

China Newsletter
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Intellectual Property

HIGHLIGHTS OF THE RECENT JUDICIAL INTERPRETATION OF THE THIRD PATENT LAW BY THE PRC SUPREME PEOPLE'S COURT

We summarized in our earlier newsletter the important changes in the third revision of China's Patent Law. In order to clarify the application of the new statute, the Supreme People's Court ("SPC") adopted an Interpretation which took effect from 1 January 2010. Recent cases have brought to light the pertinent points with regards to the Interpretation when adjudicating patent disputes:-

SUBJECT MATTER—*BILSKI* BRINGS US CLOSER TO CHINESE LAWS

The latest US Supreme Court decision of *Bilski v. Kappos* may be considered to bring the US laws closer to the Chinese laws. SIPO currently rejects pure business method patents based on Art 25 (2) of the Third Patent Law, which clearly prohibits the patenting of "rules or methods based on mental activities".

INTERPRETING PATENT CLAIMS INTERPRETATION-STRICT APPROACH

When interpreting patent claims, the standard to be applied is of the understanding of an averagely-skilled person in the art, taking into account the content of the description and any drawings in the patent. Whereas specifically-defined terms in the document are normally to be given their defined meaning, the courts will further look into the literal language of the claim or any reference to secondary sources (such as textbooks and other public literature) if the meaning of the claims cannot be so determined.

This approach is similar to the claim interpretation taken by the landmark English House of Lords decision of *Kirin-Amgen Inc v Hoechst* [2005]. The overriding question is what *the person skilled in the art* would have understood the patentee to have meant by the language of the claim. However, unlike *Kirin-Amgen*, the SPC obliges the courts to strictly adhere to the **all elements rule**. This means that the courts will only establish infringement if i) all technical features of the defendant's solution are identical with or equivalent to corresponding features in the patented claim; and ii) the defendant's solution does not lack any features which is included in the plaintiff's claim. The strict approach of the SPC and the refusal to disregard non-essential features is consistent with the approach taken in many other countries, such as Japan and Germany.

It should also be noted that i) technical features which are only described in the specifications or drawings but are absent from the patent claim and ii) abandoned technical solutions (e.g. those abandoned in the course of amending the application in response to an examiner's notification) will not be considered to be within the scope of protection of the patent claim.

PRIOR ART DEFENCE

The new Interpretation clarifies that in order for a technical solution used by the defendant to be deemed to pertain to prior art and for the defence to apply, all of its technical features must be identical or substantially identical to the corresponding technical features of an existing technical solution. The defence would fail even if a single patented feature is not contained in the prior art.

Article 62 of the Patent Law places the burden of proof on the defendant seeking to rely on the defence.

PRIOR USE DEFENCE

This defence is available to persons who continuously use a product or process prior to the patent application date. Persons who have made necessary preparation to make or use the technology concerned is also shielded from a claim of infringement. The Interpretation specifies the type of evidence required to prove "preparation":-

- the creation of major technical drawings or appropriate process documentation; and/or
- the production or purchase of major equipment or raw material needed for making the product or implementing the process

Note, however, that this is merely a partial defence which limits any continuation of usage to the original scope of use. Here, the original scope of use is defined as the production on the existing scale attainable by using existing production equipment or processes. This defence is only transferrable in the event of an enterprise-wide acquisition.

DESIGN PATENTS

In deciding on similarity of the design, the standard to be applied is the average consumer's view based on an overall visual assessment. Any feature (including material choice, internal designs) which are mainly for the functionality of the design and do not affect the visual appearance of the design will not be taken into account.

In adjudicating similarity of goods, the Court will base its judgment on the use of the product. To determine use, factors taken into account will include the explanation of the design, International Design Patent Classification, technical ability of the design, the product sales, actual use of the product etc.

INFRINGEMENT PRODUCT-PARTS - IMPORTANCE OF WARNING LETTERS

Specific protection applies to any party who produces or sells end-products containing patent-infringing product-parts. In particular, a *bona fide* producer of the end-product, which incorporates infringing product-parts, is regarded as 'using' the product and not one of 'making' the product, thereby qualifying for the protection under Article 70 of the Patent Law and may be exempted from paying compensation.

This highlights to importance of sending warning letters. This will be evidence to prove a collaborative relationship between the maker of the infringing part and the seller of the product which incorporates it, in which case both the producer and the seller of the end-product will be liable for damages.

ASSESSMENT OF DAMAGES

The SPC clarifies that damages is to be assessed according to the infringer's profit, and should only include the profits immediately gained from infringing of the patent, and does not extend to the whole profits earned from acts other than the patent-infringing conduct.

When product-parts are involved, the price of the concerned product-part or its contribution to the profit obtained from the end-product should be the basis for the assessment of damages.

HEFTY DAMAGES AVAILABLE - FORUM SHOPPING BECOMING MORE IMPORTANT

Local courts have been increasingly willing to grant hefty damages, with the Hangzhou and Zhejiang courts being in the forefront. After Hangzhou Courts awarded Holleycomm RMB50 million (US\$7.3 million) against Samsung's patent infringement at the end of 2008; the Wenzhou courts awarded record damages of US\$48.5 million to CHNIT, a leader in China's electrical transmission and distribution industry, against Schneider. The adjudication of damages is still ongoing at the Zhejiang courts.

Some courts have also been more willing than others to grant interlocutory remedies.

Being well advised as to the choice of jurisdiction for filing patent infringement suits to gain the most leverage is therefore becoming more important.

RESTRICTIONS ON DECLARATIONS OF NON-INFRINGEMENT BY THE COURTS

In response to the increasingly common practice of alleged infringers confronting rightful owners with lawsuits in response to a cease & desist letter issued by rightful owners, the Interpretation has now stipulated certain criteria for claiming non-infringement declaratory judgments to prevent frivolous claims by alleged infringers.

Before a court can accept an application for a declaratory judgment, the rightful owner must have failed to respond to the alleged infringer's response within 1 month from receiving such response or within 2 months from the issuance of the response issued by the alleged infringer. This ensures the right owner has sufficient time to withdraw his cease & desist letter or to institute court proceedings.

APPLICABILITY OF THE NEW PATENT LAW

The new Patent Law only applies to infringements which occurred after its enactment. If, however, the infringing activity commenced before 1 October 2009 and continues after the date, the new provisions on the assessment of damages will apply.

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