

# Comments on Interpretation of the Supreme People's Court on Several Issues Concerning the Application of Law in the Trial of Patent Infringement Dispute Cases (II)

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On 25 January 2016, the Judicial Committee of the Supreme People's Court passed the Interpretation of the Supreme People's Court on Several Issues Concerning the Application of Law in the Trial of Patent Infringement Dispute Cases (II) (hereinafter referred to as the Interpretation II) after discussion, which will come into effect on 1 April 2016. This article is intended to make brief comments on the primary content of the Interpretation II so as to facilitate accurate understanding of the original meaning of the provisions.

## I. Background

The Supreme People's Court released the Interpretation of Several Issues Concerning the Application of Law in the Trial of Patent Infringement Dispute Cases in December 2009, which has played an important role in protecting the rights and interests of patent holders and stimulating innovations in science and technology. New issues concerning the application of law have emerged constantly in judicial practice over the past five years. Decision of the Central Committee of the Communist Party of China on Major Issues Concerning Comprehensively Deepening Reforms

specifically proposed to enhance IPR utilization and protection, improve an incentive system for technological innovations and boost implementation of innovation-driven development strategies. The standing committee of the National People's Congress of China decided to set up IP courts at Beijing, Shanghai and Guangzhou for dealing specifically with cases involving expertise and technology such as patent cases. To ensure proper implementation of the Patent Law, unify and refine judging criteria for patent infringement, and timely adapt the patent trials to the development of technological innovations, the Supreme People's Court decided to draft once again a judicial interpretation of patent infringement determination after the release of the Judicial Interpretation of the Patent Law in 2009. In the process of drafting, the Supreme People's Court listened to the opinions of competent departments, courts, scholars, lawyers, patent attorneys, enterprises and industrial associations and solicited through the internet 400-plus suggestions from various communities at home and abroad, including the U.S. government, American Bar Association, U.S. Chamber of Commerce, Japanese Patent Office and European Union Chamber of Commerce in China. The drafting of the

Interpretation II lasted two years and went through amendment for 16 times before the finalized Draft for Review was submitted to the Judicial Committee of the Supreme People's Court.

## II. Major content and characteristics

The Interpretation II, inclusive of 31 Articles, is mainly summarized on the basis of high-profile cases published on the Gazette of the Supreme People's Court and experiences in patent adjudication, covering such key and tough issues in patent adjudication as claim construction, indirect infringement, standard implementation defence, legal resource defence, cessation of infringement and calculation of damages. If the greatest contribution made by the Judicial Interpretation of the Patent Law released in 2009 is to improve the rules for claim construction, then the spotlight of the Interpretation II lies in clarification of the boundaries within which patent rights can be exercised. In view of the issues at different levels that are regulated by the Interpretation II, the content of the Interpretation II is summarized in this article with the following three characteristics:

(1) Adhere to a problem-oriented approach, strengthen the protection of patent rights, try all the efforts to solve the primary issues such as "long case-handling period, difficulty in evidence collection, and low damages", ensure the fulfilment of the rights and interests of the patentees, and encourage innovation fundamentally.

For instance, the indirect patent infringement system as stipulated in Article 21 of the Interpretation II<sup>1</sup> further puts emphasis on protection of patent holders. Similar provisions can also be found in the revised Draft of the Patent Law that is soliciting public opinions. In practice, if there is no contact between an indirect infringer and an infringer finally exploiting the invention - creation, contributory fault does not exist. However, if the indirect infringer knowingly provides the parts to commit direct infringement with subjective malice or actively induces others to commit infringement, his act falls within the scope subject to regulation of Article 9 of the Tort Liability Law in view that the indirect infringer is obviously malicious and the parts or methods provided are specially used for or the main incentive for indirect infringing acts. That does not mean to provide extra protection for patent holders beyond the current legal framework, but is in line with the proper meaning of the Tort Liability Law and the objective to improve the protection of

patent holders.

It should be noted that indirect infringement is premised on direct infringement, which explains why the provision has such an expression as "implementing" the act that infringes on the patent right. But it means in no way that direct infringement must be found before filing a lawsuit against indirect infringement. As to whether indirect and direct infringers shall be jointly sued as defendants, there is no need to sue them as defendants in consideration of the likelihood that the direct infringer has been determined in a prior judgement, and the people's court has the discretion to decide whether the direct infringer shall be sued as the joint defendant according to the specific details of each case.

Moreover, as to the issues of "difficulty in evidence collection and low damages", Article 27<sup>2</sup> of the Interpretation II improves the rules for adducing evidence related to the damages award in patent infringement lawsuits to some extent. With reference to the rules for spoliation of evidence in Article 63, paragraph two of the Trademark Law, the obligation to prove the profits gained by infringers shall be assigned to infringers in consideration of the preliminary evidence provided by the patent holder and relevant evidence in the hands of the infringers, and thus this regulation will be consist with Article 65 of the Patent Law regarding the sequence of the steps of calculating the amount of damages.

Further, as to the issue of long case-handling period, the pertinent provisions have been set forth in the Interpretation II. Under the current Chinese legal framework for patents, when the right holder sues the defendant of infringing its patent right, the latter tends to file a request with the Patent Reexamination Board (PRB) for invalidating the patent right, and the courts for handling the disputes over patent infringement, which have no power to examine the validity of patent rights, often suspend civil proceedings and wait for the outcome of administrative lawsuits related to patent grant and invalidation. The procedure related to patent grant and invalidation is rather redundant, and recurrent litigation and idling proceeding are too severe to solve the disputes essentially. To enhance the efficiency of hearing patent infringement lawsuits, alleviate negative influence caused by the long case-handling period, and take full consideration of the low possibility of overruling the PRB's decisions in patent grant and validation administrative proceedings, Article 2<sup>3</sup> of the Interpretation II introduces the system of "making a ruling first and re-filing a suit separately", that

is to say, after the announcement of the PRB's decision on invalidation of a patent right, the court for handling the disputes over patent infringement can issue "a dismissal of a suit" without awaiting the final outcome of the administrative procedure, and the right holder may "re-file a suit separately" to seek for a judicial remedy. The reason to rule the dismissal of a suit procedurally, instead of rejecting a claim substantially, is that the right holder can still re-file the suit separately if the decision on invalidation is overruled by an administrative judgement.

The above two provisions are an active try in improving litigation efficiency, but it is still impossible to fundamentally solve the issue of long case-handling period caused by "binary separation between civil and administrative proceedings" due to the current legal provisions. IPR protection has long been troubled by the issue of "long case-handling period", which can never be solved unless the framework of "binary separation between civil and administrative proceedings" is changed at the legislative level.

(II) Adhere to the principle of compromised interpretation, strengthen the role of claims in disclosure and delimitation, and enhance the certainty of the protection scope of patents, so as to provide the public with clear legal predictability and boost improvement of patent drafting skills.

Claims, as a landmark delimiting the scope of patent rights, is a core concept of the Patent Law, around which many rules of the patent system evolve. The Judicial Interpretation of the Patent Law released in 2009 did effectuate the public notice function of patent claims. In pursuit of further implementing the spirit, the Interpretation II is intended to enhance the certainty of the protection scope of patents and provide the public with clear legal predictability, which is based on the full consideration of the China's current status that the patent quality as a whole is at a relatively low level and the requirement on implementation of innovation-driven development strategies.

Articles 5, 10 and 12 of the Interpretation II, which are respectively directed to the features in the preamble portion, the processing method in a product claim and emphatic terms used in numerical features, provide that the aforementioned features and terms have a limitative effect on the protection scope of patents. Whether those features and terms can be regarded as essential technical features for a patent is an issue to be solved during the patent grant and validation process, and it is not appropriate for the people's court handling disputes over patent infringement to make a

decision in this regard. In other words, a drafter of patent specification shall pay enough attention to the expression of those features during the patent prosecution phase.

Article 7 of the Interpretation II<sup>4</sup> clarifies the rules for construing close-ended claims of composition that have long been controversial, which shows the respect for the public notice function of patent claims and safeguards the trust of the public to the protection scope of patents. No changes have been made to the provisions for close-ended claims of composition regardless of the versions of the Guidelines for Patent Examination, i.e., other components that are not mentioned in the closed-ended claim shall be excluded, unless they are unavoidable impurities that are present in normal amounts. The drafting manner and interpretation rule have been widely accepted in the IP community through long-term practice. Interpretation rules as stipulated in Article 7, paragraph 1 of the Interpretation II are kept consistent with those in the Guidelines for Patent Examination. In view that compositions in the field of herbal medicines are different, in essence, from chemical medicines in terms of mode of treatment, manufacturing process and physical/chemical parameters, Article 7, paragraph 1 is, in principle, not applicable to construction of claims of herbal compositions drafted with the wordings such as "consisting of...". In such a case, it shall be examined whether the technical features added to an alleged infringing product may substantially affect the solution to technical problems.

The public notice function of patent claims objectively sets new requirements for the drafting of patent specification. However, it takes time to improve patent drafting skills. As the saying goes, Rome wasn't built in a day. On the other hand, due to the limitation of literal expressions in themselves, it is unlikely that a claim encompasses all possible embodiments or future potential embodiments of patented technical solutions. The application of such legal rules as the doctrine of equivalents renders patent holders under comprehensive protection.

(III) Adhere to the balance of interests doctrine and clarify the legal boundaries of patent rights and other civil rights, so as to protect the lawful rights and interests of patent holders, encourage invention and creations, and meanwhile avoid undue expansion of patent rights and compression of re-innovative space, and prevent the public interests and others' legitimate rights and interests from impairment.

Article 70<sup>5</sup> of the Patent Law of the PRC provides that where any person, for the purpose of production and busi-

ness operation, uses, offers to sell or sells a patent-infringing product without knowing that such product is produced and sold without permission of the patentee, he shall not be liable for compensation provided that the legitimate source of the product can be proved. The dispute lies in whether a *bona fide* user shall stop using the infringing product with the source of the infringing product being justified and reasonable *quid pro quo* being paid. In practice, a person who uses an infringing product generally neither knows nor should know that he bought an infringing product. A right holder tends to sue the user because the user stays at the end of the chain of infringing acts and can be easily found by the right holder. Even if manufacturers, sellers and users are all sued jointly as defendants, the users, in the light of Article 70 of the Patent Law, may be exempt from compensation for the damages caused to the right holder by their use but still be liable for cessation of use. Otherwise, the users shall alternatively pay patent royalties for the use of infringing products. To clarify the legal boundaries of patent rights and other civil rights, Article 25<sup>6</sup> of the Interpretation II excludes *bona fide* users by way of proviso clauses according to the balance of interests doctrine.

In the process of drafting, some people argued that Article 25 exempts *bona fide* users from liabilities for cessation of use, which is in conflict with Article 70 of the Patent Law, while others deem that the reasonable source defence system was originally established to impinge on the source of infringement, which are manufacturers in most cases. The act of use in good faith is not prohibited in the Agreement on Trade - Related Aspects of Intellectual Property Rights (TRIPS). A patent right is not meant to ban the use of an infringing product by those who uses the product in good faith subjectively, obtains the product from a legal source objectively, and pays a reasonable *quid pro quo* to sellers in exchange of the infringing product, and thus the prohibiting right of a patent shall be limited. A patent right is exclusive in nature, but it does not mean that it can be expanded with no limits. The Patent Law is not made for patent holders alone. Too much emphasis on the unilateral interest of patent holders despite of legitimate rights and interest of *bona fide* users will invade the reasonable space of users in good faith and impede transaction security, which is neither in line with the original intent of Article 70 of the Patent Law nor in compliance with the basic legal spirit of the balance of interests. The second opinion was finally adopted in the Interpretation II in consultation with the compe-

tent law-making department.

If the counter evidence provided by the right holders proves that the *quid pro quo* is not paid by the user or, even though paid, is obviously unreasonable, the user shall still be civilly liable for cessation of use as the requirement for exemption from liabilities for cessation of infringement is not met, unless such use of an infringing product falls within the exceptional circumstance where “national and public interests are impaired” as stipulated in Article 26 of the Interpretation II.

As to the ruling that orders the cessation of infringement (injunction), Article 26<sup>7</sup> of the Interpretation II provides that under normal circumstances, an infringer shall be liable for cessation of infringement. However, if the cessation of infringement will impair the national and public interests, the court may not order the user to stop infringement, but pay reasonable royalties instead. Although the ways to bear infringing liabilities are not explicitly stipulated in the Patent Law, Article 15 of the Tort Liability Law provides that the methods for bearing tort liabilities may be applied individually or jointly. For that reason, Article 26 of the Interpretation II stipulates the way to bear civil liabilities in a particular case, to which the Tort Liability Law is also applicable. Although the Patent Law sets forth the provisions related to a compulsory patent licensing system, Article 26 of the Interpretation II can go hand in hand with the compulsory patent licensing system. If issuance of a compulsory license by an administrative authority is taken as a procedure prior to civil infringement litigation, it may lead to the suspension of civil litigation and render relief procedures more artificially complicated, which is not good for resolving disputes in a timely manner. It should be noted that only under exceptional circumstances where the national and public interests are impaired will the court not order the cessation of infringement. The cessation of infringement is still the basic form of liabilities for patent infringement.

In addition, Article 24<sup>8</sup> of the Interpretation II sets forth the provisions related to standard-essential patents (SEPs) that have aroused great concerns at home and abroad in recent years.

In patent infringement lawsuits, an accused infringer often refuses to stop his infringing acts by arguing that he is implementing the standards. Whether the arguments are tenable depends on the subjective state of the standard implementer, i.e., the degree of knowledge about patents in which the standards are involved, and the degree of knowl-

edge in turn depends on patent information disclosed by the standards. As a result, Article 24 of the Interpretation II is intended to probe into the subjective fault of the parties concerned with reference to the disclosed patent information and then determines whether or not to issue an injunction and who shall be liable for infringement. This is an issue to be solved from the perspective of the Patent Law and the Tort Liability Law, rather than the Competition Law.

Given that issues involving SEPs are very complicated, the Interpretation II discarded the “general and comprehensive” drafting principle, and is only aimed to clarify some typical issues on which a consensus has been reached. Those controversial issues have not been touched upon temporarily. Especially after December 2013, the Standardization Administration of the PRC (SAC) and the State Intellectual Property Office (SIPO) released the Interim Provisions on the Administration of National Standards Involving Patents to improve the patent information disclosure procedures and confirm that patents involved in national standards should be essential patents, without specifying the rules for dealing with the patents contained in compulsory standards. For the sake of consistency, the Interpretation II only provides for recommended standards (namely, non-compulsory standards) and the circumstances where the patents are disclosed explicitly. The issues not mentioned in the Interim Provisions, such as “non-disclosure of patent information in standards”, compulsory standards and international standards, will be gradually solved in judicial practice.

In addition to SEPs, the Interpretation II further enriches the rules for claim construction and clarifies non-infringement defences. Some issues, such as conflict patent applications and production or business purposes, were reflected in the Draft for Comment but failed to be incorporated into the Interpretation II due to the restrictions of the current Patent Law. However, it does not mean that the opinions on such issues in the Draft for Comment are wrong. Some of them may be reflected in future judicial policies and typical cases, some need to be clarified on the basis of further study and discussion, and others related to the deep-rooted problems of the Patent Law will become a great concern in the present or subsequent revisions of the Patent Law.

### III. Conclusion

Judicial interpretation stems from trial practices and

originates from a large number of authentic cases provided by the courts all over the nation. In this sense, judicial interpretation is the precursor of legislation. Judicial Interpretation of the Patent Law serves as the basis for trial of patent cases, plays a more important role in filling the loopholes in the law and refining the legal standards, and constitutes an integral part of the China’s patent law system. At present, Chinese economic development has entered into the “New Normal” phase, and the trend of development led by innovation becomes increasingly obvious. The fundamental role of the patent system in stimulating scientific and technological innovations, creative potential and entrepreneurship is of great significance to acceleration of innovation-driven development strategies. The release of the Interpretation II further enriches and improves China’s patent law system, and will further curb patent infringing acts, enhance the guiding role of the judicial adjudication in scientific and technological innovation, further stimulate self-oriented innovation and technological leapfrogging effectively so as to provide powerful legal protection for mass entrepreneurship and innovation. ■

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<sup>1</sup> Article 21 Where a party, knowing that a product is a raw material, equipment, component or intermediate especially used for exploiting a patent, provides, without the authorization of the patent holder, such product to another party who commits an act of patent infringement for production and business purposes, if the right holder alleges that the provider’s act is contributory infringement as specified in Article 9 of the Tort Liability Law, the people’s court shall sustain such allegation.

Where a party, knowing that a product or a method has been granted the patent right, actively induces, without the authorization of the patent holder, another party to commit an act of patent infringement for production and business purposes, if a right holder alleges that the inducer’s act induces an infringing act as specified in Article 9 of the Tort Liability Law, the people’s court shall sustain such allegation.

<sup>2</sup> Article 27 Where the actual losses suffered by the right holder from infringement can hardly be determined, the people’s court shall require the right holder to produce evidence in support of the profits gained by the infringer from infringement according to Article 65, paragraph one of the Patent Law; if the right holder has provided preliminary evi-

dence to prove the profits gained by the infringer, and account books or materials relating to patent infringing acts are mainly in the hands of the infringer, the people's court may order the infringer to provide the account books or materials; if the infringer refuses to provide the account books or materials without justifiable reasons, or provides false ones, the people's court can determine the profits gained by the infringer from infringement according to the claims of and evidence provided by the right holder.

<sup>3</sup> Article 2 Where claims asserted by the right holder in a patent infringement lawsuit is declared invalid by the PRB, the people's court adjudicating the patent infringement lawsuit may dismiss the lawsuit brought by the patent holder based on the invalidated claims.

Where there is evidence proving that the decision on invalidation of the claims is revoked by a binding administrative judgment, the right holder may file a lawsuit otherwise.

Where the right holder files a lawsuit otherwise, the limitation of action shall be counted from the date of service of the administrative judgment as asserted in the preceding paragraph.

<sup>4</sup> Article 7 Where an alleged infringing technical solution has other technical features in addition to all the technical features of the close-ended claim of composition, the people's court shall determine the alleged infringing technical solution as not falling within the protection scope of the patent right, unless the added technical feature is unavoidable impurities that are present in normal amounts.

The close-ended claims of composition as mentioned in the preceding paragraph usually do not include claims of herbal composition.

<sup>5</sup> If a party, for production and business purpose, uses, offers to sell or sells a patent infringing product without knowing that such product is produced and sold without authorization of the patentee, he shall not be liable for compensation provided that the legitimate source of the product can be proved.

<sup>6</sup> Article 25 Where a party, for production and business purposes, uses, offers to sell or sells a patent-infringing product without knowing that such product is produced and sold without the authorization of the patentee, and the legitimate source of the product can be proved by evidence, the people's court shall sustain the right holder's claim of ordering the party to stop using, offering to sell or selling the infringing product, unless the user of the alleged infringing product proves by evidence that the reasonable *quid pro quo* has been paid.

"Without knowing" in the first paragraph of this article means neither know nor should know.

"Legitimate source" in the first paragraph of this article means the product is obtained through legitimate sales channel and by such a normal commercial manner as an ordinary sales contract. As for the legitimate source, the person who uses, offers to sell or sells the product

shall adduce relevant evidence proving that his act complies with the trading customs.

<sup>7</sup> Article 26 Where the defendant constitutes infringement on the patent right, the right holder's request for stopping the infringing act should be supported by the people's court. However, in consideration of the national and public interests, the people's court may not order the defendant to stop the alleged acts, but order the defendant to pay reasonable fees.

<sup>8</sup> Article 24 Where recommended national, industrial or local standards explicitly disclose the information on essential patents that is relevant to such standards, if the alleged infringer alleges non-infringement defence by arguing that no license from the right holder is required for implementing such standards, the people's court generally should not sustain such defence.

Where recommended national, industrial or local standards explicitly disclose the information on essential patents, the patentee and the alleged infringer negotiate about the patent licensing conditions, the patentee is intentionally in breach of its licensing obligations on "fair, reasonable and non-discriminatory" terms as promised in the process of formulating the standards, thereby resulting in failure to reach a patent licensing contract, and the alleged infringer has no obvious faults in the negotiations, the people's court usually should not support the right holder's claim for stopping the act of implementing the standards.

Licensing terms as mentioned in the second paragraph of this Article shall be decided through negotiation between the patentee and the alleged infringer. If no agreement is reached after sufficient negotiation, the parties may respectfully request the people's court to make a decision. The people's court in determining such licensing terms should take comprehensive account of factors such as the degree of innovation and the role of patents in standards, the technical field to which technical standards pertain, the nature of the standards, the scope of the standards and relevant licensing terms according to the "fair, reasonable and non-discriminatory" principle.

Where any law and administrative regulation sets forth the provisions on the implementation of patents in standards otherwise, such provisions shall prevail.