AFD China
INTELLECTUAL PROPERTY LAW OFFICE

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China's Supreme People's Court Rules that Unintentional Failure to Pay Annuity Fees in Full Causes Termination of Patent Rights

The China's Supreme People's Court (SPC) issued an Administrative Judgement for the case No (2021) Zui Gao Fa Zhi Xing Zhong 322, providing a specific guide on the early termination of patent rights caused by unintentional failure to pay annuity fees.

In this case, the patentee's patent right was terminated because the patentee did not pay in full the annuity for the ninth year and late payment fees. The patentee claimed that it did not receive the payment notice issued by the China National Intellectual Property Administration (CNIPA), so its failure to pay the annuity in full was unintentional and thus the CNIPA should issue a further payment notice, instead of directly issuing the Notification of Termination of Patent Right. After checking, the SPC found that the patentee had entrusted a patent agency to handle all the matters related to the patent, and then it terminated its client-agency relationship with the patent agency but did not file a request for recording the change of bibliographic data pursuant to Article 119(2) of Implementing Regulations of the Patent Law. Therefore, the CNIPA's issuing the payment notice to the patent agency was in accordance with the laws and regulations, and the patentee's failure to receive the payment notice was due to its own fault. Besides, paying the annuity in full is a legal obligation of the patentee, and the patentee should be aware that this obligation is irrelevant to whether the failure to pay the annuity is unintentional. Therefore, the SPC upheld the first-instance judgment that the patent right should be terminated.

The Judgment gives the following tips to IP practitioners.

(1) If the patentees prefer to handle annuity fees by themselves instead of still by patent agencies, it is recommended that they go through the procedures for recording the bibliographic change with the CNIPA, to make sure that all future notifications will be issued to them;

(2) Not only non-payment but also short payment of the annuity fee and late payment fee will cause early termination of patent rights.

http://ipc.court.gov.cn/zh-cn/news/view-1528.html

China Releases First Mediation Rules for International IP Disputes

The Mediation Center of the China Council for the Promotion of International Trade (CCPIT) on October 29 released the "Mediation Rules for Intellectual Property Disputes of the Mediation Center of the China Council for the Promotion of International Trade/China Chamber of International Commerce", which

is in effect on November 1. This is China's first set of rules formulated for the resolution of IP disputes arising from the business between Chinese companies and international companies.

The rules' highlights are fourfold:

First, the rules are in line with the international primary principles of mediation such as party autonomy, information confidentiality, convenience, friendly processes, economy and efficiency, and pursuit of common interests, etc. With the interests of the parties prioritized, the rules are set to achieve a balance between the respect for party autonomy and the provision of standard and fair mediation procedures.

Second, technical investigations are included in mediation processes. Experts and/or institutions are to be hired to provide technical consultation for technology-centered cases. Based on this, the quality services of authentication, auditing, evaluation, and testing will ensure the fairness of the mediation outcomes.

Third, multilateral or bilateral mediation mechanisms have been established with the cooperation between the CCPIT and 21 international mediation organizations.

Fourth, conduits between the use of various types of dispute resolution are formed under the rules. Mediation, arbitration, and litigation are made optional to parties to protect their rights.

http://www.chinaipmagazine.com/en/news-show.asp?id=12287

Chinese Equipment Maker Safe-Run Fails to Exploit Estoppel Doctrine

The SPC on July 5 rejected Chinese tire building equipment company Safe-Run Intelligent Equipment Co., Ltd.'s invalidation claims on its Holland rival VMI Holland B.V.'s patent.

In December 2016, VMI filed a lawsuit with the Suzhou Intermediate People's Court in China's Jiangsu province accusing Safe-Run of infringing its patent CN 200880006690.4 concerning a cutting device for tire building machines. The patent in dispute was granted by the CNIPA in 2012. The court ruled in VMI's favor ordering Safe-Run to stop infringement and pay VMI 3.06 million yuan ($478,000) in damages.

Safe-Run filed a lawsuit with the Beijing Intellectual Property Court to invalidate the allegedly infringed patent in 2017. The court ruled in Safe-Run's favor and invalidated it in 2020.

VMI and the CNIPA appealed the decision to the SPC. In its defense, appellee Safe-Run claimed the viability of the doctrine of estoppel on the grounds that VMI provided inconsistent information about the specifications of the patent in discrete criminal and civil complaints regarding the patent to its advantage. The top court rejected Safe-Run's claim and overturned the lower court's decision. The court also accentuated the significance of the consistency in the patent holder's descriptions about the patent.

http://www.chinaipmagazine.com/en/news-show.asp?id=12277

China Issues IPR Protection, Application Plan in 2021-2025 Period

China has recently issued a major plan on IPR protection and application works for the 14th Five-Year Plan period (2021-2025), highlighting innovation, application and protection in the sector, according to the IPR authorities.

The plan is a blueprint with detailed targets and measures for the country to embark on a journey to strengthen its intellectual property undertakings, said the CNIPA.

Aside from proposing anticipated quantitative indicators, the plan clearly sets up new targets

of China's IPR works on protection, application, services level and international cooperation, according to Shen Changyu, head of the CNIPA.

"All these targets and indicators are drafted to ensure the fulfillment of the phased goals of China to strengthen its power in the IPR sector," said Shen.

The key anticipated quantitative indicators are -- the number of high-value invention patents per 10,000 people will reach 12, the number of patents granted overseas will reach 90,000, as well as the annual import and export volume of intellectual property royalties will reach 350 billion yuan (about $54.7 billion) over the 2021-2025 period.

The indicators also include the added value of patent-intensive industries and copyright industries will account for 13 percent and 7.5 percent of GDP, respectively, among others, according to the plan.

http://english.ipraction.gov.cn/article/ns/202111/360278.html

CNIPA: Administrative Measures for Foreign Patent Firms' Chinese Representative Offices

The CNIPA released the exposure draft of the administrative measures for foreign patent firms' Chinese representative offices to solicit public comment. This move is a follow-up to the 3-year pilot program announced by the CNIPA one year ago to allow foreign patent firms to open up representative offices in Beijing and Jiangsu province.

To establish a representative office in China, the following conditions must be met:

1. The foreign patent firm is legally registered in its home country;

2. The foreign patent firm has literally practiced in its home country for over 5 years without being subject to any self-governing ordinance or administrative penalty;

3. The chief representative of the office shall have full capacity for civil conduct and a qualification certificate as a patent agent. The chief representative shall have practiced as a patent agent for over 2 years without being subject to any self-governing ordinance or administrative penalty;

4. The foreign patent firm has more than 10 patent agents practicing in its own country.

The business scope of the representative offices is:

(1) Offer services where the foreign patent firm is legally permit to practice;

(2) Accept commissions where the foreign patent firm is legally permit to practice;

(3) Offer services for Chinese companies in terms of investment, early-phase risk management, protection of rights and other matters in overseas countries;

(4) Commission Chinese patent firms to act for cases on behalf of foreign clients.

Representative offices shall operate in compliance with Chinese laws, without engaging in Chinese patents filing, application, or invalidation.

http://www.chinaipmagazine.com/en/news-show.asp?id=12273

Chinese Medical Device Maker to Pay Swiss Company $3 mln in Patent Lawsuit

The SPC ruled in favor of Swiss medical device maker Synthes GmbH in a patent lawsuit against Chinese rival Double Medical Technology for infringing Synthes's patent CN03827088.9 entitled "device for treating femoral fractures".

Synthes GmbH accused Double Medical Technology and two of its distributors of

manufacturing, marketing, and selling five classes of products infringing this patent and sought 20 million yuan ($3 million) in damages. The trial court ordered the defendants to cease infringement and Double Medical Technology to pay 1 million yuan ($156,000) to the plaintiff. The parties appealed the decision to the Supreme People Court.

In the complaint filed by Synthes, three calculation methods were deployed for determining the amount of the damages it claimed. The operating profit margin disclosed in Double's initial public offering prospectus and the sales figures of the allegedly infringing products available on the distributors' online shop were also provided by Synthes to fulfil its burden of proof.

In the retrial, Double Medical Technology dismissed the claimed damages and refused to provide sales data on the infringing products. The SPC agreed with Synthes's arguments and awarded the full 20 million yuan ($3 million) damages it required.

http://www.chinaipmagazine.com/en/news-show.asp?id=12304

Beijing IP Court to Hear China's First Case of Patent Linkage

Japan's Chugai Pharmaceutical Co., Ltd. has recently filed a patent infringement lawsuit in the Beijing Intellectual Property Court against Chinese rival Haihe Pharmaceutical Industry, seeking to stay the marketing approval process for its generic drug Eldecalcitol.

Chugai accused Haihe of infringing its Chinese patent CN2005800098776A titled ED-71 preparation, which is central to its innovative drug Eldecalcitol for the treatment of osteoporosis. Chugai filed an application for the patent in 2005 with the CNIPA and the granted patent will stay valid until 2025.

Chugai discovered the application for the registration of generic drug Eldecalcitol filed by Haihe and its patent certification under category IV on the Chinese Marketed Drug Patent Information Listing Platform administered by the National Medical Products Administration (NMPA). The certification under category IV says there is innovator drug patent information on the Platform, but the generic drug applicant believes the patent should be invalidated or the generic drug does not fall within the scope of the patent protection.

Beijing Intellectual Property Court has agreed to hear the case, which is of note as China's first case of patent linkage.

Article 76 of China's Fourth Amendment of Patent Law (effective June 1, 2021) for the first time introduced a "dual-track" early resolution mechanism for resolving drug patent disputes during the marketing approval process of generic drugs, allowing innovative drug patent holders to institute a civil action or an administrative determination against generic drug applicants in order to stay the marketing approval process for generic drugs.

On July 4, 2021, the NMPA in conjunction with the CNIPA released the Measures for the Implementation of Early Resolution Mechanisms for Drug Patent Disputes (Trial). The Measures set up a registration system, set up a dual mechanism (via Courts or via CNIPA) for preventing marketing approval of drugs based on registered patents, and provide an exclusivity period for generics that successfully challenge patents.

The SPC released Provisions on Several Issues Concerning the Application of Law in the Trial of Civil Cases Concerning Patent Disputes Related to Drugs Applied for Registration on July 5, 2021.

The Beijing Intellectual Property Court and the CNIPA are specially designated as the adjudication authorities of Article 76 proceedings.

http://www.chinaipmagazine.com/en/news-show.asp?id=12315

http://www.chinaipmagazine.com/en/news-show.asp?id=12346

China Amends Patent Pledge Financing Measures

The CNIPA on November 16 issued the second amendment of the Measures for the Registration of Pledge of Patent Rights, which became effective in 2010.

In recent years, China has been driving the growth of patent pledge financing as an innovative tool. Companies, especially small and medium-sized enterprises (SMEs), are able to access financing by pledging patents and other intellectual property assets as collateral.

Substantive revisions have been made of Article 6, 7, 10, 11, 13, 14, 16, 19 and 20 in the amendment.

According to the amended Measures, the registration can be applied for on the online platform. The period of the examination on the part of the CNIPA has been shortened from 7 days to 5 days and further down to 2 days in cases of online application.

The amended Measures provide that a flagging mechanism about the risks arising from disputes or preservation measures concerning the pledged patents is to be established in the interest of pledgees.

The provision in the original Measures that an owner of a patent in an invalidation proceeding instituted was denied registration as a pledgor has been relaxed. According to the new Measures, the owner is entitled to file for the registration as long as the owner acknowledges the risk pursuant to the invalidation proceeding.

The provision in the original Measures that an owner of a patent for a utility model being challenged based on prior art was denied registration as a pledgor has been relaxed. According to the new Measures, the owner is entitled to file for the registration as long as the owner acknowledges the risk pursuant to the challenge.

China to Strengthen IPR Protection in Emerging Sectors

Chinese courts will improve the protection of intellectual property rights (IPR) in big data, artificial intelligence (AI), genetic technology and other emerging sectors, said Chief Justice Zhou Qiang.

The courts will also improve judicial protection in key areas like platform economies, scientific and technological innovation, and information security, Zhou said. Zhou is president of the SPC, and he made these announcements while delivering a report on the adjudication of intellectual property cases.

The report was submitted by the SPC to the ongoing session of the National People's Congress Standing Committee for review.

China has seen growing intellectual property cases in recent years with new disputes emerging, the report showed.

Courts nationwide accepted about 2.18 million intellectual property cases of first instances and concluded 2.06 million intellectual property cases during 2013 and June 2021, the report said.

http://english.ipraction.gov.cn/article/ns/202110/358984.html

SUPPLEMENTARY ISSUE

Factors to be Considered When Applying Punitive Damages in Trade Secret Infringement Cases

Although current laws provide general guidance on the conditions for application of punitive damages in trade secret infringement cases, how to properly apply punitive damages is still a difficult problem in judicial practice. The Judicial Interpretation of the SPC on the Application of Punitive Damages in the Trial of Civil Cases of Infringement of Intellectual Property Rights, which came into effect on March 3, 2021, provide some provisions on how to determine the existence of malicious infringement, how to define whether the circumstances of infringement are serious, and how to evaluate the seriousness of the infringement, but the people's courts still need to explore and summarize how to properly apply such provisions in judicial practice.

The following case is the first civil IP case in which the SPC ruled to apply punitive damages. This case was selected into “Typical Cases on the Application of Punitive Damages to Civil Cases of Infringement of Intellectual Property Rights” and “Typical Cases (the third batch) of the People’s Courts Fully Playing the Role of Adjudicatory Function to Protect Property Rights and Entrepreneurs’ Legal Rights and Interests”. In this case, the Supreme Court, on the basis of the facts ascertained, determined the amount of damages to be five times the profits obtained from the infringement, giving special consideration to the importance of the involved technical secrets in the production of the infringing products and the contribution of such trade secrets to the sales profits. In terms of the applicable conditions for punitive damages, on the basis of determining that the infringers have the direct intention of infringement, the SPC further evaluated the seriousness of the infringement in view of various factors, such as the infringers’ committing infringement as primary business, the infringers’ being subject to criminal prosecution, their obstruction of evidence discovery, the actual losses of the right holder, the profits obtained by the infringers from the infringement, the scale and duration of the infringement. Finally, the SPC held that the infringers maliciously committed the infringement and the circumstances were extremely serious, and the punitive damages borne by the infringers should be 5 times the amount of the infringers’ profits, providing a guidance on the correspondence relationship between the seriousness of the infringement circumstances and the amount of punitive damages.

Case Brief:

The plaintiff's employee HUA, during his work for the plaintiff, violated the confidentiality agreements he signed with the plaintiff and disclosed the plaintiff's technical secrets of "Kabo" manufacturing process to the defendant and the staff thereof. The defendant used such trade secrets to manufacture products designed and developed by the plaintiff and sold them at home and abroad.

In the first-instance trial, the plaintiff requested the relevant parties (the infringing company and the infringing individuals) to immediately stop the infringing activities, destroy the raw materials and equipment used for manufacturing “Kabo”, apologize to the plaintiff, and compensate RMB 70,98 million for the plaintiff’s economic losses and other expenses. The first-instance court ruled that: 1) the defendants should immediately stope the infringing activities and destroy the material relating to the plaintiff’s trade secrets; 2) the infringing company should compensate RMB 30 million for the plaintiff’s economic losses and RMB 400,000 for the plaintiff’s reasonable expenses within 10 days from the effective date of this Judgement, and the infringing individuals should bear joint liabilities within the ranges of RMB 5 million, RMB 5 million, RMB 1 million and RMB 1 million, respectively for the aforementioned compensation amount; and 3) the plaintiff’s other requests were rejected.

The plaintiff and the defendants were all unsatisfied with the first-instance judgement and appealed to the SPC. After ascertaining the facts, the SPC ruled that: 1) the first and three points of the first-instance judgement should be maintained; 2) the second point of the first-instance judgement should be changed to: the infringing company should compensate RMB 30 million for the plaintiff's economic losses and RMB 400,000 for the plaintiff's reasonable expenses within 10 days from the effective date of this Judgement, and the infringing individuals should bear joint liabilities within the ranges of RMB 5 million, RMB 30 million, RMB 1 million and RMB 1 million, respectively for the aforementioned compensation amount; 3) the plaintiff's other appeals were rejected; and 4) the defendants' appeals were rejected.

Key points of the trials

1. Application of new law or old law

In the Amendment to the Law Against Unfair Competition of the People's Republic of China which took effect on April 23, 2021, provisions on punitive damages were added. Based on the general principle of non-retroactivity of law, punitive damages are generally not applicable for any behavior which occurred before the amendment of the law, and the amount of compensation for infringement committed before and after April 23, 2019 should be calculated respectively. In this case, however, the defendant refused to provide their financial accounts, the sales amount they admitted was only part of the infringement profits, there was no evidence about the specific amounts of their infringement profits obtained before and after the Law was amended, and the defendants even continued the infringing activities after the first-instance judgment was issued. In view of the large scale and long duration of the infringement, it was hard to determine the amount of compensation based on different periods of time, and therefore punitive damages were applied to the sued infringing activities as a whole.

2. Subjective element: maliciously committing infringement

Punitive damages, as an aggravated penalty for infringers, have higher requirements on the punishability of infringing activities, such as "intentional infringement of another person's intellectual property rights" as mentioned in the Civil Code, and "malicious infringement of trade secrets" as mentioned in the Law Against Unfair Competition. The association between "intentional" and "malicious" should be made clear, and it would be appropriate to interpret "malicious" as "subjectively intentional" rather than as "directly intentional", i.e. no matter whether a person's behavior is "directly intentional" or "indirectly intentional", it is a subjectively intentional behavior rather than a negligent behavior. Subjective intent, as a psychological state, must be manifested through a person's certain behavior. In this case, from the actual behaviors of the infringers, it can be seen that they committed the infringing activities being fully aware that their activities would infringe other's trademark secrets, and therefore their infringement belongs to intentional infringement.

3. Objective element: serious circumstances

For the application of punitive damages, the judges also need to determine, according to the facts of the case, whether the circumstances of the infringement are serious. As an important factor for analyzing whether to apply punitive damages and how to determine a reasonable amount of punitive damages, the seriousness of circumstances should be determined based on a comprehensive consideration of various factors, such as the overall situation of the case, the means, scale, duration, negative impact (including direct and potential impact) of the infringement, the actual losses suffered by the right holder or the economic benefits obtained by the infringer, the extent of malice shown by the infringer in the whole course of the infringement and whether the infringer has taken remedial measures.

In this case, the infringing company admitted that their sales amount of the infringing products exceeded 37 million, and the products were sold to more than 20 countries and regions; the infringed technical secrets involved product manufacturing technique, process and equipment, which played a key role in the formation of the products. This caused the plaintiff to suffer tremendous losses. Additionally, it was obvious that the defendants intentionally committed the infringement. In view of these factors, the SPC raised the amount of punitive damages from 2.5 times the amount of infringement profits as determined by the first-instance court to 5 times. At the same time, infringement profits should have a causal relationship with infringing activities, and profits arising from other rights and production factors should be reasonably deducted. Thus, in this case, the SPC held that the product formula and part of the equipment as claimed by the plaintiff did not constitute technical secrets, so the cost of this part, human cost and sales cost, etc. should be deducted. Based on an overall consideration of the particulars of this case, the SPC determined that the contribution rate of the technical secrets was 50%, and therefore, although the amount of punitive damages was increased to 5 times the amount of infringement profits, the total amount of compensation remained unchanged.

As a special note, for the calculation of the amount of compensation when applying punitive damages, in the Judicial Interpretation of the SPC on the Application of Punitive Damages in the Trial of Civil Cases of Infringement of Intellectual Property Rights, which came into effect on March 3, 2021, the calculation method of “base amount + base amount * times” is adopted.

In summary, the punitive damages system has played an effectively role in combating malicious infringement, protecting competitive advantages arising from trade secrets, and thus maintaining the order of market competition. In trade secret infringement cases, the subjective element “malice” is subjective intent, and the objective element “serious circumstances” is about a comprehensive consideration of the infringing activities and the overall particulars of the cases. The determination of the amount of compensation should adhere to the principle of moderation and the principle of proportionality, and the amount of punitive damages should have a correspondence relationship with the seriousness of the infringement circumstances.

http://ipc.court.gov.cn/zh-cn/news/view-1593.html