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Patent Litigation in China

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In recent years the number of patents granted in China has increased by leaps and bounds - patent infringements also increases year by year. With the increase of the amount of cases and complexity of the cases filed, defects of laws and legal procedure have been revealed gradually, thus China amended its Patent Law in 2008, and this revised Patent Law shall enter into force on 1 October 2009. The progress of China's patent litigation system is very impressive, and the following is an overview of patent litigation in China. You will see that a recent damages award by a Chinese court against a foreign company, is a real wake up call that patent laws need to be taken seriously in China.

A. What is patent infringement in China, how is it proved as stipulated in PRC laws and regulations?

The extent of protection of the patent right for invention or utility model shall be determined by the terms of the claims. The description and the appended drawings may be used to interpret the claims. The extent of protection of the patent right for design shall be determined by the product incorporating the patented design as shown in the drawings or photographs.

Generally speaking, the competent courts in China always receive 3 categories of cases as below:

- (1) Exploitation of a patent without the authorization of the patent owner, which means after the grant of the patent right for an invention or utility model, any entity or individual, without the authorization of the patent owner, 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; or after the grant of the patent right for a design, any entity or individual, without the authorization of the patentee, exploit the patent, that is, make, sell or import the product incorporating its or his patented design, for production or business purposes.
- (2) Act of passing the patent to another person, including:
 - 1) without permission, marking the patent number of another person on the product produced or sold by himself/itself or on the package of that product;
 - 2) without permission, using the patent number of another person in the advertisement or other propaganda materials, thus causing people to mistake the technology involved with the other person's patented technology;
 - 3) without permission, using the patent number of another person in the contract, thus causing people to mistake the technology involved in the contract with the other person's patented technology;
 - 4) forging or altering the patent certificate, patent documents or patent application documents of another person.
- (3) act of passing an unpatented product off as patented product or passing an unpatented process off as patented process, including:
 - 1) any of the following acts shall be the act of passing an unpatented product off as patented product or passing an unpatented process off as patented process:
 - 2) after a patent right has been declared invalid, continuing to mark a patent mark on the product produced or sold by himself;
 - 3) declaring an unpatented technology in the advertisement or other propaganda materials to be a patented technology;
 - 4) declaring an unpatented technology in the contract to be a patented technology;
 - 5) forging or altering the patent certificate, patent documents or patent application documents.

The PRC Patent Law notes that none of the following shall be deemed an infringement of the patent right:

- (1) Where, after the sale of a patented product that was made or imported by the patentee or with the authorization of the patent owner, or of a product that was directly obtained by using the patented process, any other person uses, offers to sell or sells that product;
- (2) Where, before the date of filing of the application for patent, any person who has already made the identical product, used the identical process, or made necessary preparations for its making or using, continues to make or use it within the original scope only;
- (3) Where any foreign means of transport which temporarily passes through the territory, territorial waters or territorial airspace of China uses the patent concerned, in accordance with any agreement concluded between the country to which the foreign means of transport belongs and China, or in accordance with any international treaty to which both countries are party, or on the basis of the principle of reciprocity, for its own needs, in its devices and installations;
- (4) Where any person uses the patent concerned solely for the purposes of scientific research and experimentation. Any person who, for production and business purposes, uses or sells a patented product or a product that was directly obtained by using a patented process, without knowing that it was made and sold without the authorization 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.

It is worth noting that, the new Patent Law revised in 2008, which shall enter into force on 1 October 2009, has added a new term that, in a patent infringement dispute, if the accused infringer can provide evidence to prove that the implementing technology or design belongs to the existing technology or existing design, it will not constitute patent infringement.

B. What documents are needed to file a case on patent infringement?

The Patent Law states that where a dispute arises as a result of the exploitation of a patent without the authorization of the patent owner, that is, the infringement of the patent right of the patent owner, it shall be settled through consultation by the parties. Where the parties are not willing to consult with each other or where the consultation fails, the patent owner or any interested party may institute legal proceedings in the people's court, or request the administrative authority for patent affairs to handle the matter.

For the above purposes, the patent owner or any interested party must submit documents which can prove that the patent is real and effective, including patent certificates, claims, description, patent annual fee payment voucher. The evidence to prove that another person is infringing or will soon infringe its patent right shall also be provided, including the characteristic contrast materials between the patent technology and products and infringing products, etc.

In certain situations, some notarization and authentication documents may be required for the patent litigation in China, and sometimes the notarized evidence issued by certain notary publics may be the crucial evidence required to prove the infringement.

In accordance with Chinese laws and regulations, any power of attorney mailed or forwarded from outside the territory of the PRC by a foreign national, stateless person, or a foreign enterprise or organization that has no domicile in the PRC to appoint a lawyer or any other

person of the PRC as an litigation representative must be authenticated by a notary office in the country where that person, enterprise, or organization has domicile and confirmed by the Chinese embassy or consulate stationed in that country or shall go through the notary formalities stipulated in the relevant bilateral treaties between China and that country before the power of attorney becomes effective. And if the evidence submitted is formed beyond the territory of the PRC, the evidence shall be subject to the certification of the notarization organ of the country concerned and shall be authenticated by the embassy of the PRC stationed in the said country, or shall be subject to the certification formalities as provided in the relevant treaties concluded between the PRC and the said country. If the evidence submitted is formed in Hong Kong, Macao or Taiwan, relevant formalities shall also be gone through, involving China Appointed Attesting Officers.

What's more, if the patent owners find the infringement through market investigation, then they can submit an application to the notary organs, undertake notarization to the process of purchasing infringing products and the purchased infringing products, etc, and obtain the notarization to prove the existing infringement. During the evidentiary process, to further clarify the infringing producers and sellers, the patent owner had better ask for product brochures and sale staff's business cards, purchase invoices and receipts from the infringing sellers. The patent owners can require the notary organs to explain the sources and authenticity of the aforesaid materials. The infringement evidence includes the following aspects:

- (1) Documentary evidences, usually under notarization. If any party concerned purchases infringing products by ordering or on-the-spot dealing by himself or authorizing any other person, the physical objects and invoices, etc. obtained thereby may be adopted as evidences. The notaries issued by any notary public, without disclosing his own identity to the party that is suspicious of infringement, concerning the evidences obtained by the party concerned in the ways as mentioned in the preceding paragraph or concerning the process of obtaining the evidences shall be adopted as evidences unless there are evidences that can prove the opposite.
- (2) Material evidence, usually is the infringing products purchased by the patent owner any other person authorized from the market. Generally, the purchased infringing products will be seal and photographed by the notary personnel. Before being submitted to the court, the plaintiff shall ensure the seals intact, or the infringers may not recognize the infringing products during the cross-examination.

Always, the patent owners also need to provide qualification certificate, patent certificate, patent registration book counterpart, patent announcement document, patent annual fee receipt to prove their ownership of the patent. Relevant patent licensing contracts and financial auditing report may also need to be provided to calculate the relevant loss.

Conclusion of authenticators (expert witnesses) is a kind of evidence in litigation in China - according to relevant Chinese laws and regulations, conclusions of authenticators are needed in two cases:

- (1) The people's court thinks it is necessary. When a people's court deems it necessary to make an evaluation of a specialized issue, it shall refer the issue to an authentication department authorized by law for the evaluation. In the absence of such department, the people's court shall appoint an authentication department to make the evaluation. The

authentication department and the expert witness designated by the department shall have the right to consult the case materials necessary for the evaluation and direct inquiries to the parties and witnesses when circumstances require.

- (2) Any one of the parties thinks it is necessary and has got the consent of the people's court. The parties concerned who apply for the preserving evidences shall make the application within the time period for producing evidences. After the application of the party concerned for authentication is approved by the people's court, both parties shall determine, through negotiations, the eligible authentication institution and the authenticators. In case on such consent may be reached through negotiations, the people's court shall designate the authentication institution and authenticators. If the authentication conclusion is made by relevant departments made upon the independent entrustment of any party concerned and the other party has no adequate evidences to rebut and applies for re-authentication, such application shall be approved by the people's court.

The authenticators shall agree to be questioned by the parties, due to special reasons that the authenticators can not appear in the court, they can prepare written replies to the parties with the permission of the people's court. The parties may ask a people's court to allow one or two persons with specialized knowledge to appear in court and explain special problems of the case. The persons with specialized knowledge can inquire the authenticators.

C. Which court has jurisdiction?

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. Because of the complexity of patent cases, the first instance case of patent controversy shall be under the jurisdiction of the intermediate people's courts of the places where the people's governments of provinces, autonomous regions and municipalities directly under the Central Government are located, and of the intermediate people's courts appointed by the Supreme People's Court.

An action filed because of the infringement of patent right shall be under the jurisdiction of the people's court of the place where the infringing act is committed or of the place of domicile of the defendant. The place of an infringing act shall include the place where any of the following acts is committed: the act of manufacturing, using, promising to sell, selling or importing the products that are under the accusation of having infringed upon the patent right for invention or utility model; the act of using the patented process, and the act of using, promising to sell, selling or importing the products that are directly obtained on the basis of that process; the act of manufacturing, selling, importing the products of patented design; the act of counterfeiting the patent of others. And the place where the result of any of the infringing act mentioned above took place shall also be included.

Where the plaintiff files an action only against the manufacturer of the infringing products and not against the seller, and the place of manufacturing of the infringing products is not the same one as the place of selling, the people's court of the place of manufacturing shall have the jurisdiction; where the manufacturer and the seller are sued as the joint defendants, the people's court of the place of selling shall have the jurisdiction. Where the seller is the subsidiary agency of the manufacturer, and the plaintiff files the action at the place of selling against the acts of manufacturing and selling of the manufacturer of the infringing products, the people's court of the place of selling shall have the jurisdiction.

D. What about the court fee?

Concerning intellectual property rights disputes, if there is no disputed amount, the charge for each case is RMB 500 to RMB 1000; if there is a disputed amount, the charge shall be paid in accordance with the standard charge of disputed property cases. The standard charge of disputed property cases is as follows:

disputed amount	charge
Less than RMB 1000	RMB 50
Excess between RMB 1000 and RMB 50000	4%
Excess between RMB 50000 and RMB 100000	3%
Excess between RMB 100000 and RMB 200000	2%
Excess between RMB 200000 and RMB 500000	1.5%
Excess between RMB 500000 and 1000000	1%
Excess above RMB 1000000	0.5%

E. Tactics in running these sorts of patent infringement cases

Tactics in running these sorts of patent infringement cases can be analyzed from the following several aspects:

(1) Advertising and Warning

According to the characteristics of patent itself, market situation and the type of patent infringement, the patentee may use preemptive advertising and warning tactic prior to lawsuit via advertising media or affixing a patent marking and to indicate the number of the patent on the patented product or on the packing of that product. When necessary, the patentee can send a lawyer's letter or warning letter to warn the infringer, or even settle a patent infringement dispute by warning and the following consultation. Facing large number of infringers, in order to restrain the infringement, the patentee can make an example by bringing a lawsuit against one of the infringers and then with a widely publicity.

(2) Market Monopoly

The final purpose of patent litigation is to seize markets, inhibit the production scale of opponent, expand the patentee's production. Therefore, the main purpose of many patentees to bring a lawsuit is not to claim for indemnity, but to stop the infringer from continuing to produce the infringing products or prevent others from using the patent technology. When necessary, the patentee may request the people's court to adopt measures for a patent right preservation. This, to a certain extent, can corner the market in advance, some of the infringers may stop such infringement because they know what they have done is patent infringement. In this situation, although the court has not pronounced a judgment, the patentee has reached the goal to corner the market.

(3) Recovery and Claims

Recover and claim is a difficult legal point of patent litigation, the key point of it is to grasp evidence, so before any legal proceedings are instituted, for the purpose to get

production, sale and profit information of the infringer, the patentee had better request the people's court to adopt measures to preserve evidence. If the situation remains dubious, the object of procedure generally should not be too much, when there is reliable evidence, the patentee can submit more claims. In order to obtain evidence, if necessary, the patentee can seek evidence through various proper channels, for example the help of the departments of industry and commerce, taxation, however, the best way is property preservation and evidence preservation before filing the lawsuit. If the dispute of claim is settled through consultation, it is easy to realize the compensation, although the amount of the compensation agreed by both parties may not be very large, the infringer is more willing to accept the result and pay the money.

F. Recent Schneider Patent Case to be Settled

On April 15, 2009, there was drama in the Zhejiang High People's Court at the beginning of the oral hearing of an ongoing dispute between Chint Group Corp (Chint) and Schneider Electric Low-Voltage (Tianjin) Co., Ltd. (Schneider) (Chint v. Schneider). Schneider, the French-based leading Western manufacturer of low-voltage electronics such as switches and circuit breakers, has settled its patent lawsuit with Wenzhou-based Chint, its top Chinese competitor, for RMB 157 million (approximately U.S. \$23 million). Schneider has battled with Chint on multiple continents to restrain Chint's presence in the global marketplace. The sum is approximately half of the damages (RMB 334 million) previously awarded to Chint by the Wenzhou Intermediate People's Court in late 2007.

Chint initiated a lawsuit on its home turf in 2006 with the Wenzhou Intermediate People's Court against Schneider for patent infringement of one of its PRC utility model patents. During approximately two years of legal proceedings, Chint successfully defended the validity of the concerned utility model patent before the PRC Patent Reexamination Board and succeeded in the patent infringement lawsuit at the Wenzhou Intermediate People's Court. The original RMB 334 million in damages was (and still is) the largest amount ever rewarded in China for patent infringement, and has aroused great attention in the industry, especially in view of the fact that the concerned patent was a utility model patent which, under Chinese law, is not examined on its substance during prosecution but is registered with a substantive examination deferred until enforcement and which, accordingly, may be viewed as providing "weaker" or less certain protection of intellectual property rights than an invention patent.

By Chinese standards, a RMB 157 million-settlement amount is unprecedentedly high and will certainly encourage more patent holders to aggressively enforce their rights in China. Tianjin-based Schneider Electric Low Voltage Co. Ltd., in which Schneider holds a 75 percent stake, has been ordered to pay the compensation within 15 days to Zhejiang-based Chint Group for infringing the patent of Chint's electrical apparatus technology.

This settlement was a "wake-up call" to foreign companies about the growing risk of lawsuits from China groups asserting IP rights. A settlement of this magnitude will encourage Chinese patent owners to bring suits against foreign rivals.