



SECURING YOUR RIGHTS IN A CHANGING CHINA

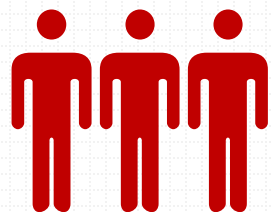
6/7/8th Floor Tower A, Hundred Island Park, Bei Zhan
Bei Jie Street, Xicheng District, Beijing 100044. P.R. China
Fax: (+86)10 8836 9996
Tel: (+86)10 8836 9999
www.changtsi.com

Shanghai, Guangzhou, Shenzhen, Nanning, Hong Kong and
Taiwan, liaison offices in the U.S.

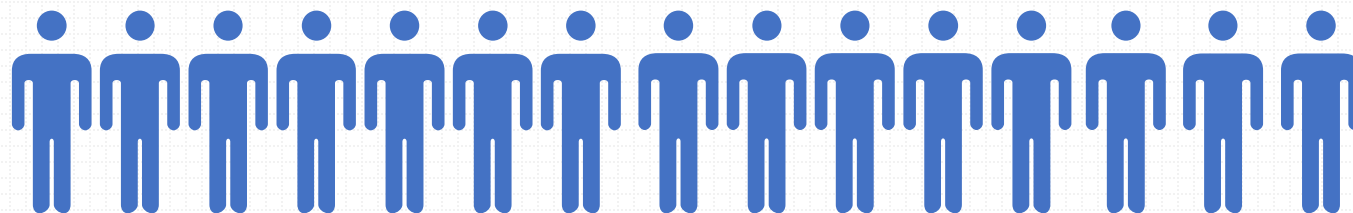
IP Civil Enforcement in China

Change in Institution

3 IP Courts + 17 IP Tribunals of Courts + 1 IP Tribunal of Supreme Court



2014 - 3 IP Courts in Beijing, Shanghai and Guangzhou



2017- 15 IP Tribunals of Courts in Tianjin, Zhengzhou, Changsha, Xian, Hangzhou, Ningbo, Jinan, Qindao, Fuzhou, Shenzhen, Nanjing, Suzhou, Wuhan, Hefei and Chengdu



(new)

2018- 2 new IP Tribunals of Courts in Nanchang and Changchun



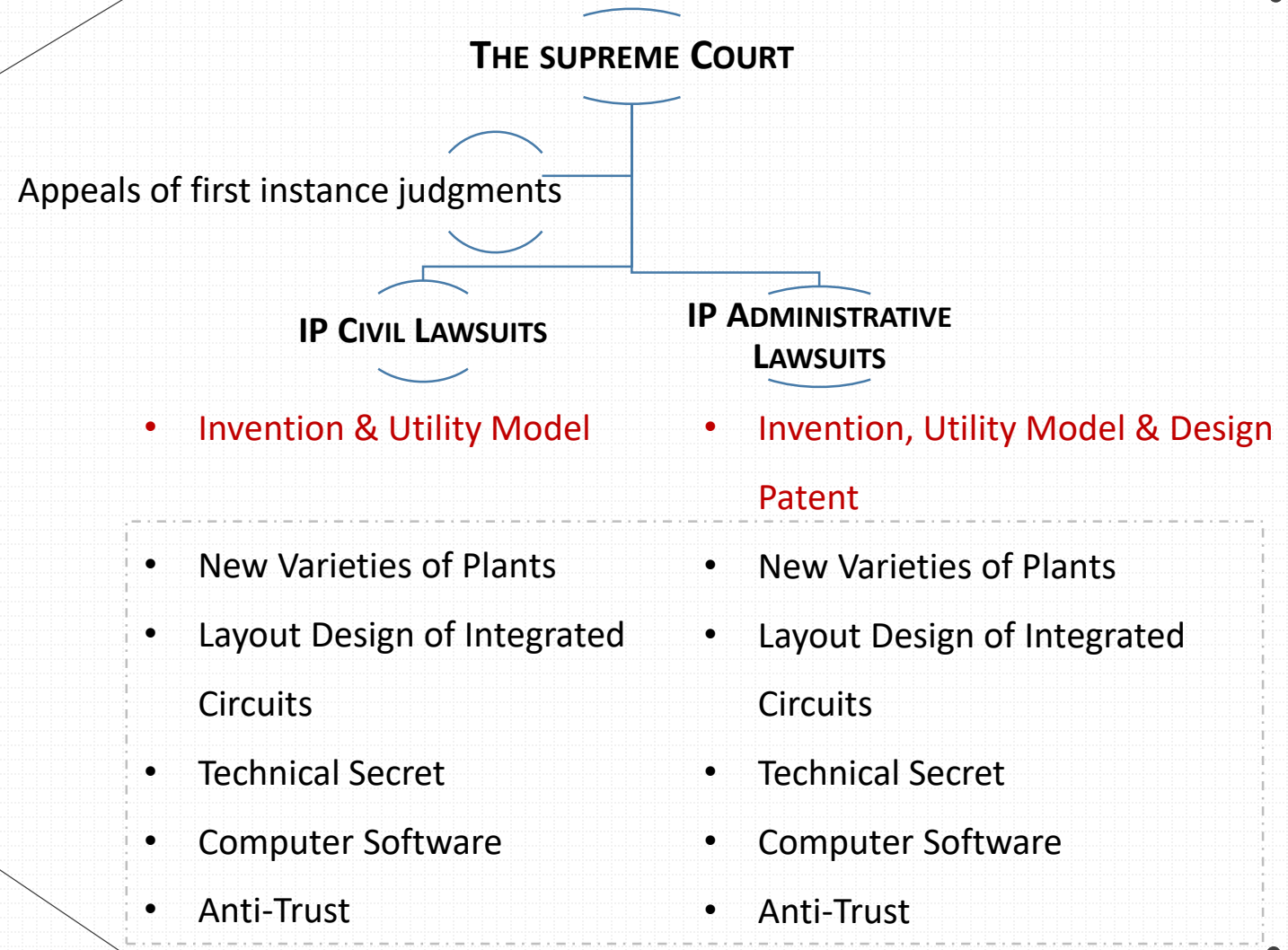
(new)

2019- IP Tribunal of Supreme Court established

Change in Institution

New Appeal Mechanism for Patent Cases *came into effect on Jan 1, 2019*

New Appeal Mechanism



❑ Unify Case Trial Criteria

❑ Avoid potential local protectionism

Change in Institution

New Appeal Mechanism for Patent Cases *came into effect on Jan 1, 2019*

VALEO SYSTEMS D'ESSUYAGE v. Xiamen Lucas Auto Parts Co., Ltd. - **First patent infringement case heard by IP Tribunal**

1. Lucas and Fuke manufactured, sold and offered for sale, the windshield wiper products without Valeo's consent
2. The product is alleged to fall into the protection scope of the patent CN 1982128 B
3. Shanghai Intellectual Property Court made a partial judgment, and hold that Lucas and Fuke infringe the patent '128 and ordered the infringing parties to stop infringement.
4. Lucas and Fuke appealed the judgement to the Intellectual Property Tribunal of the Supreme Court.
5. The Intellectual Property Tribunal of the Supreme Court made a judgement upholding the partial judgment within 50 days.

Change in Institution

New Appeal Mechanism for Patent Cases *came into effect on Jan 1, 2019*

VALEO SYSTEMS D'ESSUYAGE v. Xiamen Lucas Auto Parts Co., Ltd.

Improvements: 1. efficiently issued a permanent injunction;
2. reduce the cost
3. increase the chance on settlement of damages

Preliminary injunctions and partial judgment:

Partial judgment on injunction	Preliminary injunction (Behavioral Preservation)
Final entity judgment	Non-final preservation measures
Can be used for any litigation request (including cessation of infringement, and it could also be determined not to constitute infringement).	Can be used only for behavior (ordering or prohibiting certain behaviors).
Making prior judgment is an ordinary procedure in the trial of the case and does not require special reasons.	The issuance of preliminary injunction generally requires the occurrence of an emergency (no prohibition will make the judgment difficult to enforce or cause other damages).
The prior judgment to stop the infringement is premised on the determination that the defendant constitutes an infringement. Nevertheless, the first judgment can also determine non-infringement.	Not premised on the determination that the defendant constitutes an infringement.
The first-instance prior judgment did not take effect, and could be appealed and could not be executed immediately.	Preliminary injunctions can be enforced immediately.



2018-Trademark/Patent Filing Increasing

- 1,602,000 Chinese domestic invention patents -18.1% increasing;
- 18,049,000 Chinese domestic trademark registrations -32.8 increasing.

2018 – 77,000 Patent Administrative Complaint Cases & 31,000 Trademark Administrative Complaint Cases

- Involving case value of 80 million USD (RMB550,000,000)

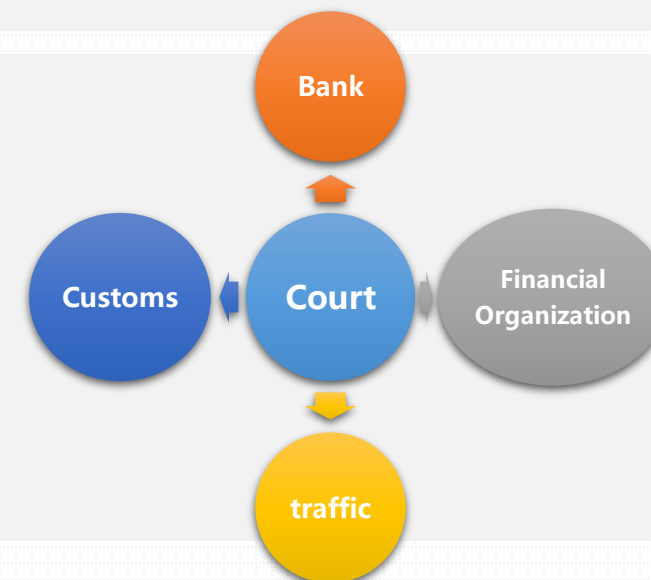
Further Increase Damages

- China Supreme Court emphasized that judicial work should be market-value orientated, addressing the issue of low compensation for the IP infringement conducts.
- Measures such as increasing the upper limit of statutory damages for infringement as well as establishing a punitive damage system are all under consideration.



Blacklist and Sideline for IPR Violators

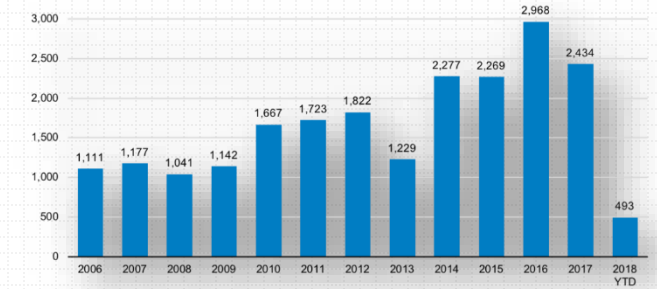
- The Chinese National Development and Reform Commission (NDRC) published a **Memorandum of Cooperation on Joint Disciplinary Actions Against Seriously Untrustworthy Parties in the Field of IPR** directed at curbing misconduct by companies or individuals with respect to IPR.
- The Memorandum prescribes up to **38 rigorous administrative and economic penalties for repeat IP-related offenses**, to be meted out with support from the People's Bank of China and multiple government bodies, such as General Customs Administration (GCA), etc..



Patent Litigation

Patent Litigation Statistics in China

1. Amount of Patent cases dramatically increased from 2006 to 2018.
2. Popular Jurisdictions: Beijing, Shandong, Jiangsu, Shanghai, Zhejiang and Guangdong.
3. Average terms
first instance: 8 months; second instance: 4 months.
Complicated invention patent infringement cases : 3-4 years.
4. Statutory damages of patent infringement:
CNY1 Million (USD 147,000). 40% cases granted compensation
wherein 95% apply to statutory damages.
Average compensation of patent infringement: USD16,348.
5. No punitive damage for patent infringement.
6. Plaintiffs win rate in patent infringement case reaches over 80%.
7. Many Chinese companies are not paying much attention to patent infringement risks before launching products in the market.



Damages Tier (USD)	Avg. Damages Awarded (Yuan)	Avg. Damages Awarded (USD)	Cases Closed
\$10M+	157,500,000	23,625,000	1
\$1M+	23,823,147	3,573,472	13
\$100K+	1,412,503	211,875	200
Less than \$100K	69,127	10,369	13,138

Conclusion: Patentee could select China as another battlefield of patent infringement lawsuits because

- ❑ Court conclude patent litigation in a faster way
- ❑ less consideration of the purpose of litigation of plaintiff
- ❑ higher rate to win the lawsuits as plaintiff
- ❑ Chinese companies' attitude towards the risk of patent infringements

Amount	Damages (CNY)	Damages (USD)
Maximum Damage	80,500,000	11,838,235
Average Damage	111,166	16,348

■ Court of Jurisdiction

- Intermediate Court
- Intellectual Property Court, Intellectual Property Tribunal (3+15)

■ Connecting Point

- Defendant's Residential Place
- Place of Infringement Act (manufacturing, sale, offer for sale, usage etc.)

■ Procedure

- First instance: trial term of six months
no trial term to foreign cases
- Second instance: For design patent, High Court located in the same provincial administrative area;
For invention or utility model patent, IP Tribunal of Supreme Court

Patent Litigation

Current system– Judicial Protection

Preparing a pre-litigation strategy

Cross-examination on evidence

Open session: filing statement of attorney, Communication with judge or Possible Mediation

Drafting and filing the Complaint, List of Evidence and organizing the evidence materials

Pre-trial Conversation

Decision

The court has the discretion to decide whether the patent invalidation suspends the court proceeding

Patent Litigation

Current system– Administrative Protection

■ Authorities: municipal patent administrative administration

- Local Intellectual Property Office above municipal level
- Administration for Market Regulation

■ Procedure

- Administrative phase: administrative decisions become effective immediately upon it is made. Reconsideration request can be made to higher authorities.
- Judicial Review phase: judicial review may be conducted by the court where the decision-making administrative authorities are located (intermediate court; intellectual property court, intellectual property tribunal) (second instance is final)

Patent Litigation

Basic Process of Patent Litigations for PLAINTIFF



Note: The establishment of IP tribunal in the Supreme Court will minimize the risk of local protectionism, and the judges in IP tribunal are experts in handling complicated cases involving high technical issues.



Patent Infringement Analysis,
Investigate background of Plaintiff,
Whether Plaintiff has bad faith (Patent Troll)



Patent Stability Analysis,
Filing Invalidation Request &
Apply for Suspension of the Lawsuit



Attend the open hearing:
prior art defense or non-infringement defense;
Or request for not cession of infringement but only pay
a reasonable compensation

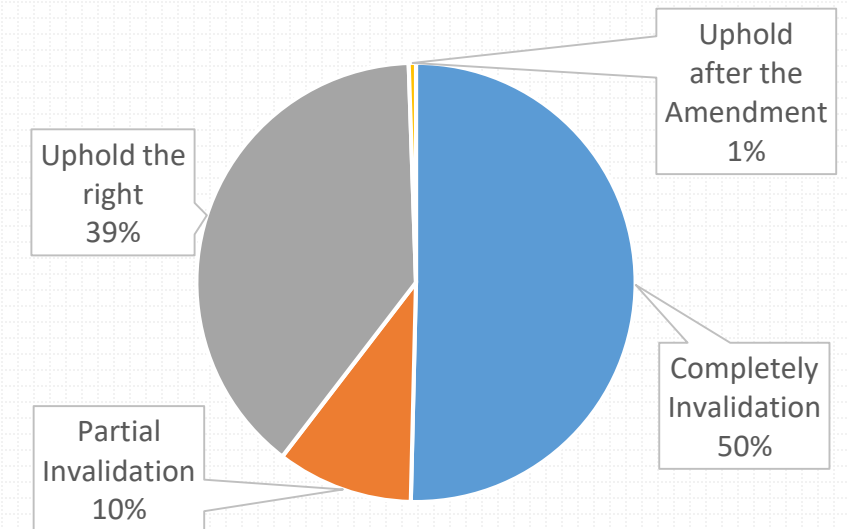
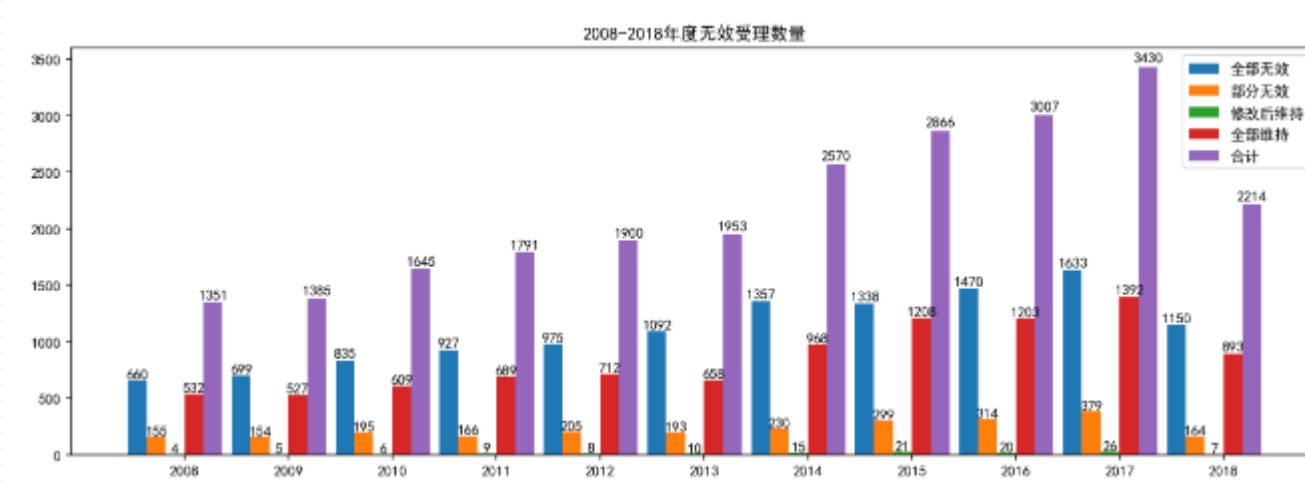


Appeal before the Supreme Court

Note: Pursue the criminal liability of plaintiff if plaintiff has serious bad faith and commits the crime of extortion.

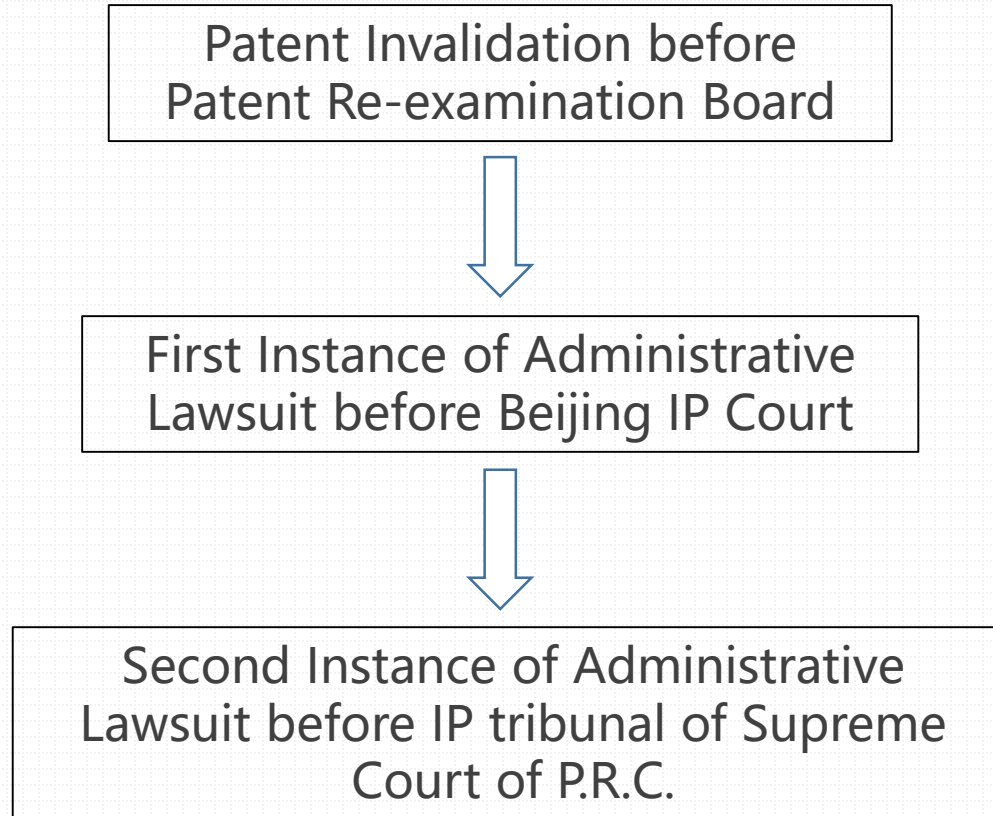


1. Statistics from 2008 – 2018.
2. Invalidation cases increasing (50% completely invalidated; 10% partially invalidated; 40% cases upheld).
3. Invalidation pendency at PRB: a. Invention: 6 months; b. Utility model: 5 months; c. Design patent: 4-5 months.



Patent Invalidation

Basic Process of Patent Invalidation



Note: The IP tribunal of Supreme Court of P.R.C can handle the patent administrative lawsuit as of Jan. 1, 2019

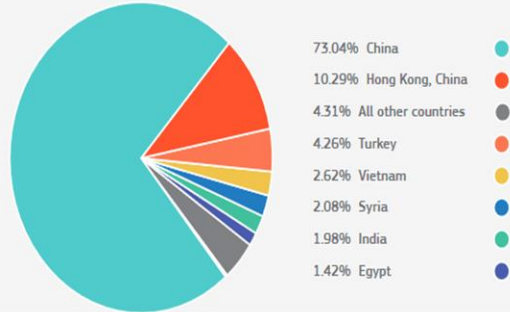
Patent Invalidation

- ❑ In-depth Prior art search, invalidation analysis report
- ❑ File the invalidation request
- ❑ Submit supplementary grounds and evidence (1 month)
- ❑ Review the response from the Patentee and make our response
- ❑ Prepare the Statement for oral hearing
- ❑ Attend the oral hearing
- ❑ Submit the Post-hearing Statement
- ❑ Report on the invalidation decision

Other Patent Enforcement Actions

Border Protection

Top countries of provenance:



Country of provenance by articles

“China is by far the main country of provenance of suspected IP Rights infringing goods”

-- 2017 “Annual Report on Customs Enforcement of Intellectual Property Rights” . - The European Commission.

Customs Recordal

Customs recordal is one of the legal measures that IP owners can employ for enforcement at the borders.

We have strong customs IP Right management and advisory team, capable of addressing complicated IPR clearance matters, cross-border risk prevention consultancy services.



Customs Trainings

We have established valued relationships with key ports.

We are regularly involved in preparing practical training materials and organising training sessions for key ports where infringing goods may be exported.

There are numerous examples of where training has led to immediate results, and product training should be considered an integral part of the Customs enforcement program.



Other Patent Enforcement Actions

Complaint and C&D Letters

1. Online Complaint

- ❑ Take down the infringing products at the E-commerce platform
- ❑ Design and Utility Model should have the Patent Right Evaluation Report from CNIPA

2. Administrative Complaint

- ❑ For infringement easy to be identified
- ❑ Fast stop the infringement without having compensation and or license
- ❑ Venue: local Intellectual Property Bureau (IPB)

3. Tradeshow Complaint

- ❑ Well preparation before the Tradeshow
- ❑ Quick & Comprehensive Actions at Tradeshow
- ❑ Post-Tradeshow Actions

4. C&D Letters: point out its infringement; require it to stop the infringement and sign an undertaking to promise never to commit infringement in the future.



Number of administrative patent infringement cases has increased from 4,684 in 2013 to 14,202 in 2015

In 2017, dealt with 27,400 (increased by 35%) administrative cases of patent infringement.

In 2017, US entities filed 249 (less than 1%) administrative cases of patent infringement.



Administrative Route VS. Judicial Route

for enforcing **PATENT** in China

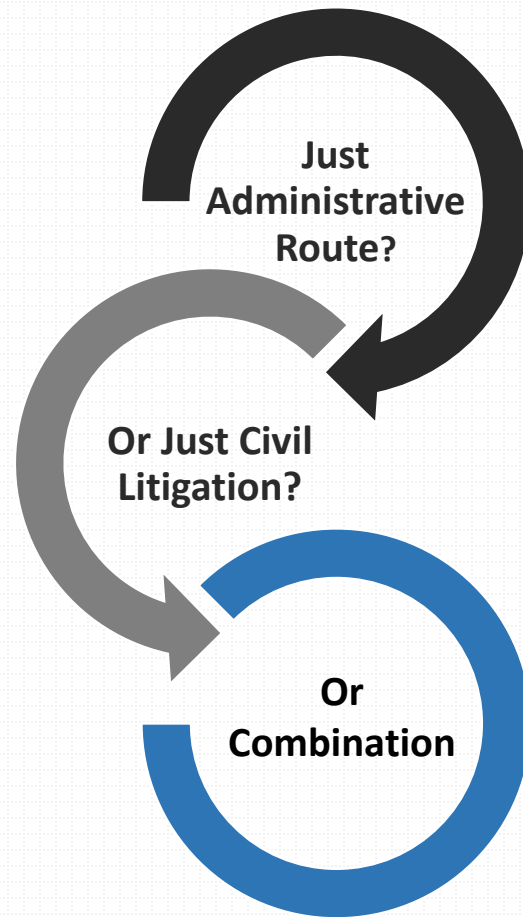
	Administrative Route	Civil Litigation
Authority	Local IP offices	Court (city level)
Jurisdiction	Defendant' s domicile; or Place of infringement: places of infringing acts take place/places of consequences of infringing acts arise	
Eligible party	Patent holder or interested party	
Disputable Matter	Patent infringement	
Types of patent	Invention (not good for complicated technology) utility model (preferred) design	Invention utility model design
Time	3 + 1 months	First instance: 6-12 months Second instance: 6-9 months
Cost	Low-cost (about USD7,300 – 15,000)	First instance: 10 times more
Burden of proof	Basic evidence showing infringement (samples of photos of infringing goods) Notarization is generally not required	Only the notarized or certified evidence are accepted. Documents from foreign country should be notarized and legalized, otherwise the court would refuse to accept.
Proof of right	Patent certificate + receipt of payment of annuity of current year; Original copy of patent registrar	

Administrative Route VS. Judicial Route

for enforcing **PATENT** in China

	Administrative Route	Civil Litigation
Suspension for invalidation decision	Invalidation request is not often filed; maybe	Maybe
Investigation action	Yes (Shanghai)	Typically no
Result	Injunctions (stopping infringement, destroying the equipment for producing infringing goods), cannot award compensation but can mediate damages, cannot impose a fine on infringer	Injunction + damages
Repeated infringer for same patent of same infringing act	Render injunction right away	More powerful: decision is published and damages are awarded
Trade show	Yes	
Appealable	Yes <i>First instance court: intermediate court (city level); Second instance: the Supreme Court (state level) after Jan 1st, 2019; not happen often in practice</i>	Yes <i>First instance court: intermediate court (city level); For invention and utility model, second instance: the Supreme Court (state level) after Jan 1st, 2019 For design, second instance: higher court (provincial level)</i>
Reimbursement of legal costs	No.	Sometimes, attorney fees and investigation costs.
Compulsory execution	Yes for injunction	Yes

How to Choose?



- Goal
- Resources (money, time)
- Types of IP (Three types of patent: 44% is related utility model and 42% is related to Design Patent)
- Nature of infringement (small v. big competitor)
- Forum shopping (pro-patentee; less developed area)
- Collection of evidence (only collect preliminary evidence; investigation action: on-site raid)
- Public image

Combination: obtain evidence (financial records) from administrative route and use it in a court action. Speedy and damages; first initiate an administrative action, and upon receiving a successful decision, pursue the infringer for compensation in a civil lawsuit

Practice Tips

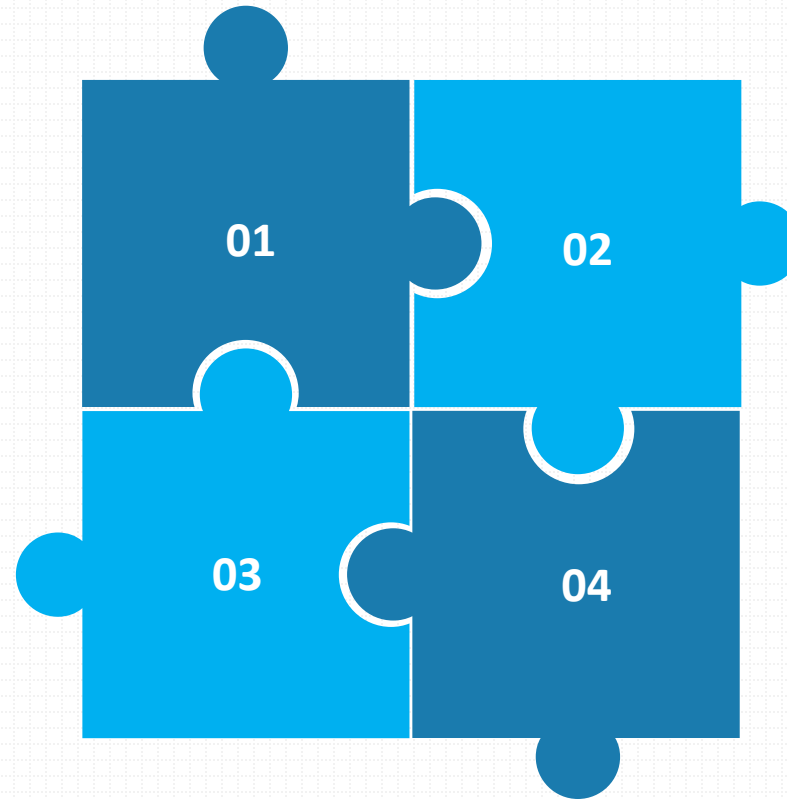
How to make use of administrative injunction?

01.

Attach to Cease and Desist letter (other locations of same infringer; other infringers)

03.

Send to Customs



02.

Send to e-commerce platform

04.

Send to trade show's organizer

Concerns

- ★ Bias toward domestic companies over foreign ones
- ★ Whac-A-Mole

Comparison with US Patent Enforcement System and Chinese Patent Enforcement System

- ❖ No discovery proceeding
- ❖ No administrative route (local patent office)
- ❖ Data Transparency is low: cases are reported only when they reach a decision, rather than at the time of filing. Only judgment documents are available. No first-instance decision when appeal decision is issued. Settlements are also typically not reported.
- ❖ Patent invalidation request cannot be made at a court
- ❖ Damages: often statutory damages applies
- ❖ Injunction: permanent injunctions are granted in 90% of cases; Chinese injunctions can be used to prevent exports out of China

THANKS

Beijing, Shanghai, Guangzhou, Shenzhen, Hainan, Nanning, Hong Kong and
Taiwan, liaison offices in the U.S.
