

## Patent Litigation in China from a Comparative Perspective

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## I. HISTORY OF CHINESE PATENT LAW

China began to consider establishing a modern patent protection system in the 1980s after its “open door” policy was adopted. Patent laws in both major European countries and Soviet Bloc countries were referred to in considering the type of system and rules to adopt. The general structure of China’s first draft of patent laws is enumerated below:

### *A. Enactment of Patent Law*

Types of patents covered include: 1) invention patents: provided protection for 15 years; 2) utility model patents: provided protection for 5 years, with extensions of 3 years also allowed; and 3) design patents: provided protection for 5 years, with the possibility of extension of protection for an additional three years.

Highlighted examples of non-patentable subject matter include: 1) scientific discoveries; 2) methods for the prevention and treatment of diseases; 3) food, beverages and dressings; 4) pharmaceuticals and substances obtained by chemical processes; and 5) animal and plant varieties.

Highlighted examples of non-infringing activities include: 1) the use or sale of products subject to patent protection, without knowledge of the fact that the product was produced or sold without the permission of the patent owner; 2) use of a patented invention for research and scientific purposes; 3) patent administrative protection; and 4) patent owners under the new patent law were permitted to seek local government agencies to take administrative actions to protect their patent rights.

Patent administrative protection is a new patent law in which patent owners were permitted to seek local government agencies to take administrative actions to protect their patent rights.

### *B. Subsequent Changes to China’s Patent Law: First Amendment to Patent Law (1992).*

The first amendments to China's Patent Law followed the Memorandum of Understanding between the Government of the

People's Republic of China and the Government of the United States of America on the Protection of Intellectual Property, which was reached in January 1992. In the Memorandum of Understanding, China promised to amend the Patent Law by January 1, 1993.

The First Amendment to Patent Law was passed September 1992 and the amendment came into force January 1, 1993. Patents became available for all chemical inventions, including pharmaceuticals and agricultural chemicals, whether products or process. The term of protection for an invention patent extended to 20 years from the date of filing of the patent application.

### ***C. Second Amendment to Patent Law (2000)***

In order to accede into World Trade Organization (WTO), China made a Second Amendment to Patent Law in August 2000, and the amendment became effective on July 1, 2001. On November 12, 2001, China acceded into the WTO.

In order to bring China's Patent Law into compliance with the TRIPS Agreement, the Second Amendment extends the rights of patent owners to include the right to prevent others from "offering for sale" patented products or products obtained directly from patented processes. The non-infringement exemption provision for "use and sale without knowledge" was deleted, but a separate paragraph was added under which a person who uses or sells a patented product or a product directly obtained from a patented process is not liable for damages if: (i) he or she does not know that it was made and sold without the authorization of the patent owner, and (ii) if he or she could prove that the product comes from legitimate sources.

In regards to damage calculations, according to the amended patent law, damages are calculated according to the loss suffered by the patent rightholder or the profits made by infringer. In the case that it is difficult to determine the loss or profit, damages are reasonable multiples of the royalties of a patent license. The Second Amendment also introduced a preliminary injunction procedure which is available before the patent right holder files a lawsuit.

#### ***D. Third Amendment to Patent Law (2009)***

The Third Amendment to Chinese Patent Law was passed on December 2009, and became effective on October 1, 2009. Below are several highlighted changes the Third Amendment made to Chinese Patent Law.

The Third Amendment sets forth a new standard for novelty. The old standard was that that a patent would be regarded as lacking novelty if it had been previously published anywhere in the world, or publicly used, or was made known by use within China. Under the new standard, a patent cannot be published or made known by use anywhere in the world.

The Third Amendment introduced a regulatory exemption for infringement to Chinese Patent Law. Under the Third Amendment, if a patented drug is produced or used solely for the purpose to obtain an administrative approval for marketing authorization, there will be no finding of infringement.

Under the Third Amendment, infringement damages are assessed in four ways, in descending order: (i) the actual loss suffered by the patent right holder; (ii) the profits gained by the infringer through infringing activities; (iii) a multiple of the reasonable royalty for use of the patent; and (iv) an amount determined by the court in consideration of the circumstances of the case but not exceeding RMB 1,000,000.

## **II. PATENT LITIGATION IN CHINA: A COMPARATIVE PERSPECTIVE VERSUS THE UNITED STATES**

### ***A. Fundamental Differences***

Civil law history. Chinese legal system has developed with more influence from civil law jurisdictions than that from common law countries. For example, judicial cases are not regarded as a source of law in China and judges are usually active in investigating the facts of the case.

Single party political system. China is still a single-party state and the ruling Communist Party is in a position above the law. One example is the process of Shuanggui. It is a process the Communist Party has used in many anti-corruption cases. Suspects can be secretly detained for weeks and months by the disciplinary committees of the Communist Party before an official criminal investigation by the government anti-corruption authorities is initiated.

A relatively recently created legal system. China's current legal system was established through legal reforms under the 1982 Constitution and thus is a comparatively young legal system.

### ***B. Similarities***

The two systems are different in many respects, for example: court system, the role of judges in litigation, no jury trial, no discovery procedures, invalidation and infringement differences, transparency issues, and enforcement of judgments and court orders.

## III. DAMAGES FOR PATENT INFRINGEMENT

Pursuant to Article 65 of the Patent Law, four methods for calculating damages in descending order of priority: (i) actual losses suffered by the patentee; (ii) profits earned by the infringer through infringing activities; (iii) a multiple of the reasonable royalty; (iv) an amount decided by the court based on a totality of circumstances, but not exceeding RMB 1,000,000 (about USD 165,000).

### ***A. Procedural Differences***

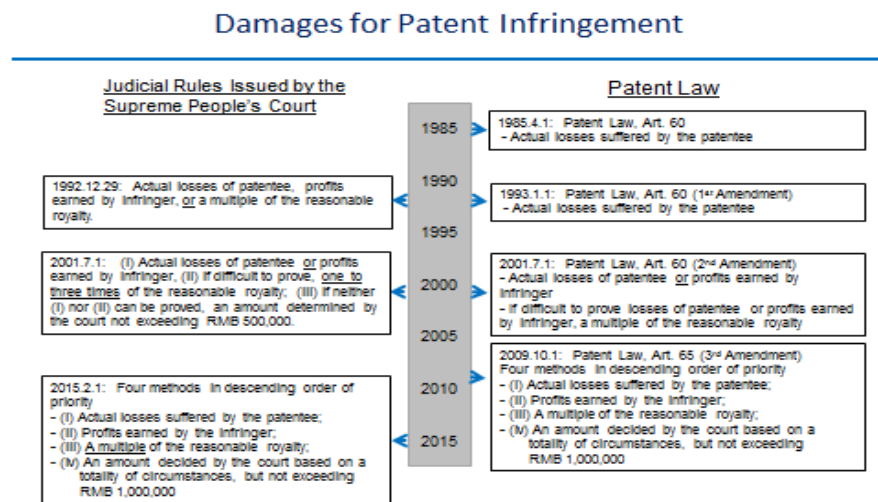
China does not have a counterpart of the discovery procedure utilized in the U.S. China also does not have a robust and comprehensive Evidence Law. Patent right holders have tremendous difficulties in collecting necessary evidence to prove infringement, actual losses suffered by the patentee, or profits earned by the infringer. China has not developed applicable rules in terms of defining "the reasonable royalty" with which the courts can use in determining the amount of damages. As a result, damages in

the majority of successful patent infringement cases are determined by the trial court using the fourth method specified in Article 65 of the Patent Law and are less than RMB 1,000,000.

### ***B. Empirical Data of Chinese Patent Infringement Actions***

In 2012, a Chinese law professor looked into 4768 patent infringement cases and found that the average amount of damages granted by the courts was RMB 159,000 only because 97% of the cases were determined by the courts following the fourth method specified in Article 65 of the Patent Law.<sup>2</sup>

Below is a chart showing the changes of methods of damages calculation by the Patent Law and the Judicial Interpretations issued by the Supreme People's Court.



### 3. Subsequent Amendments: The Fourth Amendment to the Chinese Patent Law (2011)

In 2011, Not long after the Third Amendment to the Patent Law became effective, China started working for the next amendment. On August 9, 2012, a draft of the Fourth Amendment

<sup>2</sup> See Ying Zhan, *Problems of Enforcement of Patent Law in China and its Ongoing Fourth Amendment*, 19 J. of Intellectual Prop. Rights, 266, 266-71 (2014).

was released for public comments. A revised draft was released for public comments on April 3, 2014.