

IP Perspectives – US and China

Patent Law Developments in the United States and China

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Overview

- Topics?...
 - Will focus on IP issues affecting transnational portfolios with both US and Chinese assets
- Housekeeping
 - CLE (**U.S. attendees only**)
 - Questions
 - Materials
 - <http://fr.com/webinars>

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**IP Perspectives –
US and China**

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Patent Law Developments in the United States and China

Join attorneys from Fish & Richardson (US) and Han Kun Law Offices (China) for a series of webinars that will focus on intellectual property (IP) issues affecting transnational portfolios with both US and Chinese assets. The first webinar in our series will focus on recent profound developments that compel portfolio managers to revisit prior stances on China. Our speakers will offer a comparative analysis of critical issues in the US and how those same issues are being interpreted under Chinese patent law.

[Register](#) now for this IP Perspectives - US and China Webinar.

Tuesday, September 20, 2016
1:00 PM - 2:00 PM EDT
Via the web

Speakers:



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Applies to attendees in the United States only: Fish & Richardson will apply for 1.0 hour of general CLE credit in most states. If you would like to receive CLE credit, register with your state bar information.

If you have questions, please contact Lauren McGovern at mccgovern@fr.com.



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Agenda

- Overview of Prominent U.S. Concerns
- Background on Chinese Patent Practice
- Survey of Recent News Headlines
- Comparative Analysis of Prominent U.S. Concerns as Interpreted in China
- Differences Between U.S. and Chinese Priorities
- Overview of Upcoming Topics



Overview of Prominent U.S. Concerns

Overview of U.S. Concerns

- A 2012 USPTO report identified the following concerns for U.S. companies seeking to enforce intellectual property rights (IPRs) in China.
 1. China's patent legal regime;
 2. Rule of law problems;
 3. Evidence collection, recognition, and preservation;
 4. Effectiveness and enforcement of remedies; and
 5. Administrative enforcement.
- How have these concerns changed? What are the new concerns?

Overview of U.S. Concerns

- Note that the even the 2012 USPTO report reflected nuanced concerns.
- China's patent legal regime
 - Role of Utility models
 - Pharmaceutical concerns
- Rule of law questions
 - Basis for acceptance of a case sometimes unclear
 - Thoroughness of written decisions
- Evidence collection, recognition, and preservation
 - Limited use of discovery
 - Timing of discovery relative to injunctive relief
- Effectiveness and enforcement of remedies
 - Limited scope of damages
 - Difficulty in obtaining injunctions
- Administrative enforcement
 - Low threshold for initiating invalidity proceedings



Background on Chinese Patent Practice

Background on Chinese Patent Practice

- Size of Patent Practice in China
- Infringement Actions
- Invalidation Proceedings
- Enforceability of Judgment – Damages and Injunction
- Punishments to Refusal of Court Enforcement
- Patent Portfolio of Domestic and Foreign Parties
- Recent Development of the FRAND Law

Background on Chinese Patent Practice

Patent Portfolio of Domestic and Foreign Parties

- In 2015, the number of the invention patent granted is 359,316 (+54%), of which 263,436 (+62%) belong to domestic patentees and 95,880 (+36%) belong to foreign patentees.
- In 2015, the number of the utility model patent granted is 876,217 (+24%), of which 868,734 (+24%) belong to domestic patentees and 7,483 (-5%) belong to foreign patentees.
- In 2015, the number of the design patent granted is 482,659 (+34%), of which 464,807 (+34%) belong to domestic patentees and 17,852 (+20%) belong to foreign patentees.
- By December 2015, the total number of effective invention patent granted is 1,472,374 of which 921,757 belong to domestic patentees and 550,617 belong to foreign patentees.

Background on Chinese Patent Practice

Infringement Actions

- General Data on Intellectual Property Civil Litigation in 2015
 - Patent (First Instance): 11607 (+20%)
 - Anti-monopoly (First Instance): 156 (+81 %)
 - First Instance Filed at Lower Courts: 109386 (+15%)
 - Appeal Filed at Lower Courts: 15114 (+10%)
 - Retrial Petition Filed at Lower Courts: 115 (+44%)
 - Retrial Petition Filed at Supreme People's Court: 329 (-2%)
 - Settlement Rate:
 - First Instance (63%)
 - Second Instance (29%)
- Timeline
 - About 1 year for First Instance, and about 6 months for Second Instance.

Background on Chinese Patent Practice

Infringement Actions

- Forum
 - First Instance: Intellectual Property Courts in Beijing, Shanghai and Guangzhou (Guangdong); and Intermediate People's Court in other provinces and the like.
 - Second Instance: Provincial High People's Court.
 - Retrial: Supreme People's Court. (at SPC's discretion).
- Winning Rate of Patentees in First Instance Cases from 2009 to 2014: **70%** out of 369 cases in Shanghai and **76%** out of 275 cases in Beijing (Source: Zhichanli).
- Winning Rate of Foreign Parties in IP Disputes
 - Beijing Intellectual Property Court: **100% out of 63 cases** in 2015.
 - Shanghai High People's Court: Over **80%** in 2012 and **84.6%** in 2009-2013. (including Hong Kong, Macau and Taiwan).
 - Zhejiang High People's Court: Around **95%** in 2013.

Compare with Most Active Forums in U.S.

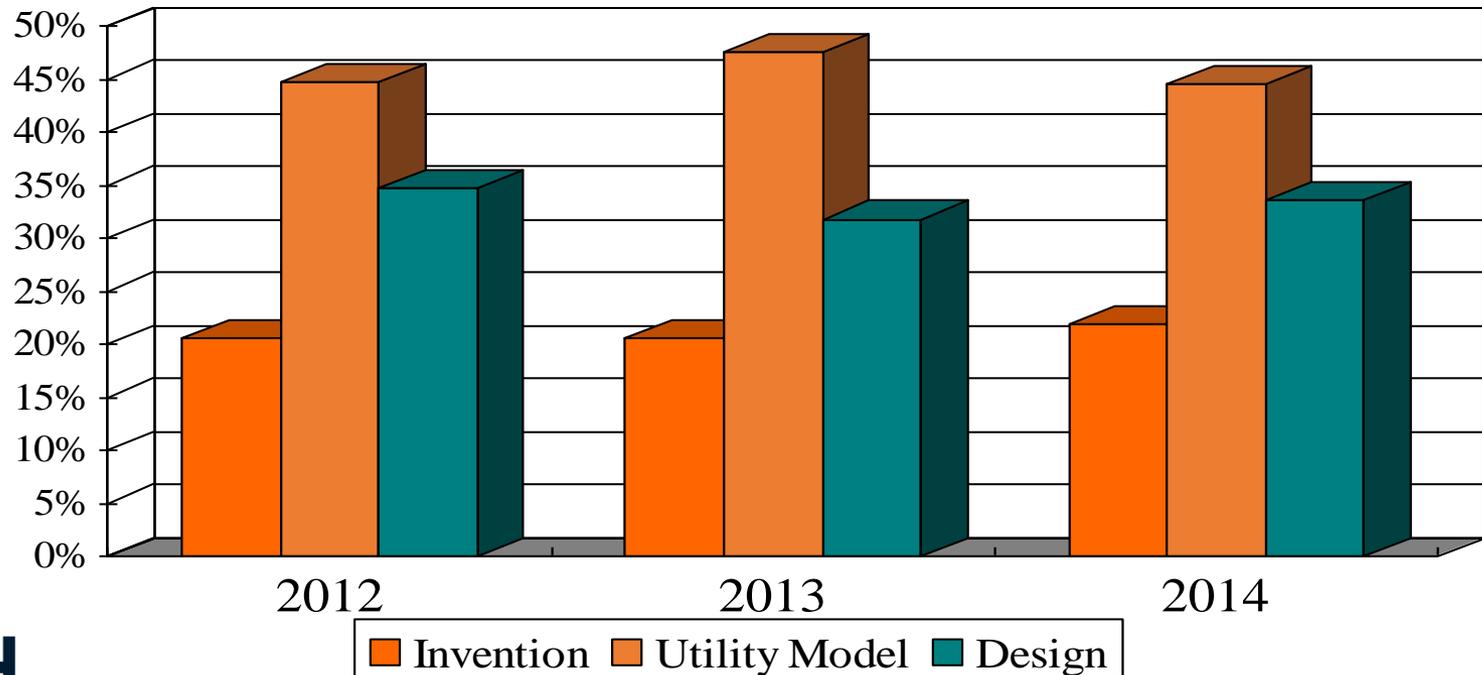
In 2014, the PTAB was the most active forum for US patent validity challenges, and in 2015 the PTAB had a **record** year for filings.

Most active courts by number of cases in 2016*	2016 (YTD)	2015	2014	2013	2012	2011
PTAB	1,219	1,800	1,677	792	112	-
TXED	1,148	2,548	1,428	1,498	1,252	580
DED	299	544	942	1,335	1,001	486
CACD	229	277	320	411	506	329

Background on Chinese Patent Practice

Invalidation Proceedings

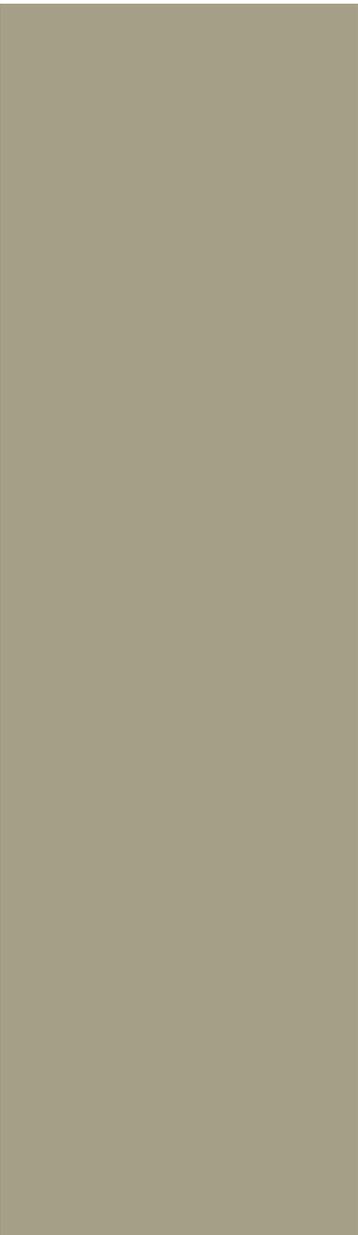
- Invalidation Request filed in 2014: 3422 (+17)
- Judicial Review Over PRB Decisions (1st and 2nd) in 2014: 778 (-2%)
- Upholding Rate in Beijing IP Court: 92%
- Breakdown of Invalidation Requests by Type of Patent



Background on Chinese Patent Practice

Remedies – Damages and Injunction

- Damages
 - Damages up to three times of losses may be awarded against willful infringements. (In draft amendment of patent law). Similar Rule already adopted by the 2013 amendment of trademark law.
 - Statutory damages increased from 1 million to 5 million. (In draft amendment of patent law)
 - Easy to enforce, as courts will have direct access to national database of bank accounts for enforcement.
- Injunction
 - Relatively more difficult to enforce compared with damages, but can potentially drive down infringers' market share and stock prices.
 - Can be ultimately enforced if Plaintiff pursues enforcement vigorously.
 - Can be enforced at customs if Plaintiff pursues that vigorously and provides details.
- Preliminary Injunction
 - Introduced by Patent Law and Civil Procedure Law in 2000 and 2012, respectively.
 - Not a general practice but still available.
 - Beijing IP Court issued its first preliminary injunction in a trademark case in June, 2016, and Guangzhou IP Court also issued its first preliminary injunction in a patent case in June, 2016.



Refusal of Court Enforcement

Laws Against Refusal of Court Enforcement

- Those failing to fulfil obligations under court judgements are subject to **detention** or **fin**es, even **imprisonment**.

- **Article 111 of Civil Procedure Law**

*“Where a litigation participant or any other person commits any of the following conduct, the people's court may impose **a fine or detention** on the litigation participant or person according to the severity of the circumstances; and if suspected of any crime, the litigation participant or person shall be subject to criminal liability in accordance with law: ... (Whoever) refusing to execute any effective judgment or ruling of a people's court.”*

- **Article 313 of Criminal Law**

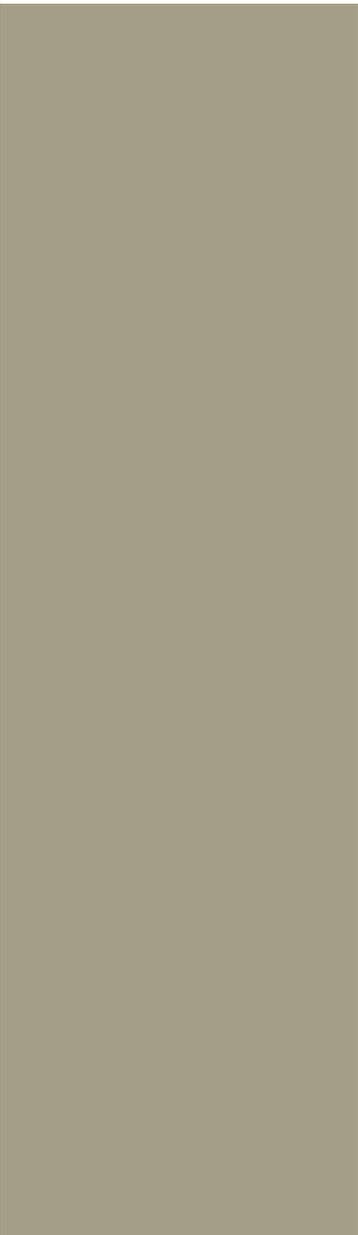
*“Whoever refuses to carry out a decision or order made by a people's court while he is able to carry it out is to be sentenced to **not more than three years of fixed-term imprisonment**, criminal detention, or be fined, if the circumstances are severe.”*

Punishments to Refusal of Court Enforcement

- XU Zhanyou v. Jiangsu Baite, (*Nanjing Intermediate Ct 2004*)(patent infringement case)
 - The Court imposed a fine of RMB 20,000 on the defendant and a juridical detention of 10 days on its legal representative, as the defendant ignored the injunction order of the Court by continuing producing infringing products.
- *Fujian Duoleng Steel v. Xiamen Jianlian Cast Steel, (Fuzhou Intermediate Ct 2006)*(patent infringement case)
 - The Court requested the local police to conduct a criminal detention of the legal representative of the defendant, as the defendant not only ignored the injunctive order by continuing producing infringing products, but also humiliated the judges during the enforcement of the judgment.

Other Outcomes of Refusal of Court Enforcement

- Bans on excessive spending, including bans on air travel, property purchase, high-end hotel stays, etc. – *Several Provisions of the SPC on Restricting Excessive Spending of Entities Subject to Enforcement (2015 Amendment)*.
- Enlisted in “List of Bad Faith Entities Subject to Enforcement” for public awareness, marked with bad faith in China’s Social Credit System. – *Several Provisions of the SPC on Announcement of the List of Bad Faith Entities Subject to Enforcement*.
- Likely to be determined as willful infringement should the Patentee file a new infringement action based on the same patent, up to three times damages to be awarded. – *Draft Amendment to the Patent Law (2015)*.



Survey of Recent News Headlines & Prominent Cases

Survey of Recent News Headlines

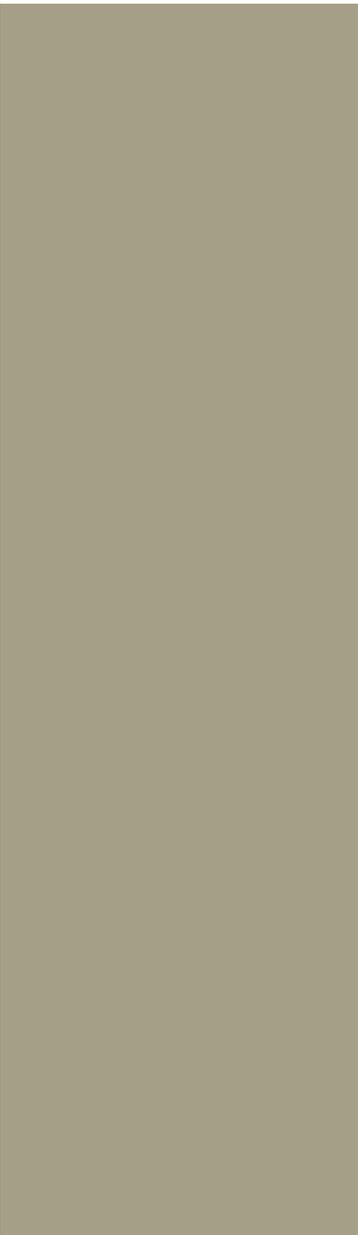
- According to the WSJ, at least one prominent company that purportedly collapsed was still able to file suit.
- In another case, an international licensing company was found to have violated China's Anti-Monopoly Law by making proposals for royalties that the court believed were excessive, (2) tying the licensing of essential patents to the licensing of non-essential patents, requesting grant-back rights to, and commencing a USITC action while still in discussions with for a license.
- USPTO notes the importance of intellectual property rights in China as the second largest trading partner of the U.S.
 - [https://www.uspto.gov/ip/global/China_Report_on_Patent_Enforcement_\(FullRprt\)FINAL.pdf](https://www.uspto.gov/ip/global/China_Report_on_Patent_Enforcement_(FullRprt)FINAL.pdf)
- Patent litigation on the rise, 20% involve foreign respondents with 1600 cases in Shanghai alone.
 - <http://www.iam-media.com/blog/Detail.aspx?g=c0a761e9-71b6-4dae-be3f-bd2f2672db3d>
 - Almost 10,000 cases filed in the court of first instance.

Survey of Recent News Headlines

- WSJ reports that China becomes top issuer of patents in 2015 and is increasingly supportive of foreign rights holders.
 - <http://www.wsj.com/articles/stronger-chinese-patent-laws-also-help-u-s-companies-1468994404>
- Highlights
 - 20% of all patents are assigned to non-Chinese companies.

Survey of Prominent Cases

- And yet, many of these concerns mimic common issues considered in the U.S. in addressing doctrine of equivalents, claim construction, and formulation of obviousness.
 - In considering whether direct (vs. indirect support) was required in the specification, the court rejected a literal disclosure requirement.
 - *Xu Wenqing vs. Patent Reexamination Board, Supreme People's Court Judgement Minsantinsi 2/2005*
 - Similar to U.S. requirements on “teachings away”, objects and technical effects must be considered under inventiveness.
 - *Patent Reexamination Board vs. Hong Kong Mei Ngai (Chu Kee) Metal Manufacturers, Beijing High Court People's Judgment, Gaojingzhongzi, 9/1992*
 - Nonanalogous Art may be considered where principle and function was otherwise the same.
 - *BYD vs. Patent Reexamination Board, Beijing High Court People's Judgment, Gaojingzhongzi, 11/2005*



Comparative Analysis of Prominent U.S. Concerns as Interpreted in China

Comparative Analysis of Prominent U.S. Concerns as Interpreted in China

- Subject Matter Eligibility
- The Role of Research Institutions and Nonpracticing Entities
- Damages
- Efficiencies and Post-grant Proceedings

Subject Matter Eligibility

- The following provisions set forth ineligible subject matter.
 - Art. 2
 - Inventions that are not “technical solutions.”
 - Art. 5
 - Inventions contrary to the laws of the State or social morality or that is detrimental to public interest.
 - Art. 25
 - Scientific discoveries;
 - Rules and methods for mental activities (includes computer programs and business methods);
 - Methods for the diagnosis or for the treatment of diseases;
 - Animal and plant varieties;
 - Substances obtained by means of nuclear transformation.

Subject Matter Eligibility – Abstract Ideas

- **Mayo/Alice “Two-Step” Test for Abstract Ideas – Practice in the U.S.**
 - An abstract idea is generally ineligible, unless it contains an “inventive concept” sufficient to “transform” it into a patent-eligible application.
- **Computer Programs Regarding Abstract Ideas are Ineligible Under Chinese Law**
 - A computer program regarding pure abstract idea (even if this idea is new and inventive) is likely to be regarded as not being a “technical solution,” thus not eligible under Art. 2 of P.R.C. Patent Law.
 - It may also be regarded as being rules and methods for mental activities in nature, thus not eligible under Art. 25 of P.R.C. Patent Law.
 - A computer program making improvements to the hardware or software systems will not be regarded as an abstract idea, and is eligible. (Similar to [Enfish LLC v. Microsoft \(Fed. Cir. 2016\)](#))
 - It would be helpful to draft claims of abstract ideas in a proper way to reflect improvements to hardware/software systems.

Subject Matter Eligibility – Examples

- **Art. 2 - Not a Technical Solution**
 - Invention 1: A system for learning foreign languages, in which the learning progress can be actively controlled.
 - **Comments:** the system uses existing computer system to execute a new language learning method, and is without any improvements to the existing hardware or software system. Thus it is not a technical solution and therefore ineligible.

- **Art. 25 – Computer** programs which are rules and/or methods for mental activities in nature
 - Invention 2: A method using computer program to translate multiple languages among each other based on a pre-determined rule.
 - **Comments:** the nature of the program is to use computer to execute a translation method, based on a specific but totally artificial (man-determined) translation rule. Thus the method, although making use of computer program, is a mental activity in nature, which is ineligible.

The Role of Research Institutions and Nonpracticing Entities

- Not Uncommon for Universities and Research Institutions to Acquire Patents, but the Implementation Rate is Low
 - Filed ~25% invention patent applications in 2014. (Source: SIPO)
 - Own ~30% invention patent applications by the end of 2014. (Source: SIPO)
 - Implementation rate of invention patents: 13.5% for universities, 28.2% for research institutions, compared with 67.5% for enterprises. (Source: SIPO)
 - Trend is changing: a license agreement of 65 million USD signed between Fudan University and Huya Bioscience International in 2016 regarding a medicine patent.
- NPE is Presently Not as Active in China as in the U.S.
 - Relatively low damages award may be the main reason.
 - Chinese authorities and policies are generally against NPEs.
 - Distressed company may become NPEs and take actions. For instance, Nokia pursued a 20 million RMB case against domestic companies in 2011, but lost due to low qualities of the asserted patent.

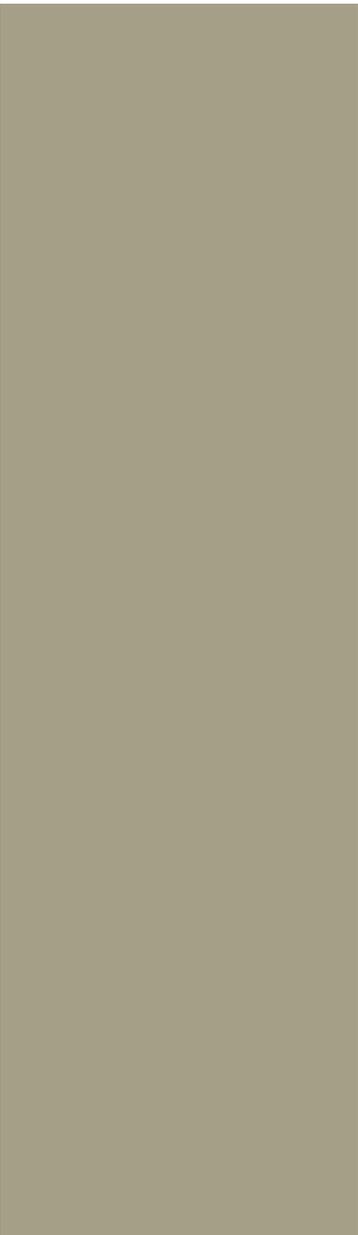
Damages

- The Spoliation of Evidence System was Established
 - According to the Judicial Interpretation for Reviewing Patent Infringement Disputes (II) published in 2016, the defendant should submit to the court the financial materials it possessed, otherwise the court can determine the damages based on patentee's claims and evidence.
- The Damages Cap of RMB 1 Million has been Exceeded in Practice
 - Zhejiang High Ct. affirmed a 5 million RMB damages case in an infringement case in 2015.
 - Guangdong High Ct. affirmed a 2 million RMB damages case in an infringement case in 2011, reasoning that the existing evidence can prove the damage must be higher than the RMB 1 million cap.
- The Draft Amendment to the Patent Law Takes a Pro-patentee Position, Making a Good Perspective for Patentees
 - Willful infringement may bring "punitive" damages up to three times of regular damages.
 - The cap of statutory damages will be raised to 5 million RMB from the previous 1 million.

Efficiencies and Post-grant Proceedings

- A Patent can Only be Declared Invalid by PRB, not a Civil Court
 - Anyone, including foreign parties, can initiate invalidation proceedings.
 - The Patent Reexamination Board (“PRB”) of SIPO has sole jurisdiction.
 - 6-12 months for PRB to render an invalidation decision, which is subject to a two-instance judicial review generally taking 1-1.5 years in total.

- Civil Courts may Dismiss an Infringement Case Once the Patent Involved is Declared Invalid by PRB, Offering Defendant an Instant Victory
 - Although an invalidation decision by PRB is subject to judicial review before coming to effect, a civil court may still dismiss the infringement case once PRB renders its decision declaring invalidation.
 - The patentee can file a new suit if it succeeds in the judicial review against PRB and takes back the patent.



Refusal of Court Enforcement

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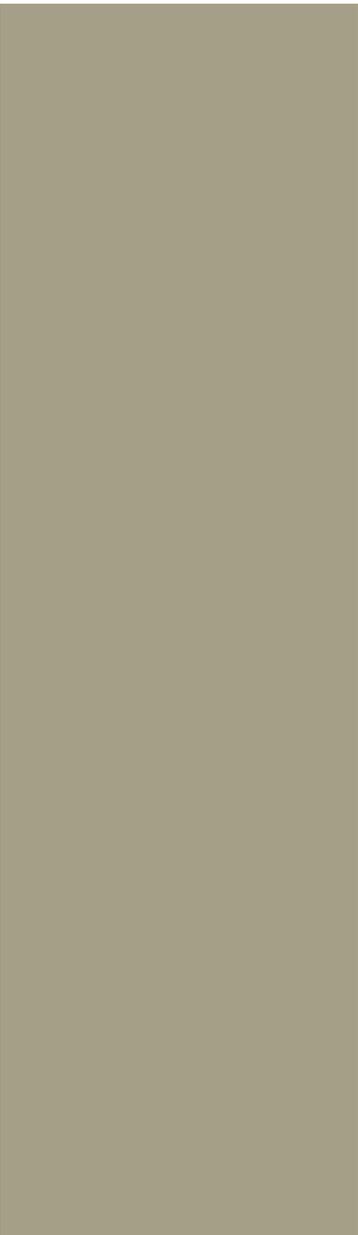
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Efficiencies and Post-Grant Proceedings

- Opposition proceedings not uncommon.
- Historically, low barrier to entry.



Emerging Differences Between U.S. and China Priorities

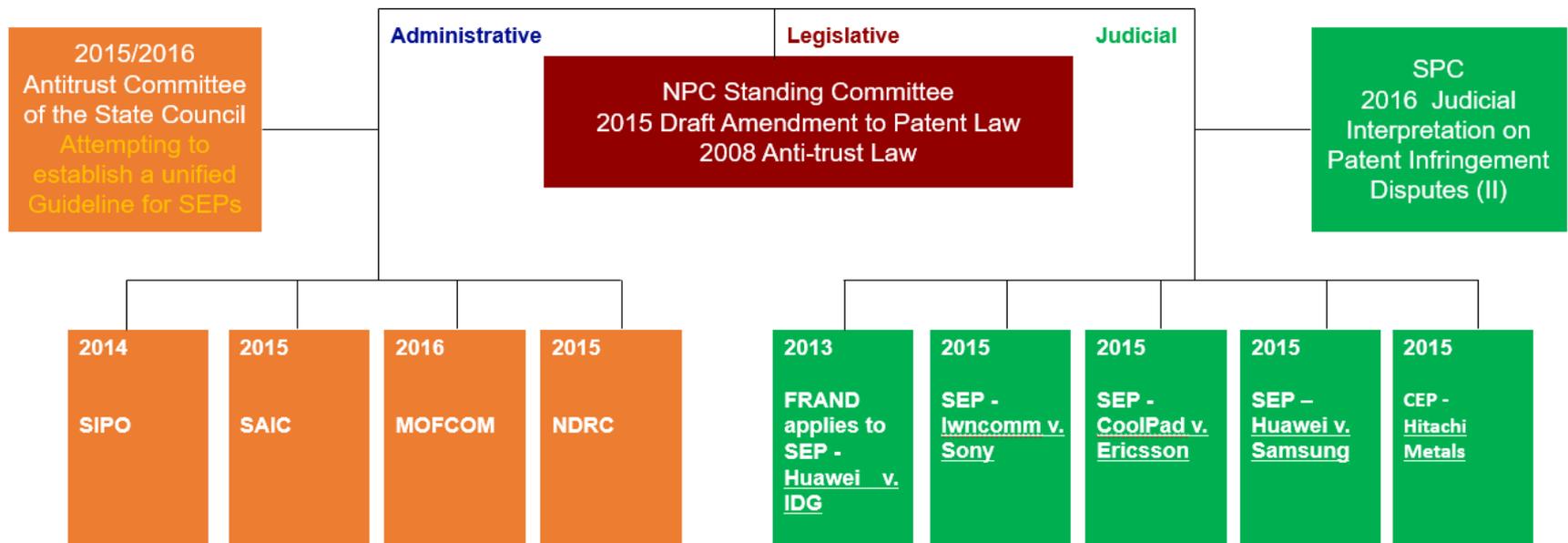
Emerging Differences Between U.S. and Chinese Priorities

- Prominent Role of Antitrust Concerns
- Extraterritoriality

Emerging Differences Between U.S. and Chinese Priorities

- Antitrust

Recent Development for SEP – Related Law



Overview of Important SEP Cases in China

Licensee	Licensor	Status
Huawei	<u>InterDigital</u>	Retrial petition regarding royalty rate is pending
ZTE	<u>InterDigital</u>	Pending
Sony	<u>lwncomm</u>	Pending and patent affirmed
<u>Meizu</u>	Qualcomm	Pending
Local Manufacturers	Hitachi	Pending
Samsung	Huawei	Pending
<u>Yulong/Coolpad</u>	Ericsson	Settled
N/A	Qualcomm	Fined ~6 billion by NDRC

Takeaway of Recent Cases for Licenses

- Licensees can directly launch cases seeking judgment regarding rate of royalty fee for SEPs, which can be separated from the abuse of market dominance claim.
 - Patent infringement case claiming injunction as strong evidence of AML violation.
 - The judgment can cover the whole SEPs portfolio in China.
- Jurisdiction is flexible.
 - In two cases, both of which were heard in Shenzhen, the rate of royalty fee/FRAND case is based on contract theory, while the abuse of market dominance case is based on infringement theory.
 - Judicial Interpretation of SPC confirms jurisdiction of anti-monopoly related cases can be based on contract theory and/or infringement theory which is decided case by case.
- Unilateral appraisal based on licensing data may further lower the 0.019% rate, given the scale of both parties.

Battlefield Outside the Courtroom

- Since June 2016, Anti-monopoly Committee of the State Council has been integrating the drafts anti-monopoly guidelines from the agencies.
- SEP issues are not explicitly addressed in any of the agency drafts, thus are left to the Committee.
- It is expected that the guidelines will also have significant influence on the interpretation of AMC Law in courtrooms.
- It is reported that there is a high-level pro-licensor v. pro-licensee debate in the consultant panel engaged by the Committee.

Overview of Upcoming Topics

- Antitrust Issues When Engaged in Transnational Litigation
- Transnational Issues Practicing Before the Patent Trial and Appeal Board
- Financial Services IP in the US and China
- Life Sciences IP in the US and China
- ITC Practice for Transnational Companies
- Damages Law in the US and China

Thank You!

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