

# Seminar on Theory and Practice of Patent Infringement Defence

The Seminar on Theory and Practice of Patent Infringement Defence was held by the Beijing No.1 Intermediate People's Court on 30 November 2009 at the China IP Training Centre. The Beijing No.1 Intermediate People's Court is the court that was first to hear patent cases in China and one that has heard the largest number of such cases. Besides, the court is the organiser of several seminars on the theory and practice in connection with trial of IP cases. At the Seminar, judges of the court had an in-depth study on and exploration of the topics of their research concerning constitution of the cause of patent infringement defence, application and law bases of a variety of defences, as well as problems in the practice from the perspective of their twenty-year judicial practice. The legal experts and practitioners present had heated discussions mainly on topics as follows:

## 1. "For non-production or business purposes"

Under Article 11 of the Patent Law, "production and business purposes" is an element of patent infringement. Accordingly, in patent infringement litigation, defendants often make defence on account of "non-production and business purposes". The research panel on the topic believed that it was impossible to address the matters in practice by directly making use of the concept of "non-production and business purposes". For example, it was difficult for the "non-production and business purposes" defence to apply to a exemptable production and business entity. Meanwhile, it was impossible to merely use "production and business" to cover infringing acts of profit-making and non-profit making entities for non-profit making purposes. For that reason, the panel recommended interpreting "for non-production and business purposes" used in the defence as "privately and not for profit-making purposes".

Main viewpoints

- The expression "privately and not for profit-making purposes" has its origin in the EPC, in which the word "privately" is used. It is worth discussing whether the word is to be translated into a Chinese phrase meaning "in a private manner".

- The presence of "for non-production and business purposes" should be determined according to the involved action *per se* rather than an entity, that is, an entity should not be excluded from the subjects acting for "non-production and business purposes" as a matter of course.

- The "production and business" should be broadly interpreted. It is undue to use "for profit-making purpose" to define "production and business". While actions of government agencies and organisations for public good are not performed for profit-making purposes, such actions should not all excluded from the scope of "production and business".

## 2. Bolar exception

This topic involves the provision of Article 69, paragraph one (4) and (5), of the Patent Law. For the research panel, exemption for scientific experimentation or for regulatory examination and approval of pharmaceuticals should not entail "for non-production and business purposes". The defining term "solely for the purposes of scientific research and experimentation" in Article 69 of the Patent Law should not be construed too narrowly lest it would impede the normal R&D. Since the subject matter susceptible to the defence made on the basis of regulatory examination and approval of pharmaceuticals under the US law covers pharmaceuticals for veterinary use and no restrictions are imposed in this regard in the relevant Chinese laws, in practice, judicial support should be given to defence made on the basis of regulatory examination and approval of pharmaceuticals.

#### Main viewpoints

- To balance the interests of the various parties, we should refer to the US practice and duly extend the term of patent for relevant pharmaceuticals while allowing exemption on account of the regulatory examination and approval of pharmaceuticals, so as to reduce the adverse effect on rightholders because of delayed exploitation of their patent right owing to the regulatory examination and approval of pharmaceuticals.

- Where applications for regulatory examination and approval of generic pharmaceuticals (it usually takes 2 to 3 years for the approval to be granted) were filed when a patent for a pharmaceutical would remain valid for 10 to 15 years, the applicant should not be exempted from liability for the exception.

#### 3. Prior-art defence

The system for prior-art or prior-design defence has been the most controversial in the judicial practice for many years. An express provision has been set forth for the first time on the matter in Article 62 of the Patent Law as of 2008. The research panel looked into the subject matter of comparison, order and scope of application, and standards of tenability of the most controversial prior-art defence. For the panelists, the scope of application of the prior art defence should cover infringements by equivalents and literal infringements. It was possible to make a prior-art defence by reciting technologies in the public domain and existing technologies that other parties exclusively own. In determining the prior art, both the existing, relatively narrow standards of identical features/solution or novelty and the relatively broad standards of inventive step or equivalents may serve as the bases of legitimacy of defence. It was hard to make a choice between the two: the more stringent standards were very much workable, and it was easy for the enforcement standards to be followed in a consistent manner, but few prior-art defences were tenable or justifiable, which made the designed system less functional; following relatively relaxed standards would make the trial more difficult, and it was hard for the standards to be consistent. It was necessary to find the point of balance between efficiency and justice.

#### Main viewpoints

- Since a patent goes through the prosecution or grant proceedings, it is improper to follow over-broad standards for determining the prior art. The novelty standards should be observed. When the determination is made, an allegedly infringing technology/design may be treated as a technology

for which patent is applied, and the prior art or existing technology as a reference to see whether it possesses novelty. When some technical features are dissimilar, it is then necessary to see whether the dissimilarity is a direct substitution of some commonly-used means. As for the order of examination, substantive assessment should be made first. In comparing with the prior art, only when the prior-art defence is not tenable is the comparison made to see whether it is identical with or similar to the patented technical solution. Only one reference may be cited and one of the disclosed technical solutions is compared. The comparison proceeds in such a way as to see whether the two are exactly or substantially identical. This is similar to the way in which novelty is assessed in the patent prosecution.

- Those present at the discussion had split views on whether the existence of a conflicting application could serve as a cause of defence. For one view, the conflicting-application defence should not be introduced<sup>1</sup> for the reason that the Patent Law had only provided for the “prior-art or prior-design” defence, applicable only to an existing technology or design. But a conflicting application was “not an existing technology or design”. In this way, the possibility to apply the conflicting application defence was clearly ruled out. The main consideration behind ruling out the application of such a defence in the Patent Law was that determination of whether an application was a conflicting one would unavoidably involve whether the two applications involved related to “the same invention or utility model”, but making such a determination fell within the scope of patent examination. According to the division of functions and authority between the patent administrative department and the courts, the former, not the latter, had such function and authority to make the determination.

For the other view, the conflicting-application defence should be introduced. In doing so, it was not to examine a document to see whether it conflicted with the plaintiff’s patent, and a “non-infringement” conclusion may be drawn only through requiring the alleged infringer to show that the technology it or he exploited was just identical with or equivalent to the technology of the conflicting application; it was unnecessary to judge whether they were substantially “conflicting applications”, consequently without violating the doctrine of divided function and authority.

- As for the issue of whether the court should review a prior-art defence that was made in the trial of second, not in the first instance, there existed two polarised views. For one

view, under the evidence rules, a defendant is required to furnish evidence showing that the allegedly infringing technology was part of the prior art; what was not presented during the first-instance trial should not be presented in the second. A defendant was advised to make its or his argument all at once in the first-instance trial. For the other view, it should not be too stringent with the evidence in connection with the cause of defence. New evidence should be accepted during the trial of second instance for review of the facts, otherwise the alleged infringer would lose its or his final opportunity to seek remedy.

#### 4. Prior-use-right defence

The prior-use-right system is one as provided for in Article 69 (2) of the Patent Law now in force that “where, before the date of filing of the application for patent, any person who has already made the identical product, used the identical process, or made necessary preparations for its making or using, continues to make or use it within the original scope only” is not deemed to be an infringement of the patent right. As for the highly controversial scope of the prior use right, the research panel believed that the prior-use-right included not only acts of manufacture and use, but also those of sale, offer for sale and importation as corresponding to the scope of the patent right.

##### Main viewpoints

- A presumptive judgment may be made to determine the “necessary preparation”; if an application is filed for a patent for a technology existing before the date of filing of the patent, the technology meets the requirement for patenting, and the necessary preparation is deemed to have been made.

- Regarding the determination of the “former or original scope”, one view was that as long as one subject is involved, a normal exploitation of a prior technology should not be defined in terms of volume and capacity of production, and should be encouraged in the presence of capability of increased production. For the other view, the first-to-file system is adopted under the Patent Law to protect prior applications and to encourage disclosure of technology. But the prior-use-right is a special exception, to which the law should not apply too broadly.

- As for whether the prior-use-right defence, applicable to manufacturers, may also apply to distributors, the mainstream view was yes, but there existed a procedural problem, namely without involving a manufacturer in the litigation, it would be impossible for the court to hear the case;

hence it was necessary to make some procedural arrangements for the manufacturers to be involved in the lawsuit, so that they could meet their obligation to adduce evidence.

#### 5. Legitimate-source defence

Legally, the legitimate-source defence is based on Article 70 of the Patent Law, namely, any person who, for production and business purposes, uses, offers for sale, or sells a patented product without knowing that it was made and sold without authorisation of the patentee, should not be liable for the damages to the patentee if he could prove that he was obtained the product from a legitimate source.

##### Main viewpoints

- The “use and sale” mentioned in the patent law should be narrowly construed. For example, the quantity of infringing products marketed should not be too large, nor should be the proportion of infringing parts in the marketed products as a whole.

- To prevent rightholders from taking advantage of the provision regarding the legitimate-source defence to bring action against a distributor only, not a manufacturer, it should be legislatively or judicially specified in such a way as to involve the latter in the lawsuit.

- The four Chinese characters for “does not know it is” should be deleted from Article 70 of the Patent Law. Since an actor cannot prove itself or himself “did not know it was” and can only show its legitimate source, he should be presumed not to know.

#### 6. Other forms of defence

The research panel also looked into the establishment of the systems for making defenses based on exhaustion of rights, lack of diligence in connection with the rights, and abuse of rights.

Those present were of the same opinion on the matter of abuse of right, namely, once a patented product is sold and the patentee is reasonably paid, his right is exhausted. He would abuse his right if he imposed restriction or limitation on the sold products. Right exhaustion is an exception, and the patentees should refer to the Chinese patentees only.

In their discussion on the systems of the defence based on lack of diligence in connection with the rights, and abuse of rights, they believed that in the absence of express law bases, it was impossible to come up with a conclusive opinion then, but the court could still actively explore the matter in their judicial practice, so as to create the condition for the legislation to be made along the line in the future. ■

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