *Article 5 of Chinese Patent Law.* The subject matter of a patent is excluded under the Chinese patent law. Namely, scientific discoveries, rules and methods for mental activities, methods for diagnosis or treatment of diseases, animal and plant varieties, and substances obtained by means of nuclear transformation are not patentable subject matter. *Article 25 of Chinese Patent Law.*

¶15 **Double Patenting.** Patent rights have been previously granted to an identical patent. *Article 9 of Chinese Patent Law and Rule 13.1 of Implementation Regulations.*

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<sup>4</sup> An interested party is a legal term used in China to refer to a litigant in a proceeding. In an invalidation proceeding, the petitioner(s) and respondent (i.e., the patentee) are the interested parties.

¶16 **Unpatentability.** An invention or a utility model patent does not possess novelty, inventiveness, or practical applicability. *Article 22 of Chinese Patent Law.* A design patent is identical or similar to another design that, before the date of filing, has been publicly disclosed in publication in China or abroad, or has been publicly used in China, or is in conflict with any prior right of any other person. *Article 23 of Chinese Patent Law.*

¶17 **Insufficient Disclosure.** The description of an invention or utility model patent does not disclose the invention or the utility model in a manner sufficiently clear and complete so that a person skilled in the relevant field cannot carry it out. *Article 26.3 of Chinese Patent Law.*

¶18 **Lack of Support.** The claims of an invention or a utility model patent are not supported by the specification. *Article 26.4 of Chinese Patent Law.*

¶19 **Indefiniteness.** The claims do not clearly and concisely define the subject matter for which protection is sought in terms of technical features for an invention or a utility model patent. *Rule 20.1 of Implementation Regulations.*

¶20 **Lack of Essential Technical Feature.** The independent claim does not recite the essential technical features necessary to solve the technical problems addressed by an invention or utility model patent. *Rule 21.2 of Implementation Regulations.*

¶21 **Amendment Going Beyond Original Scope of Disclosure.** The amendment to the application for an invention or utility model patent goes beyond the scope of the disclosure in the original description and claims, and the amendment to the application for a design patent goes beyond the scope of the disclosure as shown in the original drawings or photographs. *Article 33 of Chinese Patent Law.*

¶22 A petition for invalidation that is not based on one of the above grounds will be rejected by the PRB. While it is possible to file an invalidation petition based upon any one of the grounds, it is a fairly common practice to file a petition on the basis that the patent at issue fails to comply with Articles 22, 23, 26, and/or 33 of the Chinese patent law (i.e., lack of patentability, insufficient disclosure, and/or amendment going beyond the original scope of disclosure). The likelihood of a petition being accepted by the PRB based on such grounds is substantially higher than that based on other grounds.

¶23 According to the Chinese Guidelines for Patent Examination, the PRB may, *sua sponte*, consider invalidity grounds not raised by the petitioner if failure to consider them would prevent meaningful adjudication of the issues. In practice, the PRB rarely takes such a proactive role in an invalidation proceeding.

### C. Overview of Proceeding

¶24 After an invalidation petition is filed, the petitioner has one month from the filing date of the petition to file a supplemental petition to include new grounds of invalidity or new evidence. After the PRB receives the petition, it conducts a formality examination. If there is a formality defect, the PRB will send out notice and ask the petitioner to correct such defect in a prescribed time limit. If the petitioner fails to respond within the time limit or does not correct the defect after two responses filed within the time limit, the petition is considered withdrawn.

¶25 After the formality requirements are met, the PRB will forward a copy of the petition to the patentee and invite the patentee to respond within one month. After the expiration of the one-month period, the PRB conducts a collegiate examination to

determine if an invalidation proceeding should be declared. Such determination is based on the petition, as well as the response filed by the patentee, if any. If the invalidation proceeding is declared, the petitioner generally has an opportunity to file written comments on the patentee's response. After all necessary documents are received by the PRB, it will set a date for an oral hearing.

¶26 The following are some of the important deadlines applicable in invalidation proceedings:

- (1) The official fee for filing a petition for invalidation must be paid within one month from the date of filing the petition. If the official fee is not paid within the time limit, the petition is deemed withdrawn.
- (2) A new ground for invalidation and new evidence therefore must be submitted to the PRB within one month from the date of filing the petition. Otherwise, it will not be considered by the PRB.
- (3) New evidence to support specific facts alleged but not previously supported must be submitted to the PRB within one month from the date of filing the petition. Otherwise, it will not be considered by the PRB.

¶27 Generally, it takes about six months to two years from filing a petition to obtaining a decision from the PRB, depending upon the workload in the relevant art units within SIPO.

#### *D. Claim Amendments*

¶28 During invalidation proceedings, the patentee of an invention or utility model patent (i.e., the respondent) cannot amend the specification of the patent but has an opportunity to make voluntary amendments to the claims, subject to the following limitations:

- (1) the subject matter of the original claims may not be changed;
- (2) broadening amendments are not permitted;
- (3) amendments cannot go beyond the original scope of disclosure; and
- (4) disclosed but unclaimed technical features generally cannot be added to a claim.

¶29 Therefore, permissible amendments in invalidation proceedings for an invention or utility model patent are limited to: (a) canceling one or more claims; (b) combining one or more claims; and (c) deletion of one or more members in a Markush group. If an independent claim is not amended, its dependent claims are not allowed to be combined. Moreover, amendment by combining claims is permissible only when such combination renders the scope of the new claims narrower. In other words, if a combination of two or more claims does not render the scope of the combined claims narrower, such amendments are not allowed.

¶30 Amendments in the above three forms can be made in a written response filed by the respondent in a prescribed response period (usually one month). After such period, the respondent can only make amendments by cancellation of claims and deletion of Markush members.

¶31 Before a decision is rendered, the respondent can cancel one or more claims or delete one or more members of a Markush group to preserve the validity of the patent in suit. In that case, the collegiate panel will give the petitioner an opportunity to provide additional comments and evidence with respect to the amended claims.

¶32 In contrast to an invention or utility model patent, the patentee of a design patent is not permitted to make any amendments to the patent.

### *E. Evidentiary Issues*

¶33 An invalidation proceeding is initiated by filing an invalidation petition. The petition should include a detailed explanation of the invalidity grounds. Each ground should be supported by evidence submitted with the petition. Additional evidence may be submitted in a supplemental petition within one month of filing the original petition. Evidence submitted after the one-month period will not be considered in the invalidation proceeding.<sup>5</sup> A collegiate panel may require an interested party to submit evidence, within a prescribed time limit, to support facts alleged in previous written submissions.

¶34 Permissible evidence includes documentary evidence, physical evidence, audiovisual evidence, oral testimony of a witness, statements of interested parties, conclusion of experts, and records of on-site investigations and examinations, etc. In practice, the PRB relies almost exclusively on documentary evidence in deciding invalidation cases. Oral evidence is rarely relied upon. Moreover, evidence obtained illegally is not admissible.

¶35 All evidence must be verified and authenticated by the collegiate panel before it can be relied upon in the validity determination. The panel determines the authenticity and reliability of evidence based on its source and content. The panel may reject evidence if the source or content raises a question of its authenticity or reliability. The panel may determine the veracity of facts and authenticity of evidence by conducting its own investigation or entrusting it to a local intellectual property bureau.

¶36 Generally, there are two kinds of evidence: direct evidence and circumstantial evidence. Direct evidence refers what may be used to prove the existence of a fact directly and independently. Circumstantial evidence refers to that which may not be used to prove the existence of a fact directly and independently. Instead, it may be used to prove the existence of a fact only when combined with other evidence. If circumstantial evidence is used, it must comply with the following rules:

- (1) circumstantial evidence must be authentic and reliable;
- (2) circumstantial evidence must not contradict other pieces of circumstantial evidence;
- (3) circumstantial evidence must be complete; and
- (4) circumstantial evidence must logically and unambiguously lead to one and only one conclusion.

¶37 Evidence in a foreign language may be used in invalidation proceedings. A Chinese translation should be filed, but is no longer required to be filed when the foreign

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<sup>5</sup> However, there is no rule barring the petitioner from filing another invalidation petition based on the new evidence in a subsequent invalidation proceeding.



language evidence is submitted. If the translation is not filed with the evidence, the PRB will notify the party and require that the translation be filed within a prescribed time limit. If the party fails to file the translation within such time limit, the foreign language evidence is disregarded.

¶38 If there is a dispute between the interested parties as to the content of foreign language evidence, each party is allowed to submit its own translation of the relevant portion or the entire document. If necessary, a neutral third-party translation agent may be engaged by the parties or the panel to provide the Chinese translation, either in whole or in part. Such translation agent can be chosen by mutual agreement of the interested parties or by the panel if the interested parties cannot agree.

¶39 An interested party must make a prima facie showing of the claims asserted in an invalidation proceeding. Therefore, the interested party has the initial burden to provide adequate evidence to support the claims. Failure to meet the burden of proof results in dismissal of the claims. If a fact is in dispute, the party alleging the fact has the initial burden of proving the existence of the fact. Once the party provides adequate verifiable evidence to prove that the fact is likely to be ascertained, the burden shifts to the other interested party to come forward with evidence to prove the contrary. If the other interested party is unable to do so, the fact alleged by the first party is considered verified and is admitted into evidence. If the other interested party comes forward with evidence to rebut the fact, the burden of proof shifts back to the first party.

#### *F. Oral Hearings*

¶40 An interested party may request an oral hearing by submitting a written request to the PRB. The basis for granting an oral hearing is as follows:

- (1) an interested party needs to confront its adversary and cross-examine the adversary's evidence;
- (2) an interested party needs to explain the facts of the case to the collegiate panel;
- (3) an interested party needs to present demonstrative evidence; and
- (4) there is a need for a witness to testify.

¶41 Generally, a request for an oral hearing that includes at least one of the above grounds is granted by the PRB as a matter of course. The PRB may, *ex officio*, set an oral hearing if it considers it appropriate.

¶42 As discussed above, oral hearings are open to the public, except the collegial panel's deliberations. Oral hearings are presided over by the panel chair. Before an oral hearing commences, the panel chair will ask both parties if they are willing to settle their disputes. If there is a reasonable chance that the parties can settle the disputes immediately, the oral hearing will be temporarily suspended. Otherwise, it goes forward.

¶43 An oral hearing has two parts: evidentiary hearing and substantive hearing. The evidentiary hearing precedes the substantive hearing. Like its name suggests, it primarily deals with evidentiary issues. Typically, the petitioner presents his case first and adduces evidence to support his invalidation grounds. Then the respondent cross-examines the petitioner's evidence and adduces his own evidence and makes arguments. The petitioner can then cross-examine the respondent's evidence, make counter-arguments, and adduce

additional evidence, if necessary. If new evidence is presented for the first time by one interested party, the collegiate panel must determine the admissibility of the new evidence. If admitted, the other interested party is given a choice of either orally responding to the new evidence on the spot or filing a written response at a later time. During the evidentiary hearing, members of the collegiate panel may question the interested parties and witnesses and ask them to explain any evidence or fact at issue.

¶44 After the interested parties reach an agreement on the evidence and facts admissible in the proceeding, the substantive hearing commences during which time each interested party presents its arguments. Members of the collegiate panel may ask questions but may not express their own view in favor of either party. At the end of oral arguments, each interested party is given an opportunity to make a closing statement. In making the closing statement, the interested party may ask the panel to maintain its original request or modify it. Afterwards, the oral hearing goes into recess, and the panel starts deliberation. After a decision is reached, the oral hearing resumes and the panel announces its decision orally. The panel may decide to declare the patent invalid in whole or in part or, alternatively, uphold its entire validity.

### *G. Judicial Review*

¶45 The decision of the PRB is subject to judicial review. Appeal of the PRB decision can be taken directly to the Beijing First Intermediate People's Court, which reviews the decision of the PRB de novo. To avail of judicial review, a dissatisfied party must institute a legal proceeding in the court within three months from the date of receiving the notification of the decision. Further appeal can be taken to the Beijing Higher People's Court if it is filed within 15 days of receiving the written judgment from the Intermediate Court. While it is theoretically possible to petition the Chinese Supreme People's Court thereafter, the Chinese Supreme Court is unlikely to review a patent invalidation decision.

¶46 According to a judicial interpretation issued by the Chinese Supreme Court on May 21, 2002, the intellectual property tribunal within the first Intermediate People's Court of Beijing has jurisdiction over lawsuits against the PRB. The party who brings such a legal proceeding against the PRB is the plaintiff, while the PRB is the defendant. According to Chinese administrative procedure law, the PRB bears the burden of proof for the decision it has made and is therefore required to provide the evidence and documents upon which it made its decision. Moreover, the court will notify the prevailing party before the PRB so that the party can participate in the legal proceeding as a third party.<sup>6</sup>

¶47 The legal proceeding against the PRB is initiated by a bill of complaint. When the court receives the bill of complaint, it will, upon examination, accept the case or reject the complaint within seven days. Rejection of the complaint by the intermediate court is appealable to the higher court. Upon accepting the case, the court will send a copy of the bill of complaint to the PRB within five days of the date of acceptance. The PRB is required to file a bill of defense within 10 days of receiving the bill of complaint. Upon

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<sup>6</sup> A third party to such legal proceedings can submit written responses, attend court hearings, cross-examine evidence, and make oral arguments, etc. The third party can also appeal any adverse decision to the higher court.

receiving the bill of defense from the PRB, the court will then send a copy of the bill of defense to the plaintiff within five days.

¶48 There is no jury in Chinese judicial proceedings. Cases are tried to a collegial panel of judges or a combination of judges and people's jurors.<sup>7</sup> A collegial panel consists of odd-numbered members of three or more. A typical court hearing includes the following events: commencement of the hearing, court presentation of the case,<sup>8</sup> oral arguments, and conclusion of the hearing.

¶49 Generally speaking, the petitioner of the invalidation proceeding may not introduce new evidence in the judicial proceeding. However, the respondent of the invalidation proceeding can introduce new evidence under limited circumstances. Where the respondent's patent is invalidated by the PRB and the respondent later discovers new evidence that, if considered, could result in overturning the invalidation of the patent, such new evidence can be introduced.

¶50 After hearing a case, the court will uphold the decision of the PRB if: (a) the evidence relied upon is conclusive; (b) the application of the law and regulations is correct; and (c) the legal procedures have been correctly followed. On the other hand, the court will reverse the decision of the PRB if it finds: (a) inadequacy of essential evidence; (b) erroneous application of the law or regulations, or (c) violation of the legal procedures. In such cases, the decision of the PRB will be vacated or partially vacated. The court may also remand the case to the PRB for further proceedings. On remand, the PRB is not permitted to render a decision essentially identical to the original one based on the same facts and reasons.

¶51 According to unofficial statistics, the reversal rate of the PRB decision by the intermediate court is relatively low—about less than 20%. Therefore, winning before the PRB is more than half of the battle. However, losing before the PRB is not the end of the world.

### III. PATENT LITIGATION IN CHINESE COURTS

#### A. Procedure

¶52 **The Court System.** China's judicial system consists of four levels of courts: (1) the Basic People's Court; (2) the Intermediate People's Court; (3) the Higher People's Court; and (4) the Supreme People's Court.

¶53 The Supreme People's Court is the highest court in China. Along with handling appeals from Higher People's Courts, it also serves an administrative role, in which it issues judicial interpretations that are legally binding upon lower courts. There is one higher people's court in each province, autonomous region (e.g., Tibet), and certain large cities that have the rank of a province, such as Beijing, Shanghai, and Tianjin. Each major Chinese city has one or two Intermediate People's Courts. Each county or district in each major city has one Basic People's Court. China has a “two instance” judicial

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<sup>7</sup> A people's juror is not a juror as is in the U.S. jury system. A people's juror in China is equivalent to an associate judge.

<sup>8</sup> The court presentation of the case includes at least four components: 1) interested party's statements of the case; 2) witness testimony; 3) introduction of documentary evidence, physical evidence, and audiovisual evidence; and 4) introduction of expert report, if any.

system—the decisions of the court of first instance can be appealed to the court at the higher level, which makes what essentially is a final decision.

¶154 Because of the complexity of patent cases, the Supreme People's Court has designated about 50 courts (mostly Intermediate People's Courts) around the country to be first-instance courts for adjudication of patent infringement claims. If the damages claimed are above RMB ¥100 million (about U.S. \$12 million), Higher People's Courts are the courts of first instance for such cases.

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

¶156 **Limitations Period.** China has a two year statute of limitations for patent infringement, which runs from the date by which the patentee knew or should have known about the infringement. For continuing infringement, the patentee generally still can obtain an injunction against the infringement even if it failed to investigate within the two year limitations period, so long as the patent rights still are in force; but damages will be limited to those suffered in the last two years.

¶157 **Bifurcated Proceedings.** China is a civil law country and has adopted many aspects of the German patent law system. For example, like Germany, China has a split system, with infringement determined by the courts and invalidity challenges heard by SIPO's Patent Reexamination Board. Some infringement actions can be stayed in favor of SIPO invalidation proceedings—generally those involving design patents or utility model patents (which are not substantively examined by SIPO prior to grant)—but courts are less likely to stay infringement actions involving invention patents (which are substantively examined before grant). Therefore, invention patentees should expect parallel infringement and invalidity actions in the courts and SIPO respectively. An infringement action will last between six and 18 months in the first instance if not stayed, and it is not anomalous to find judgments of infringement on patents that subsequently are invalidated by the slower SIPO invalidation proceedings.

### *B. Preliminary injunctions*

¶158 **Timing.** Article 61 of the Chinese patent law authorizes courts to issue injunctions before or during infringement actions.<sup>9</sup> Upon receiving a request for a preliminary injunction, a court must make a ruling within 48 hours if it finds that all procedural requirements properly have been met. Once issued, the injunction immediately is enforceable. The patentee, if it has not done so already, then must initiate an infringement action in the courts within 15 days of issuance of the injunction, or the injunction automatically will be lifted. Either party may request the issuing court to reconsider its decision, which is an administrative procedure within the court. However,

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<sup>9</sup> “Where any patentee or interested party has evidence to prove that another person is infringing or will soon infringe its or his patent right and that if such infringing act is not checked or prevented from occurring in time, it is likely to cause irreparable harm to it or him, it or he may, before any legal proceedings are instituted, request the people's court to adopt measures for ordering the suspension of relevant acts and the preservation of property. ...”

the injunction will remain enforceable during reconsideration and any subsequent proceedings until final judgment.

¶159 **Substantive Factors.** Chinese courts are to consider the following factors in determining whether to issue preliminary injunctions:

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

¶160 **Difficulty in Reality.** In practice, however, obtaining a preliminary injunction in most patent infringement cases has always been and is becoming increasingly more difficult. Both infringement and irreparable harm must be clearly proven—a burden that is not easy to meet in China given the stringent evidentiary requirements and lack of discovery procedures. Moreover, the Supreme People's Court in the last year has tempered any early enthusiasm for the issuance of such injunctions by issuing an instruction to the lower courts urging caution in issuing preliminary injunctions and noting that preliminary injunctions should not be issued in cases involving non-literal infringement or complicated technologies.

### *C. Evidence*

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

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

¶63 **Evidence Preservation.** While Article 65 of the Chinese Civil Procedure Law<sup>10</sup> empowers a court to seek evidence from any relevant party, it is seldom used in practice. A more often used procedure in patent litigation is “evidence preservation,” as provided under Article 74 of the Chinese Civil Procedure Law.<sup>11</sup> Where there is a likelihood that evidence may be destroyed or lost or difficult to obtain later, a party may seek ex parte a court order to preserve such evidence. The court may demand that the requesting party post a bond. An evidence preservation order is typically enforced by the judges themselves. Such orders can be very effective, as the respondent generally will not be notified in advance and may be required to comply by providing the relevant documentation and evidence on the spot. In the execution of the order, the court may question the respondent, order production of documents, take samples of the infringing product, conduct an inspection of premises, etc. Any evidence obtained from evidence preservation efforts is admissible in the subsequent court proceeding. Therefore, evidence preservation has become a powerful tool in patent litigation in Chinese courts. To prevent its abuse, however, most courts will require that the movant present some preliminary evidence showing ongoing or imminent infringement before issuing such an order.

¶64 **Evidence Presentation.** Evidence must be submitted to the court within a prescribed time limit.<sup>12</sup> Before trial, there generally is an evidence hearing where the parties exchange the evidence on which they intend to rely and explain the relevance of the evidence to the disputed issues before the court. Parties are given the opportunity to question or object to each other's evidence. At trial, all evidence must be presented and examined by the parties, and without such examination no evidence is admissible.

¶65 **Experts.** The court may allow an expert as a party witness to present testimony on specialized issues, particularly technical ones. The judges and opposing parties may question a party expert witness. More commonly, however, courts will appoint their own experts (sometimes upon consultation with the parties) to assess technical issues. The opinions of the court-appointed experts are more likely to be adopted by the courts, rather than those of the party experts.

#### *D. Infringement Determination*

¶66 There is no U.S.-style, pre-trial Markman hearing for claim construction in China. Claim construction and infringement analysis occur at trial, which may last for half a day to a few days. Generally, judges take the following steps when determining infringement: (a) they construe the proper scope of the patent in suit; (b) they analyze the relevant technical characteristics of the accused product or process; and (c) they compare

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<sup>10</sup> “The people's court shall have the right to make investigation and collect evidence from the relevant units or individuals; such units or individuals may not refuse to provide information and evidence. The people's court shall verify the authenticity, examine and determine the validity of the certifying documents provided by the relevant units or individuals.”

<sup>11</sup> “Under circumstances where there is a likelihood that evidence may be destroyed or lost, or difficult to obtain later, the participants in the proceedings may apply to the people's court for preservation of the evidence. The people's court may also on its own initiative take measures to preserve such evidence.”

<sup>12</sup> Generally, the time limit will be designated by the court, and must not be fewer than thirty days running from the day after the parties receive notice of the court's acceptance of the case and notice to respond to the suit. The deadline can be extended by the agreement of the parties with the court's approval. Generally, new evidence may not be submitted beyond the time limit.

the indispensable technical features of the patent claims with those of the accused product or process.

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

¶168 **Doctrine of Equivalents.** While there is no statutory basis for finding infringement under the doctrine of equivalents in China, the Supreme People's Court has sanctioned the application of the doctrine in one of its judicial interpretations. According to the Judicial Interpretations on Application of Laws in Trials of Patent Related Lawsuits issued in 2001, the extent of protection of patent rights shall be determined not only by the scope defined by the indispensable technical features explicitly recited in the patent claims, but also by the scope defined by the technical features equivalent to these indispensable technical features, which can be referred to as equivalent features. An equivalent feature means a technical feature, which easily can be conceived by a person skilled in the art without inventive skills and which performs substantially the same function in substantially the same way and achieves substantially the same result as the feature recited in the claims.

¶169 **Prosecution History Estoppel.** As with the doctrine of equivalents, there is no statutory basis for the application of the doctrine of prosecution history estoppel. However, the doctrine has been applied in patent infringement cases in China, especially by the Beijing Higher People's Court. As the doctrine has been adopted by Chinese courts, the patentee is estopped from claiming the subject matter limited, removed, or abandoned during the patent examination or invalidation proceedings by way of written statements or amendments to obtain the patent. The doctrine is applied at the request of a party, and the party must furnish the relevant evidence. SIPO can provide copies of the relevant patent file histories upon request.

### *E. Remedies*

¶170 The two most common remedies for patent infringement are permanent injunction and monetary damages. Once infringement is established, permanent injunction is generally issued as a matter of law. Infringement damages are assessed on the basis of the following factors in descending order of importance: (1) the actual loss suffered by the patentee; (2) the profits made by the infringer due to infringement; (3) a multiple of reasonable royalty; or (4) quasi-statutory damages.<sup>13</sup> If neither the patentee's loss nor the infringer's gain can be ascertained, damages are calculated with reference to the reasonable royalty of a patent license. According to a judicial interpretation issued by the Supreme People's Court, damages can be a multiple, normally between one and three

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<sup>13</sup> It is called "quasi-statutory damages" because they are not explicitly provided in the patent law, but in a judicial interpretation from the Supreme People's Court. The amount is in the range from ¥ 5,000 (\$600) to ¥ 500,000 (U.S. \$60,000)

times, of the reasonable royalty. If there is no such royalty, or if the royalty is obviously unreasonable, courts often resort to quasi-statutory damages of up to ¥500,000 (U.S. \$60,000). The court may, at the request of the patentee, include reasonable expenses and all or part of attorney's fees into the damages award. However, recovery of all attorneys' fees is unlikely.

¶71 If the infringer's profits are to be used as a basis for assessment of damages, evidence preservation becomes an essential tool to enable the patentee to obtain the necessary sales and accounting information from the defendant. In practice, the assessment of damages is often a difficult and complicated process, which explains why damages awards in China are often very low by U.S. standards.<sup>14</sup> However, there is no statutory limit on the amount of damages that can be awarded, and some Chinese judges have stated that they would award high damages if presented with admissible evidence to support them.

#### IV. CONCLUDING REMARKS

¶72 While patent litigation in China is still in its infancy, China is becoming a fertile ground for patent disputes, not just between Chinese and multinational companies, but also among multinational companies. As the awareness for intellectual property heightens in China, more Chinese companies and foreign companies are likely to resort to the judicial system to resolve patent disputes. Notwithstanding the political rhetoric about China's lack of intellectual property protection, it has strengthened its patent system significantly in recent years. Contrary to widespread belief, multinational companies can successfully enforce patents in China, albeit only with sufficient skill, experience, and understanding of the Chinese system. Therefore, multinational companies facing patent issues in China should not operate under the mistaken assumption that foreign companies cannot prevail there. In fact, they have won patent cases, both as plaintiff or defendant, before SIPO and in Chinese courts.

¶73 One emerging trend in China is that Chinese companies are quickly evolving from blatant copyists to innovators. This is evidenced by the fact that 93,485 invention patents in China were granted to Chinese entities in 2005, as opposed to 79,842 invention patents granted to foreign applicants during the same period.<sup>15</sup> As the Chinese companies "grow up," they realize that asserting their domestic patents against multinational companies in China is an effective way to stake their ground in battling what they consider to be "foreign technology encroachment." Moreover, foreign companies are starting to infringe each other's Chinese patents and are likely to battle each other in Chinese courts in the not-so-distant future. Thus, multinational companies need to be prepared for the fights that loom ahead. Sun Tzu, the strategic master of Ancient China and the author of *The Art of War* taught, "Know your enemy, know yourself, fight a hundred battles, win a hundred battles." But he also warned, "If you know yourself but not the enemy, for every

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<sup>14</sup> Relatively low damages awards are not a phenomenon unique to China. They also are prevalent in most countries with civil law systems and limited or no discovery.

<sup>15</sup> Further evidence includes the fact that China filed 2,452 international patent applications in 2005 and became the world's 10th largest Patent Cooperation Treaty (PCT) user. Putting things in perspective, there are only 103 PCT applications originated from China in 1995.



victory gained you will also suffer a defeat.” This century-old war strategy still applies today, albeit a different battle.