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Patent Protection in China: Are Patents Enforceable in China?

Introduction

‘Is it worthwhile getting patent protection in China?’ This is a familiar question that has plagued many foreigners as they contemplate filing patent applications in a country where intellectual property (IP) infringement has raised concerns, despite large numbers of patent applications and sincere efforts on enforcement. This article aims to provide an in depth description and assessment of the current status of the enforcement and protection of patent rights in China.

The establishment of China’s Specialized IP Courts in Beijing, Shanghai and Guangzhou is a milestone and symbolizes China’s commitment to enhancing IP protection. This article gives a brief overview of the IP Courts. The performance of IP Courts in 2016 is also investigated in detail. Our data shows that China is by a far stretch the most litigious country in the world in terms of IP cases, with the total number of IP litigation in just Guangdong alone far outnumbering those in the whole of the United States.

We have scanned publicly available data and extracted useful information on the state of patent enforcement in China. This article provides a review of the number of IP litigation cases with at least one foreign party involved, including disputes on patent infringement, invalidation, and cases appealing the Patent Review Board’s final rejection that were handled by the People’s Courts in the year 2016. These cases are further classified by industry and nationality of foreign party in order to showcase a panoramic view of involved foreign parties. The result of each judgment is compiled to illustrate the success rate of foreign parties. Some important issues like inventiveness, hierarchy of evidence, usage of functional language and common knowledge which were addressed by the Courts at all levels are also discussed in detail, in order to provide more insight on Chinese patent enforcement from a judicial perspective.

General Overview of Intellectual Property Litigation in China

According to the white book *Intellectual Property (IP) Protection by Chinese Courts in 2016* issued by the Supreme People’s Court (SPC) on April 24, 2017, the local People’s Courts received a total of 136,534 civil IP litigation cases in the first instance and concluded 131,813 in 2016 [Ref 1, *Intellectual Property Protection in China (2016) (Apr. 25, 2017)*]. Compared with 2015, this represents a growth of 24.82% in the number of first instance cases received, and increase of 30.09% in the number of decisions issued. Among the 136,534 civil IP cases, 12,357 cases were patent disputes, which represents only 9.1% of the total [Ref 1]. In terms of distribution, Beijing, Shanghai, Jiangsu, Zhejiang and Guangdong provinces witnessed the worst IP infringement activities with 70.4% of the total number of IP cases.

The statistics of IP litigation cases in Beijing, Shanghai, Jiangsu and Guangdong from 2013 to 2016 is listed in Figure 1. From 2013 to 2016, disputes involving IP were on a dramatic rise. In Beijing, the total number of cases rose from 9,684 in 2013 to 17,375 in 2016, an 80% rise [Ref 2, *Beijing Court 2016 Intellectual Property Trial Press Conference*].

In Shanghai, the

number of cases in 2016 is almost double 2013, from 4,709 to 9,787 [Ref 3, *Shanghai Court 2016 Intellectual Property Trial*]. In Guangdong, the Courts received about 8,000 more cases in 2016 compared to 2013 [Ref 4, *Guangdong Intellectual Property Rights Protection in 2016 (Apr. 2017)*]. In Jiangsu, the rise in the number of cases is almost 30%, from 7,777 disputes in 2013 to 10,058 disputes in 2016 [Ref 5, *Jiangsu Intellectual Property Rights Protection In 2016*]. In comparison, the total number of IP litigation cases in the United States (US) in 2015 is only 16,448 [Ref 6, *IP Litigation in United States - Stanford Law School*], equivalent to the total number of IP litigation cases in Beijing alone in 2016. As published in the white book, the total number of IP litigation cases all over China is 177,705 [Ref 1].

Number of new IP litigation cases in different provinces from 2013 to 2016

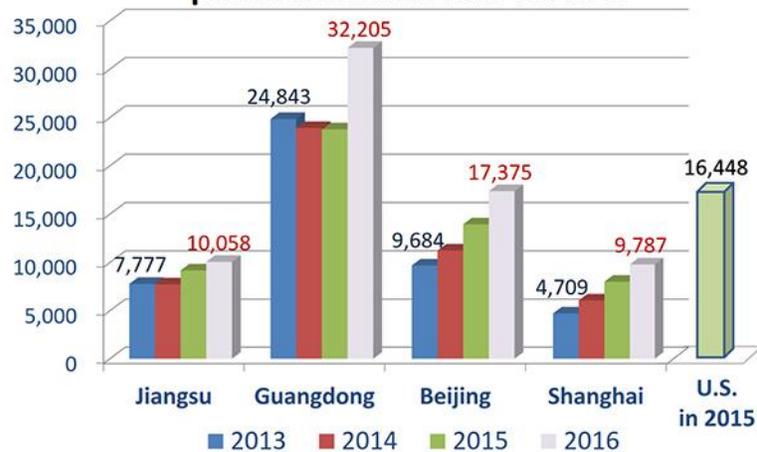


Figure 1

The increase in IP litigation may be related to China’s new policy on encouraging innovation in technology to achieve sustainability. The government supported the initiative with various subsidies and incentives. From 2010, Chinese patent applications started to rise sharply. These applications included filings by Chinese residents and overseas innovators who sought local protection for their inventions and ideas. Statistics released by the State Intellectual Property Office (SIPO) and People’s Court mirrored the sentiment that the spur of innovation from 2010 simply created more patented inventions and thus more IP litigation. The number of patent filings and IP litigation can be roughly correlated with each other. Alternatively, the ever-rising IP litigation cases could be a reflection of growth in the size of patent portfolios of many large enterprises in China. Increasing numbers of Chinese enterprises are recognizing the commercial importance of IP and treat patents as a source of their core competitiveness and competitive edge.

To get a more in depth perspective on IP litigation in China, especially on the proportion of patents, trademarks and copyright, statistics of the types of IP litigation cases (civil cases, first instance) in Beijing, Shanghai and Guangdong in 2015 are summarized in Figure 2. The overwhelming

majority of IP litigation in Beijing, Shanghai and Guangzhou are copyright disputes cases. Copyright litigation accounts for 87% of the total in Beijing, 64% in Guangdong, 80% in Shanghai [Ref 2, 3, 4]. On the other hand, one can clearly observe that patent litigation occupies a rather small percentage of all IP litigation in China. In



Figure 2

contrast, in the U.S. in 2015, there were a total of 5,823 patent disputes, 3,594 trademark disputes, and 5,161 copyright disputes in all districts combined [Ref 6]. Hence, China is by a far stretch the most litigious country in the world in terms of IP cases, with the total number of IP litigation in Beijing, Shanghai and Guangdong far outnumbering those in the whole of the United States.

Figure 2 also shows that the contrast between China and the US is not just a quantitative difference in the total number of IP litigation, but a qualitative difference in the type of infringement activities. In China, the predominant type of IP infringement is copyright infringement, such as software, writing, music, movies, and designs; then followed by trademark infringement. Both these types of IP involve relatively low levels of technological skills to infringement, and may be a reflection of not only the lack of respect for all types of IP in general, but also the state of the technological advancement of the infringers as a whole. In addition, the small proportion of patent infringement in China compared to copyright and trademark infringement may also support the assertion that IP owners should worry more about their brand being copied rather than their technology. In other words, in a package with a product, for example an electronic device, these statistics appear to show that infringers are more likely to copy the package and the brand exactly to produce a counterfeit product containing a different device than to risk patent infringement by making an identical device. The Shanghai IP Court's annual report also shows that a foreign company was involved in approximately one in six patent litigation cases [*Ref 7, Judicial Protection of Intellectual Property in 2016 (Shanghai IP Court)*].

China's specialized IP Courts

The IP Courts in Beijing, Shanghai and Guangzhou were originally set up as a pilot project with the aim of improving the quality of, and professionalism and uniformity in, IP litigation in China. The establishment of these three specialized IP Courts was regarded as a milestone and symbol of China's commitment to enhancing IP protection. The Standing Committee of the National People's Congress (NPC) approved the proposal to establish these three specialized IP Courts on 31 August 2014. This decision reflects the determination of the Chinese government to enhance IP protection, and marked the beginning of the specialized IP Courts handling all IP matters, especially complex technical patent disputes. The Beijing IP Court was officially established on 6 November 2014. The other two specialized IP Courts were unveiled in Guangzhou and Shanghai in the end of 2014. According to the NPC guideline, the key responsibilities of the specialized IP Courts in China included:

- All first instance civil and administrative IP cases involving complex technologies such as patents, new plant varieties, computer software, integrated circuit layout designs and technology secrets;
- Administrative cases arising from legal actions involving copyright, trade mark and unfair competition etc. conducted by departments of the State Council or local people's governments at county level or above; and
- Civil cases which involve well-known trademarks.

As long as the dispute involves one of the aforementioned subject matters, the specialized IP Courts have jurisdiction, regardless of whether the dispute also contains other IP issues. Moreover, the Beijing IP Court has exclusive jurisdiction on first instance appeals against decisions of the IP Administrative Authorities, such as the Patent Review Board (PRB) and the Trade Mark Review and Adjudication Board (TRAB). An IP Court's judgment in these disputes may be appealed to the higher Court of the province or city where the IP Court is located.

The following statistics were listed in the annual report issued by each IP Court in 2016:

- The Beijing IP Court received 10,638 cases in 2016, up 15.74% compared to 9,191 cases in 2015. There were 8,305 cases of the first instance, 2,330 cases of the second instance, and 3 cases of reviews. Among the cases of the first instance, there were 1,754 patent disputes (1,104 administrative patent disputes), 5,969 trademark disputes (5,936 administrative trademark disputes), and 420 copyright disputes (417 computer software copyright disputes) [Ref 2].
- The Guangdong IP Court received 4,752 cases in 2016, including 4,489 civil cases, 18 administrative cases, and 245 property preservation enforcement cases. Among the civil cases, there were 2,445 patent disputes, 290 trademark disputes, and 1,674 copyright disputes [Ref 4].
- The Shanghai IP Court received 1,877 cases in 2016, up 14.38% from 2015. There were 559 patent disputes, 247 trademark disputes, and 921 copyright disputes [Ref 7].

According to judge Gang Feng's speech delivered in June 2016, foreign plaintiffs notched a 100% win rate in civil cases heard by the Beijing IP Court in 2015. Judge Feng has been on Beijing IP Court's roster since it was established.

“Foreign-related cases are 1095. [...] Statistics show that 72.3% plaintiffs won first instance civil cases in 2015. There are altogether 63 first instance civil cases in which foreigner are plaintiffs. What is the winning percentage for foreign party? You may have a guess! It is 100%! I repeat, last year there are altogether 63 first instance civil cases in which foreigner are plaintiffs, and they are all win!” [Ref 8, Judge Gang Feng’s speech on 21st Century Intellectual Property Forum, (Jun. 2, 2016)]

Further, when a foreign party is involved in a dispute, three special principles will be applied: *“The principle of national treatment, the principle of minimum protection standard and the principle of public interest.”* [Ref 8] Judge Feng’s speech seeks to reassure foreigners and foreign corporations that they will not be disadvantaged by China’s justice system. Judge Feng’s statistics may serve to allay some of the concerns of foreign patent owners who have thus far avoided entering the Chinese market.

How did foreigners fare in patent litigation in 2016 in the whole of China?

Both the white book issued by the SPC and statistics from provinces issued by district courts failed to provide information on how many of the 12,357 patent cases in 2016 involved foreign parties. In an attempt to decipher this information, we downloaded and scrutinized all concluded patent trial cases on invention patents in the whole of China in 2016 from itslaw.com, amounting to 2,200 cases, analyzed and classified them to determine how many had a foreign party and how they fared. These 2,200 cases were concluded in 2016, and the judgments have been published on the China Courts website, in which a compilation of completed cases are available. Invention patent disputes were the focus of the analysis as there are simply far too many design and utility model infringement cases to analyze manually.

During the search, we focused on the names of both involved parties and used common sense and previous experience to distinguish whether the party was foreign. Based on our search and screen, only 248 of the 2,200 cases involved at least one foreign party, i.e., 13% of the total. Among the 248 cases, as shown in Figure 3a, 166 cases are infringement cases, 36 cases are invalidation cases, and 40 cases are appealing PRB’s final rejections. The remaining 6 cases are related to patent licensing agreements, patent ownership and petition to superior courts.

In China, patent infringement disputes typically require the parties to try mediation initially. If the parties are not willing to negotiate, or if the consultation is not fruitful, the patentee or interested party may then take legal action before a People’s Court, and request the administration department for patent-related work to handle this dispute.

All Invention Patent Cases involving Foreign Parties (All Courts) in 2016

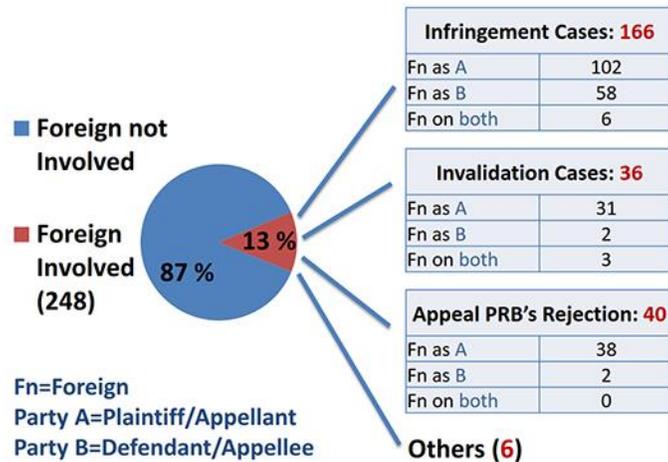


Figure 3a

For patent invalidation cases, the PRB will examine the request for declaring a patent right invalid and make a decision and notify the requesting person and the patentee of its decision. Any person who is dissatisfied with the PRB's decision on declaring a patent right invalid or its decision on affirming the patent right may take legal action before a People's Court. The People's Court shall notify the requesting party in the invalidation procedure to participate in the litigation as a third party. As aforementioned, Beijing IP Court has jurisdiction in the first instance for judicial review of patent invalidation cases decided by the PRB.

For cases appealing final rejections by the PRB, if a patent applicant is dissatisfied with the decision made by the Patent Administration Department under the State Council on rejecting the application, he may file a request for review with the PRB. After review, the PRB will make a decision and notify the patent applicant. If the patent applicant is dissatisfied with the review decision made by the PRB, he may seek recourse before the Beijing IP Court.

The category of cases by industry is shown in Figure 3b. Among these 248 cases, 143 cases belong to manufacturing, encompassing more than 50% of all the cases. As China is often regarded as a manufacturing giant, it is not surprising that a sizeable proportion of IP disputes would stem from the manufacturing industry, and occur amongst transnational corporations in this category. For the remaining cases, 43 are from the life science/medical science industry, 25 cases are from the

telecom industry, 18 cases belong to sale & retail and 14 cases are from the information technology (IT) industry.

It is worth noting that some renowned international enterprises with a strong Chinese market were involved in multiple patent disputes with local companies in China.

For instance, the 3M Company

was involved in 7 disputes in manufacturing and bio & medical science. Telecom giants, Qualcomm Inc. and Samsung Group, were involved in 8 and 13 disputes respectively with Chinese telecom enterprises. The French business magnate, SEB Group, was involved in 7 disputes in manufacturing. We also classified the entities involved in the litigation of the invention patent dispute by nationality, of which the top ten of them with the exact number of involved entities is shown in Figure 3c. U.S. ranked the first, with 68 involved entities, and occupied 26% of the total.

The involved U.S. entities were distributed in manufacturing, telecom, IT, sale & retail, and life and medical science. Germany and Japan were ranked 2nd, with 38 involved entities, respectively. The majority of the German and Japanese entities are involved in manufacturing disputes with the Chinese heavy industry enterprise.

France ranked 3rd, with 22 entities involved. The rest of the countries are, Korea (20), Netherlands

All Invention Patent Cases involving Foreign Parties (All Courts) in 2016, Classified by industry

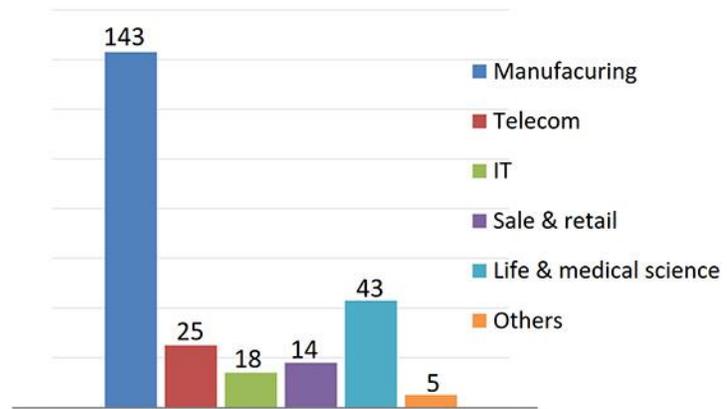


Figure 3b

All Invention Patent Cases involving Foreign Parties (All Courts) in 2016, Classified by countries

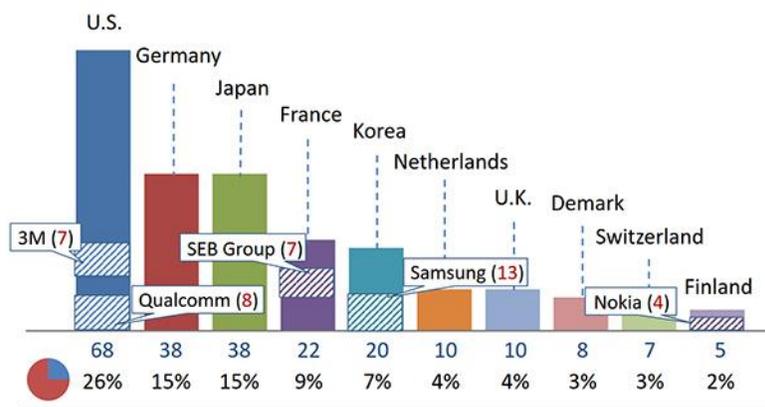


Figure 3c

(10), UK (10), Switzerland (7), and Finland (5). Well-known enterprises like 3M, Qualcomm, Samsung, SEB Group and Nokia are marked in Figure 3c as well.

In order to grasp the true picture on Chinese patent enforcement and patent litigation cases involving foreign parties, we reviewed all 248 invention patent dispute decisions involving at least one foreign party that we could identify in detail. Each case is categorized according to first instance, second instance, last instance or others. The “others” (in Figure 6) include issues such as the preservation of evidence before trial, application for enforcement and dispute of jurisdiction. The foreign parties have also been identified as plaintiff, appellant, defendant or appellee in each case. The statistics and conclusion are listed and discussed as below.

Invention Patent Dispute Cases- Infringement

In 2016, there were a total of 160 invention patent dispute cases distributed among different provinces in China. Among them, there were 6 cases in which both the parties are foreigners. The remaining 154 cases involved a foreign party and a Chinese party on opposing sides. As listed in Figure 4, there were 64 dispute cases decided in the first instance court, including 62 cases in which the foreign parties involved were plaintiffs and 2 cases in which the foreign parties involved were the defendants. According to

2016 Invention patent infringement disputes, Foreign party on one side First instance **64 cases in total**

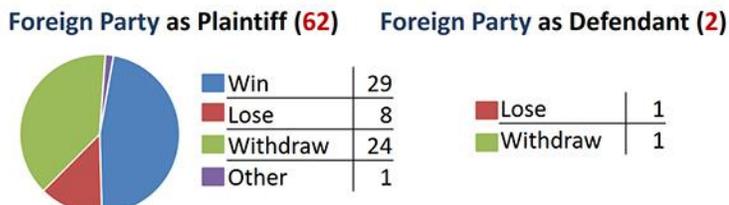


Figure 4

these cases, when foreign parties were the plaintiff, they won 29 cases, while the Chinese party won 8 cases. 24 cases were settled through consultation between the parties. This means the win rate of a foreign party in the first instance in an invention patent dispute in China is approximately 78% when the opposing party is a Chinese company. With such a high win rate, the evidence does not support the common concern that there is a negative bias against foreign parties and that patent enforcement in China is particularly difficult for foreigners. On the other hand, the withdrawal of 24 cases perhaps indicates that Chinese companies are willing to settle infringement disputes by consultation and are open to settlement discussions with the foreign party. This may reflect the

value Chinese society places on harmony over confrontation, since Chinese Courts have long favored an amicable settlement and have procedures in place to promote settlement.

The statistics for the second instance court decision for invention patent infringement dispute is shown in Figures 5. When foreign parties are involved as appellants in the second instance, it is indicated that they are appealing the court’s decision because of the dissatisfaction of the first instance judgement. Normally, it is not easy to amend or commute the original first instance judgment since clear error in procedure, evidence recognition of the judgment must be shown. In view

**2016 Invention patent infringement disputes,
Foreign party on one side
Second instance 76 cases in total**

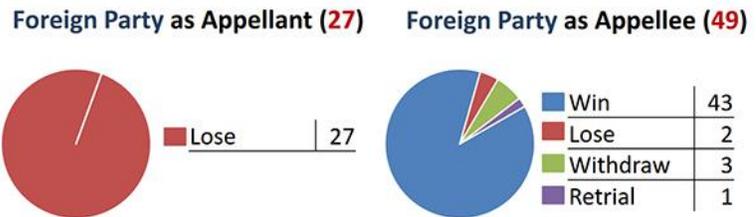


Figure 5

of this it is not surprising that the foreign parties lost all their appeals, totally 27 dispute cases. This figure, however, is not an indication that the High Courts are biased against foreigners, because statistics also show that foreigners have very high success when they act as appellee. 43 dispute cases had the original judgement affirmed, only 2 original judgements were amended, and 1 case was remanded for retrial. In other words, the same poor success rate is seen across the board for all appellants, regardless of whether they are foreign or Chinese entities. In fact, these statistics indicate that, regardless of the nationality of the appellant, the chance of success is extremely low when a party appeals a lower court’s decision after losing the patent litigation case in the first instance. If a foreign party loses in the first instance, then it is quite difficult for them to win even if they appeal to a higher court. On the other hand, if a foreign party won in the first instance, and their opponent appeals to a higher court, it is difficult for the foreign entity to lose as well. We may conclude that no evidence of bias or prejudice can be seen against foreign party from these statistics.

In China, patent litigation typically starts at the intermediate court level, and there is only one opportunity for appeal as a matter of right i.e., to the high court, and appeal to the SPC is subject to the approval of the SPC. Figure 6

is an investigation of the success rate in a second instance appeal to the SPC. According to our sources, there were 9 dispute cases in total that were accepted for the SPC in 2016. In 3 of these cases the foreign party was involved as appellant. In the other 6 cases, the foreign party was involved as appellee. As the

**2016 Invention patent infringement disputes,
Foreign party on one side
Last instance 9 cases in total**



Others 11 cases in total

Figure 6

SPC strongly influences the national courts by issuing various regulations of new policy of justice, valuation of courts, and judicial reforms, it is instructive to view the cases and issues which the SPC has heard. The three cases in which foreign parties are involved as appellants are Nokia (Finland) vs. HUAQIN Telecom Technology Co., LTD (China), Shuanghuan Machinery Limited (China) vs. Rex Cameron Lucas (Australia), and Maschinenfabrik Rieter AG (Switzerland) vs. TONGHE (China).

In the Nokia case, Nokia decided to withdraw the case after the infringed patent, No. 200480001590.4 was declared invalid. In the Rex Cameron Lucas case, the issues decided by the SPC were how to determine equivalence in technical features and whether the amount of compensation was appropriate. The SPC disallowed the request of both parties for a new hearing and affirmed the original judgement. In the Maschinenfabrik Rieter AG case the related issues were technical features, claim scope, and scope of protection. The Foreign party's request was disallowed.

The SPC decisions mentioned above upheld the lower court decision but there was one case where the SPC reversed the original judgement. Unfortunately, in this case the decision was unfavorable to the foreign party. As listed in Figure 6, when a foreign party was involved as appellee, one case was affirmed. This patent dispute was between a Swiss cutting tool manufacturer and a Chinese manufacturer. According to the SPC, the legal basis of commute is that the technical feature of the alleged infringing process and the corresponding technical features of independent claim 1 are not

the same, and therefore does not fall within the scope of the claim. The SPC further restated the understanding that the scope of patent protection for the patent right of an invention or a utility model shall be confined to what is claimed, while the written description and the figures attached are only used for claim interpretation.

Table 1 shows statistics involving two foreign parties in invention patent infringement disputes. There are 3 cases in the first instance, 1 case in the second instance and 2 cases in the final instance. These 6 cases mainly relate to three technical fields, mechanical components, information technology and chemical fields. The 3 cases were, in the first instance, settled out of court. The decision of other cases in the second and last instance affirming the original judgment or rehearing in separate cases. The issues decided by the SPC were the court's jurisdiction and determination of a separate or joint trial.

First Instance (3)				
Case	Plaintiff	Defendant	Result	Detail
Hitachi-Omron Corp. v. Nautilus Hyosung Inc.	Japan	Korea	Withdraw	Cash Deposit Machine
Nagravision v. Apple Inc.	Switzerland	U.S.	Withdraw	Technology on TV
OpenTV Inc. v. Apple Inc.	U.S.	U.S.	Withdraw	Technology on TV
Second Instance (1)				
Case	Appellant	Appellee	Result	Detail
Intematix Corp. v. Mitsubishi Chemical Corp.	U.S.	Japan	Affirm original judgment (JP wins)	Chemicals
Last Instance (2)				
Case	Appellant	Appellee	Result	Detail
Katoh Electrical Machinery Co., Ltd. v. Rich Admiral International Ltd.	Hong Kong	Japan	Affirm original judgment (JP wins)	Mechanical Components
ZAMR v. Rhodia Operations & Daiichi Kigenso Kagaku-Kogyo co. ltd	Canada	France & Japan	Rehearing in separate cases	Chemicals

Table 1

Invention Patent Dispute Cases- Invalidation

China subscribes to a bifurcated system of patent law in which any challenger to the validity of a patent first files an invalidation request with the PRB of SIPO, which will issue a determination of validity accordingly. A person or a party dissatisfied with the PRB’s decision may then appeal to the Beijing IP Court, which has exclusive jurisdiction over such appeals. If the Court overturns the decision issued by PRB, the case will be remanded back to the PRB. In these successfully appealed cases, the judge will point out which laws or regulations are incorrectly applied or interpreted in PRB’s decision. The PRB will then re-examine the case again under the corrected understanding of the laws and regulations. In 2016, data published by itslaw.com indicate that out of 248 invention patent disputes cases, there were 36 cases relating to appeal of PRB invalidation decisions before the Beijing IP Court.

As illustrated in Figure 7, out of the 36 cases there were 12 cases involving a foreign party in the first instance of judicial review. Only one foreign party successfully defended their patent at this instance, 8 foreign parties failed and 3 foreign parties decided to settle out of court.

The patentee of the successfully appealed case was ZUIKO Corporation, from Japan. The PRB was involved as the defendant, and an individual, Zhang

Xueshou, who acted as the requester for invalidation of ZUIKO’s patent No. 01139639.3 was involved as the third party in this case. This patent disclosed a rotating apparatus and a method to fold fabric. The background of this case is that Zhang tried to invalidate ZUIKO’s patent on the basis of three prior art documents. The claims of the ZUIKO patent were written in functional languages, resulting in an invalidity decision by the PRB during patent re-examination for lack of inventiveness. In the Beijing IP Court decision, the Court pointed out that many of the claims were written in functional languages, such that the scope of protection and the technical solutions were incorrectly understood and interpreted by the PRB during patent re-examination. When evaluating the inventiveness of the technical solution, the PRB made the invalidity decision based on

**2016 Invention patent invalidation disputes,
Foreign party on one side
First instance 12 cases in total**

Foreign Party as Plaintiff (12)
PRB as Defendant



Figure 7

conventional understanding in this field, not fully based on the claim of patent because of the abuse of functional languages. The Court stated that it is easy for PRB to misunderstand some of the technical features and structures which were claimed in the patent, thereby affecting PRB’s decision on the inventiveness. Further, the Court pointed out that the claims should not only clarify and succinctly define the scope of patent protection, but also rationally and adequately summarize the content of the technical solution based on the specification. The deliberate use of functional language in claims for obtaining inappropriate scope of protection should be prohibited. On the other hand, the Court pointed out that the technical problem solved in the claim, if correctly understood, was not substantially the same as the cited prior art, and the two have no corresponding relationship. Accordingly, the PRB should rectify its erroneous decision by re-examining the inventiveness of the claims on the basis of the correct understanding. The case was remanded back to the PRB for further re-examination. The third party Zhang, appealed to the Beijing High Court, but the High Court upheld the Beijing IP Court decision (see below).

Any party that is not satisfied with the Beijing IP Court decision on invalidation in the first instance may appeal the decision to the Beijing High Court. In the data that we could find, there were 14 concluded cases relating to patent invalidation dispute in the second instance (Figure 8). In 13 of these cases the foreign party was the appellant. In these 13 cases, the foreign parties appealed the original decision, with 3 of the appeals succeeding, and 10 of the appeals failing.

**2016 Invention patent invalidation disputes,
Foreign party on one side
Second instance 14 cases in total**

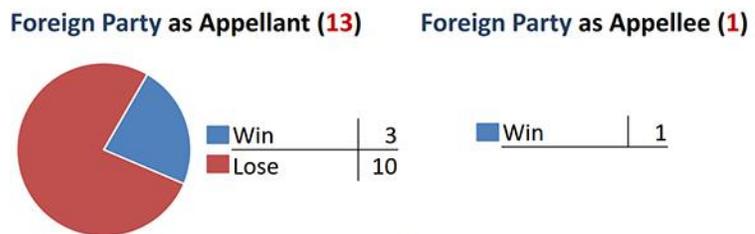


Figure 8

The three successful appeal cases are Daiichi Sankyo Company Limited (Japan) & Ube Industries, Ltd. (Japan) vs. PRB & Hua Xia Sheng Sheng Da Yao Fang (third party), Microchip Technology Inc. (US) vs. PRB & Shanghai Haier Integrated Circuit Co., Ltd. (third party) and Nokia (Finland) vs PRB & Huaqin Telecom Technology Co., Ltd. (third party).

In Microchip Technology Inc. (US) vs. PRB & Shanghai Haier Integrated Circuit Co., Ltd. (third party), the foreign party successfully revised PRB’s invalidation decision by challenging the use

of common knowledge as the basis for the decision of inventiveness. The patent at issue is Chinese utility model ZL200620046587.0, which is owned by Shanghai Haier Integrated Circuit Co., Ltd. (the Haier patent). The technical field is circuit design, particularly, a microcontroller of circuit for generating clock signal. Microchip Technology Inc. (Microchip) tried to invalidate this patent in the PRB, but failed. Microchip then appealed PRB's decision to the Beijing Intermediate Court, but failed again. Microchip continued appealing the Court's decision to the Beijing High Court, and finally got a favorable judgement. In the decision, the Court pointed out the contradiction in the PRB in the invalidation decision. On one hand, the PRB considered that 'the operating mode control circuit for controlling the operating mode of the external clock' is common general knowledge in the art and does not need to be described in detail in the specification. On the other hand, PRB also ruled that because of the above technical feature, this patent had inventiveness. Obviously, there is a logical contradiction between the sufficiency of disclosure and inventiveness of this patent. Therefore, PRB should re-evaluate Haier's patent, and determine whether there is issue with insufficiency or inventiveness.

In *Nokia (Finland) vs PRB & Huaqin Telecom Technology Co., Ltd.* (Huaqin, acting as third party), Nokia appealed the invalidation decision of CN 95190620.8 (the Nokia patent) to the Beijing High Court. The patent discloses the method and apparatus for speech transmission in mobile communication systems. Huaqin tried to invalidate Nokia's patent by challenging claim 1 for lack of clear and concise definition. In particular, Huaqin argued that the limitation of "correspondence" between the channel encoding method and the speech coding method in claim 1 was unclear. This challenge was not accepted by the High Court. According to the Court's decision, claim 1 included the limitation "each channel encoding method specific for said respective speech coding method". Meanwhile, the specification and drawings further supported that the technical feature defined in claim 1 where each channel encoder is correlated to each speech encoder with "one-to-one" correspondence. Since the claim, specification and drawings described the same technical feature clearly, the PRB should re-evaluate Nokia's patent based on the Court's interpretation.

There was one case in which a foreign party was involved as the appellee in the second instance (Figure 8). This means the appellant would be the PRB or a third party related to the previous judgment. The case is the second trial of *Zhang Xueshou (third party) vs. ZUIKO Corporation*, which was discussed above. The third party, Zhang, appealed the judgement of the Beijing IP Court. The Beijing High Court accepted and heard this appeal, and affirmed the original judgement.

Available data further suggests that as an invalidation case is appealed to the final instance, the chance of success continues to diminish. According to our sources, there were a total of 21 cases relating to patent invalidation which we could find that were appealed to the SPC in the year 2016.

As shown in Figure 9, 7 of those 21 cases had at least one foreign party involved. In 6 of those 7 cases, the foreign company was the appellant, and in 1 case the foreign party was involved as appellee. The issues concerned in these cases were diverse, including creativity, novelty, invention

**2016 Invention patent invalidation disputes,
Foreign party on one side
Last instance 7 cases in total**

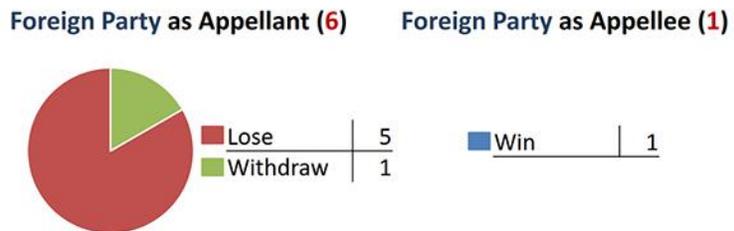


Figure 9

disclosure, reasons of patent invalidation, and protection of claim scope. The results are similar to the infringement dispute cases which were examined previously. Except for one foreign party that withdrew its appeal during the litigation, the original judgments remained unchanged. This data appears to indicate that it is difficult to commute any original decision made by the PRB, even if the party succeeds in appealing all the way to the SPC.

Amongst the invalidation disputes described above, there were three disputes in which both parties are foreign entities. These were First Engineering Aus., & PRB of SIPO v. Zimmer AG (Both from Austria), Bae Yeong Sik v. SONY (PRB as third party), and Wuzhou IPR consultant v. PRB & Delta Electronics, Inc. The three disputes were all hearing in the second instance. With no exception, the published judgments of the three cases were summary affirmation of the original judgment without providing more details. The concerned issues included modification of specification, claim scope, novelty and creativity. In First Engineering Aus., & PRB of SIPO v. Zimmer AG, the SPC emphasized that amendment to the invention or utility model patent application documents did not exceed the scope specified in the original written descriptions and claims. The SPC also restated that when compared with the existing technologies, the invention possesses prominent substantive features and indicates remarkable advancements.

Invention Patent Dispute Cases- appealing PRB's final rejection

According to the data released at a press conference on January 20th 2017, SIPO received over 130,000 applications for invention patents from foreign entities in 2016, which hits a new record high. If a patent application is finally rejected, the only recourse for the applicant is to file a request with the PRB for review. If PRB's review decision is still not satisfactory, he may take legal action before the Beijing IP Court. The available data indicates that, in the 248 invention patent disputes cases that we studied, 40 cases were related to appealing final rejections by the PRB.

As illustrated in Figure 10, there were a total of 19 cases in the first instance, with 4 successful appeals, 12 failures, and 3 withdrawals, indicating that although the patent application may be rejected during prosecution, there is still a chance to re-open prosecution through judicial appeal. Meanwhile, since it is just the first instance, the failed parties have recourse to appeal the court's decision to the Beijing High Court in the second instance.

2016 Appeal PRB's final rejection, Invention patents
First instance 19 cases in total

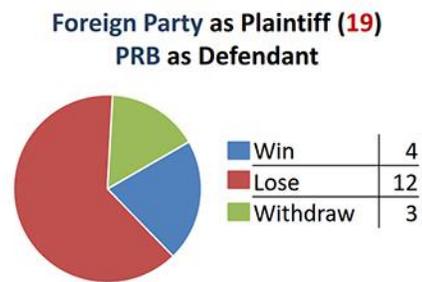


Figure 10

As shown in Figure 11, the available data shows that 16 concluded cases related to patent final rejection were heard in the second instance in 2016.

Foreign parties were the appellants in 14 of these cases, appealing the court decision in the first instance (in some instances, the legal proceedings have taken so long that the first instance court was the Beijing intermediate court before the

2016 Appeal PRB's final rejection, Invention patents
Second instance 16 cases in total

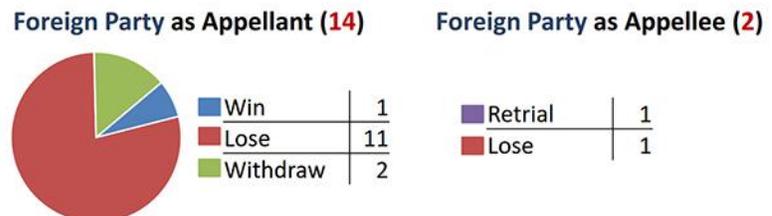


Figure 11

institution of the Beijing IP Court). One of the appeals was successful, 11 of the appeals were unsuccessful, and 2 of the appeals were withdrawn. Meanwhile, there were 2 foreign parties

involved as the appellee. This just means that in some circumstances the PRB may not be satisfied with the decision of the Beijing IP Court and may appeal to the Beijing High Court to try to commute the decision. The two cases were PRB vs. HVCC (Korea), and PRB vs. E. I. du Pont de Nemours and Company (U.S.).

The published judgements of the 2 cases in which the foreign parties were appellees were discussed in considerable detail. In the HVCC's case, the original decision of the first instance was overturned, and a retrial in the Beijing IP Court was ordered by the Beijing High Court. The concerning issue in this case was inventiveness and the involved patent application number was 201110181422.X. A double pipe type heat exchanger and method for manufacturing were disclosed in this patent. The High Court stated that by combining two relevant documents those skilled in the art would be able to arrive at the distinguishing features disclosed in claim 1 without any creative work and the claim is therefore invalid. The judgment of the Beijing IP Court was revoked, and the PRB was ordered, on the basis that claim 1 does not have any inventiveness, to rehear this case again, and make a review and decision as to whether the other claims have inventiveness. Currently, the rehearing of this case is still pending.

The PRB succeeded in their appeal in E. I. du Pont de Nemours and Company (DuPont)'s case. Previously, the Beijing IP Court overturned the original PRB invalidation decision on the patent application number 200680040913.X. The PRB then appealed this decision to the Beijing High Court. The technical field was chemistry. DuPont's patent discloses azeotrope compositions comprising e-1,3,3,3-tetrafluoropropene and hydrogen fluoride and its uses. Similarly, the issue raised by the High Court was also inventiveness. The High Court stated that the technical solution of claim 1 is apparent from the technical solutions in the art; therefore claim 1 does not have inventiveness. Also, the prior art disclosed how to obtain the formulation of the azeotrope, so the PRB's invalidation decision on inventiveness was supported. Another important issue stated by the High Court is the hierarchy of evidence for interpreting claims. In the judgment, the High Court states that for interpretation of terms in a claim, intrinsic evidence, such as claim language and definitions in the specification, takes precedence over extrinsic evidence, like general meaning in the technical field. In this case, the patentee tried to restrict the term E-HFC-1234ze to a particular limitation by defining this term with intrinsic explanation in the specification. However, since intrinsic explanation of this term was not clear, it would not be apparent to those skilled in the art that the particular limitation may be determined by the intrinsic explanation. As cited by the

Beijing High Court in the published judgement, when intrinsic evidence is not sufficient to determine the meaning of the term, extrinsic evidence should be used to determine its meaning. To those skilled in the art, since the term has a general meaning in the field, the understanding of the term should be given its broadest reasonable interpretation. It is because of this broad interpretation of the claim that the claims are deemed to read on the prior art.

Although these cases appealed by the PRB are not precedential, and the sample size would not be statistically significant, they do suggest that the PRB takes a strong stance if the Beijing IP Court overturns PRB decisions on technical grounds such as inventiveness and claim interpretation, and shows that the PRB will likely appeal such Beijing IP Court decisions. Therefore, when appealing to the Beijing IP Court, patent owners should consider the type of issues to be raised. If the main issue raised is a technical one such as inventiveness or the technical aspects of the claim scope, than even if they win the appeal in the Beijing IP Court, the PRB is likely to appeal the Beijing IP court decision to the Beijing High Court. Thus patentees need to expect protracted legal actions with the PRB for such cases.

According to our sources, when a final rejection is appealed to the SPC, the chance for commute is quite rare. The 5 cases which were appealed to the SPC are shown in Figure 12. The results are similar to the infringement dispute cases we examined previously, i.e., the original judgments rarely change. It is difficult to commute the original judgement, even if one appeals to the SPC. The issues discussed in these cases included novelty, inventiveness, invention disclosure, and claim scope.

**2016 Appeal PRB's final rejection,
Invention patents
Last instance 5 cases in total**

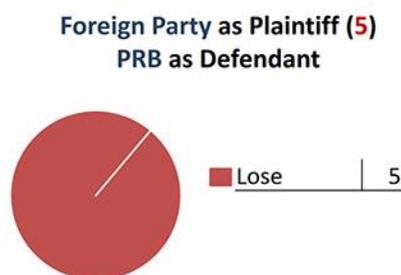


Figure 12

Conclusion

It is fair to conclude that Chinese patents are enforceable. It is also time to dispel the longstanding notion that foreign parties receive prejudicial treatment when trying to enforce their patents in

China, such notion perhaps caused by the skewing of IP enforcement data due to the high number of copyright and trademark infringement cases. Our review of case statistics and judgments have shown that foreign entities looking to enforce their patents were not subjected to unfair treatments or bias by the courts by virtue of them not being Chinese nationals or entities. However, if a foreign party lacks the understanding of the specific requirements of the Chinese legal system when planning enforcement strategies, for example in terms of evidence collection and timelines in litigation, then their ability to enforce their patents would be markedly compromised. The difficulty of evidence collection is indeed one major hurdle for patentees trying to enforce their patents in certain technologies, but this is true across the board whether the patentee is a Chinese national/entity or a foreign corporation.

In addition, the reality is that foreign applications require translation for filing in China while their Chinese counterparts are drafted originally in Chinese. Clearly, the need for translation is a disadvantage as any ambiguity created during translation or any misunderstanding by the translator that is not rectified could affect the quality of the resultant Chinese patents. In fact, translation problems may be one factor resulting in the relatively low number of foreign-originating patent litigation. It is therefore imperative that a good translation be used for filing the patent applications. Ideally, the translation is reviewed by the patent attorney who will be prosecuting the case before the application is filed. Any ambiguity or inconsistency that warrants clarification should be proactively discussed with the original foreign patent attorney to ensure that the meaning of the translation is as originally intended.

IP enforcement is a double-edged sword. Improvement of the enforcement environment in China will increase the enforceability of both foreign-owned and local-owned patents. Foreign companies must therefore wake up to the fact that the Chinese government's efforts to improve enforcement have resulted in rising awareness by Chinese entities and individuals of the value and importance of patent protection to their own business and commercial success. The effects of this awareness is translated into a formidable number of patents being applied for and granted to Chinese entities relative to their foreign counterparts. According to statistics issued by SIPO, the total number of patent applications filed by Chinese residents in 2016 is over 1.2 million. The government is trying to increase this number to 2.5 million in the next five years. One of the reasons for the high numbers is due to the "picket fencing" strategy that is often applied by Chinese companies to limit the practicing scope of a competitor's broader or more basic patents. In the long

run, it would not be surprising if a foreign entity that may have developed an original technology is blocked from producing products of their own technology if they are not aware of the IP portfolio that their Chinese counterpart is amassing. It is therefore imperative that foreign companies formulate their own defensive filing strategy in China through a dynamic, forward-looking and targeted IP program tailor-made for the Chinese market.

Introducing authors:

Eagle IP specializes in preparing and drafting bilingual patent applications up to US and Chinese standards for the past 17 years to build multinational patent portfolios up to high US standards but with a unique China strategy.

For PCT national phase entry applications into China, the translation process at Eagle IP is monitored by the patent professional assigned to prosecute the case, and our management and quality control system is ISO9001 certified.

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