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## An Overview of Patent Litigation in China

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This article is intended as an overview of patent litigation in China. It is not intended to be an all inclusive know-how guide for litigation in China. For detailed case specific information, please contact us separately with detailed information.

### PROTECTION AREA

According to Chinese Patent Law § 11, any entity or person cannot use the patent without the permission from the patentee. Use means manufacturing, producing, offering to sale, selling, or importing the patented product, or implementing the patented method or using, offering to sale, selling, importing products manufactured employing such method.

### GENERAL PROCEDURE TO RESOLVE DISPUTES

According to Chinese Patent Law § 57, if someone employs the patented technology without the permission of the patentee or assignee, he or she is infringing on the patent rights of the patentee. As a matter of principle, the disputing parties should negotiate to settle the disputes.

When the parties cannot reach an agreement, there are two paths to resolve the differences: (1) filing a lawsuit in People's court or (2) seeking administrative relief from the patent administration agency residing in each province or city.

### PATENT ADMINISTRATION AGENCY

Patent administration agencies are those executive agencies that have the capacity to determine accusation of infringement and to issue administration orders to stop such activity. If the agency determines that there is in fact infringement, the agency can order the other party to stop such activity that constituted infringement. If the other party disagrees with the determination, the other party can appeal to the People's court. If the other party does not respond to the cessation order and continues with activities infringing the patent under consideration, the agency will apply for a court order to compel compliance.

The agency can also mediate in determining damages. However, the agency cannot order any party to pay damages nor can determine the exact amount of damages. If parties cannot reach an agreement, parties can file suits in the people's court seeking damages.

This resolution method has its advantages and disadvantages. The advantage is that this method is relatively easy to invoke and enforce. There is normally no fine or damage involved. The agency simply orders the other party to cease certain activity. Therefore, the decision is normally easier to be accepted by the other party. Another advantage is that this method is usually cheaper since there is no court cost

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and relatively low attorney's fees. The disadvantage is that there is no time limit as to when the agency should render its decision (the courts have time limits for rendering decisions). Therefore, the process might be stretched out to relatively long duration due to local protective influence. **And once a resolution path is selected, one cannot abandon the selected one and choose the other path.** Therefore, one cannot file suits to courts when this administrative proceeding gets mired in the process.

## FILING LAW SUIT TO PEOPLE'S COURT

There are four levels of courts in China. The basic court resides in each local district. Above basic court is mid-level court. To review mid-level courts' decision, one has to seek review from the provincial Supreme Court. If one is not satisfied with the decision of the provincial Supreme Court, one can appeal to the Supreme Court of China.

For patent litigation, only certain mid-level courts can hear the cases. One has to file to the specified court or the filing will be rejected for lack of jurisdiction. For example, in Beijing, one has to file to the Beijing First Mid-level Court for patent matters. If one is dissatisfied with the mid-level court's administrative decision, one can appeal to the Beijing Supreme Court. The Beijing Supreme Court is required to hear the appeal. After the Beijing Supreme Court renders its decision, one can still seek review from the Supreme Court of China. This review is elective, not mandatory.

### *STATUTE OF LIMITATION*

The time limit to bring an infringement lawsuit in China is two years from the time the infringed party knows or should have known about the infringing activity. If the party already knows about the infringing activity before the granting of the patent, the two years starts when the patent is issued.

### *BURDEN OF PROOF*

Under Chinese civil law, whoever brings a lawsuit has the burden of proof. Therefore, under normal situations, the plaintiff has the burden to prove that the alleged infringing activity is within the protection scope of his or her patent. Specifically, one has to provide proof as to (1) the exact protection scope of his or her patent and its current status; (2) the time, location and activity by the defendant that constituted infringement; (3) the activity of the defendant is within the scope of the patent under consideration.

An exception to this rule is for manufacturing method claims. Since the method is only used in the manufacturing process, it would be difficult for the plaintiff to obtain actual objective proof. Therefore, the burden is shifted onto the defendant to prove that the method he or she is using to manufacture the product does not infringe on the patent right of the plaintiff. If the defendant cannot disprove the allegation, the court presumes infringement.

### ***Basic Process***

The plaintiff in the lawsuit can file to the specified mid-level court in the area with an allegation of infringement. The plaintiff should provide enough documents or sample for the court to determine the scope of the suit. Normally, such documents include patent claims, other party's product or other technical documents showing the alleged infringement.

After the plaintiff files for infringement to the court, the defendant has 15 days to file to the patent

review board to invalidate the patent after receiving the complaint. For foreign entities that do not have addresses in China, the time is 30 days after receiving the complaint.

At this point, for different types of patent, the litigation process is different. For invention type of patents, the court usually ignores the invalidation filing since all invention type patents have been examined substantively, so there should not be any question of validity. Therefore, the trial would go on at this point for invention type patents.

For utility model and design patents, since there was no substantive examination in the prosecution process, the patent review board will accept the invalidation request and re-examine the patents substantively. While the re-examination is in process, the trial is paused pending the end result of the re-examination. The re-examination process normally takes about one year.

After the patent board has determined the validity of the patent, the trial now can continue. A lot of times the patent will be invalidated, and therefore, the trial is over. Another result might be partial invalidation, meaning some claims were invalidated, but there are still valid claims. The court, then, will use the remaining valid claims to continue examine the infringement claims. If the patentee is dissatisfied with the decision of the board, the patentee can file for judicial review of the board's decision as a separate trial.

Because of this re-examination process, a lot of patentees choose other methods to enforce their patents before filing lawsuits. One method is sending the alleged infringer a warning letter asking to stop using the technology, or negotiating with the other party to reach an agreement such as a licensing agreement or some sort of restitution solution.

After the validity of the patent is no longer in dispute, the court will send out investigators to the defendant's factory or production facility to seek evidence on behalf of the plaintiff upon motion by the plaintiff. All the technical evidence including things such as product manuals, actual product, patent description and claims, and etc is then sent to a certified expert organization to compare the technical aspect of the plaintiff's claims against the product of the defendant. The result of such organization can now be questioned. Things such as the expertise of the person given the report can be disputed.

One of the items the court seeks from the defendant is the general Léger of the defendant. A certified accounting firm is used to determine the profits or losses the defendant has accumulated by using the alleged infringing technology. This figure is used for the court to determine final damages.

After considering the technology comparison results from the expert organization, if the court determines that there is actual infringement, the court will pronounce that the patent was infringed. A board of no less than three judges renders the decision. Normally, a senior level judge is the leader of the team, but in actual practice, normally one judge will make the decision.

### ***Appeal***

After the mid level court has rendered its decision, the plaintiff or defendant has 15 days to appeal to the provincial Supreme Court after receiving the decision. (For foreign entities that do not have addresses in China, the time is 30 days after receiving the decision.) The appeal brief has to be filed to the court that renders the decision. A fee is required to start the appeal process. If within 7 days the appellant does not pay the fee, the appeal is then considered withdrawn. After the fee is paid, the mid-level court then transfers the files to the provincial Supreme Court. The same procedure is used to appeal to the Supreme Court of China.

### ***Damages***

The court will take into account the following factors to determine the damage:

- Damage to the plaintiff
- Benefit to the defendant
- Multiple of license cost (1-3 times)
- Official restitution damage

The basic principle of determining damage is restitution. If the damage to the plaintiff can be determined, the award is normally determined by such damage. If the damage to the plaintiff cannot be determined or there is no measurable damage to the plaintiff, then the benefit to the defendant is used. However, if there is no measurable benefit or the defendant actually suffered a loss in the process, the multiple of license fees or preset restitution damage is then used.

The present restitution damage is a set of numbers ranging from 5,000 RMB to 500,000 RMB. The determination of such damage is rather arbitrary. The judge will make a decision as to how much one should pay as restitution depending on how severe the judge considers the infringement activity is. This method of damage determination has been greatly criticized due to its arbitrary nature. Therefore, a new method of using multiple of license fees is used today. This method gives the plaintiff the amount of damage equal to a multiple of the license fees the plaintiff is actually receiving. The multiple is normally one to three times.

There is no punitive damage in China. Only restitution can be obtained.

#### *INJUNCTIVE RELIEF*

Before filing a lawsuit if a party can show with objective proof that the infringement is in process and would caused severe harm or property damage if not stopped, then a party can apply for an injunction to the People's court to stop the infringing activity.

#### EXPORT CONTROL

The Chinese patent law does provide a method to control exportation of infringing products from China. After obtaining the patent, a patentee can register the patent with the Chinese Customs Office by filling out certain forms. The Customs Office has the duty and responsibility to seize the alleged infringing product. In practice, the Customs have almost always relied on tips from patentees or his licensees for information regarding the infringing product. Nevertheless, this is still a way to enforce one's patent rights. After the goods are seized, the patentee or his licensee can seek either administrative relief or file a lawsuit as we discussed above.