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## China

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# Editorial

**M**anaging IP has partnered with leading IP experts to share knowledge and solutions on China's IP landscape in 2022.

The fourth amendment to China's Patent Law came into force on June 1 2021 reflecting the need to strengthen IP protection. There are many highlights of this revision that the IP experts will explore in depth as well as a wide range of other relevant developments in China's IP terrain.

AFD China Intellectual Property Law Office discuss the development of the law regarding OEMs and trademark infringement in China while Beijing East IP consider why adopting and promoting a Chinese equivalent of a foreign language mark is critical for foreign businesses to shine in China's market.

Administrative actions are an important tool for IP protection in China. CCPIT Patent and Trademark Law Office discuss how they can be used in practice and what advantages they offer. Chang Tsi & Partners explain why Chinese enterprises dealing with SEP litigation should respond actively to ensure the issue is litigated before the Chinese courts.

DEQI Intellectual Property's article focusses on why the patent prosecution highways programme is the most and active international cooperation programme in patent examination around the world. While Kangxin explain why applicants and patentees should understand the functionality of the compensation system for the patent protection term

Liu Shen & Associates provide an analysis of IP cases decided by China's Supreme Court and consider the characteristics of each. Panawell & Partners explains why the patent evaluation report plays an important role in patent infringement litigation.

Vivien Chan & Co explain how brand owners can benefit from the changes introduced by the CNIPA including reducing bad faith filings and Wanhuida Intellectual Property provide an insight into obtaining evidence on the infringing product/process and the calculation of damages in China.

We hope you enjoy hearing from the IP experts on a wide range of topics in the China IP Focus 2022.



**Lorraine Yardley**  
Commercial editor  
Managing IP

## INCORPORATING IP ASIA

### **Euromoney Trading Limited**

4-8 Bouverie Street  
London, EC4Y 8AX  
T: +44 20 7779 8682  
F: +44 20 7779 8500  
mip@managingip.com

### **SUBSCRIPTIONS**

#### **Head of subscriptions**

Tolu Babalola  
+44 (0) 20 7779 8165  
tolu.babalola@euromoneyplc.com

### **CUSTOMER SERVICES**

+44 (0) 20 7779 8610

### **EDITORIAL**

**Managing editor** Ed Conlon

**Commercial editor** Lorraine Yardley

**Americas editor** Patrick Wingrove

**Senior reporter** Max Walters

**US reporter** Rani Mehta

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A young boy with brown hair and freckles is looking up at a red apple balanced on a horizontal stick. An arrow with a blue fletching and a red shaft is pointing at the apple. The background is a blurred green forest.

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# China's flexible approach to territorial protection addresses OEM conflicts

Xue Li, Jingjing Wu and Mingzhao Yang of AFD China Intellectual Property Law Office discuss the development of the law regarding OEMs and trademark infringement in China

**O**riginal equipment manufacturers (OEMs) manufacture goods in China with foreign trademarks labelled under the instruction of overseas parties. The overseas parties then pay the manufacturing fees and import all the finished goods into a foreign market for sale.

The use of OEMs is common in international commerce. However, it has caused many disputes and conflicts between foreign trademarks and registered trademarks in China.

The issues with OEM-related trademark infringement have attracted both domestic and international attention. Despite this, since unified trial standard or adjudication rules have not yet been formed in the judicial practice, the judgments of local courts may vary even where the findings of fact are the same.

The examination of such cases tends to focus on the following aspects: whether the OEM processing constitutes a trademark use that identifies the origin of goods, whether it is likely to cause confusion, whether the manufacturer has exercised a reasonable duty of care, whether it causes substantial damage to the domestic trademark registrant, and the territorial protection of trademark rights. These points were either individually or jointly reflected in specific cases and influenced the final judgments.

There are various elements involved in OEM activities, such as Chinese domestic trademark registrants, overseas trademark registrants, domestic manufacturers, and registered trademarks that are protected in different territories.

This article analyses the territorial protection of trademark rights in OEM-related activities, particularly in combination with prior cases and other situations that may exist in practice. It aims to offer some insights into protecting the rights and interests of trademark registrants through the flexible application of the principle of territorial protection.

## Territoriality of trademarks in OEM disputes

The development of the representation of territoriality in OEM disputes in China can be seen in several significant judgments of the Supreme People's Court (SPC) in the past few years.

### 2014 Minti Zi Judgment No. 38 (PRETUL trademark case),

Tupeheamietass is a Mexican company and the owner of the registered trademark for the trademark Pretul and oval device in Mexico. The mark was registered to be used on goods in class 6 (padlocks). Yahuan, a manufacturer based in Zhejiang Province, was authorised by Tupeheamietass to manufacture the padlocks with the Pretul mark labelled. Both parties agreed that all products would be sold back to Mexico.

Meanwhile, Focker Security Products International Limited had the exclusive right to the oval mark Pretul in China, which was also registered for padlocks in class 6. After hearing the case, the SPC ruled that the concerned OEM processing did not constitute trademark infringement.

### 2016 Min Zai Judgment No. 339 (Dongfeng trademark case)

The Indonesian company Ptadiperkasabuwana (PTADI) registered the Dongfeng trademark in Indonesia for diesel engines and other products. PTADI authorised Jiangsu Changjia to manufacture diesel engines and components thereof with the mark Dongfeng labelled. Both parties agreed that the products would be completely exported to Indonesia for sale.

However, Shanghai Diesel Engine had the exclusive registration for the Dongfeng mark in China, designating diesel engine products in class 7. Moreover, this mark was recognised as a well-known trademark in China in 2000. After hearing the case, the SPC ruled that the concerned OEM processing did not constitute trademark infringement.

The facts of the two cases are largely similar. After







## “OEMS has caused many disputes and conflicts between foreign trademarks and registered trademarks in China.”

retrial, the SPC held that the OEM processing in both cases did not constitute trademark infringement on similar grounds. The grounds included: (1) the act of a Chinese manufacturer affixing a foreign trademark to the products it manufactured as entrusted by the foreign owner of the foreign trademark did not have the function of identifying the source of the goods in China, and thus did not constitute a use of the trademark; and (2) all manufactured products were exported overseas without entering into circulation in the Chinese market, and there was no likelihood of confusion or misidentification of the source of the goods by the relevant public.

From the decisions of other courts in that period, it is clear that when analysing whether the OEM processing constituted trademark infringement, most of the courts would consider the territoriality of trademarks, i.e. the determination of the likelihood of confusion caused by the OEM processing (such as affixation of the foreign trademarks or exportation of the manufactured products) was limited to the market circulation within the territory of China. Thus OEM processing in which the final products did not enter the Chinese market generally did not constitute trademark infringement.

The SPC's judgment of non-infringement in these OEM cases indicated that OEM processing did not cause a likelihood of confusion regarding the source of goods in China and was therefore an exception to trademark infringement. But two years later, the SPC gave a new decision with new reasons in the judgment on the Honda trademark in September 2019.

### 2019 Min Zai Judgment No. 138 (Honda trademark case), SPC, September 2019

A Burmese company Meihua entrusted Chongqing Hengsheng Group to manufacture and use the Myanmar-registered trademark Hondakit on motorcycle parts. Both parties agreed that the finished goods would be completely exported to Myanmar for sale. Honda Motor has the exclusive right to use the Honda trademark in China on motorcycles.

After the first and second instances, in a retrial of the case the SPC finally determined that this OEM processing constituted trademark infringement.

In its judgment, the SPC ruled that “use of a trademark is an objective act, which often comprises multiple steps, such as physical affixation, market circulation and so on. Whether it constitutes a use of trademark under the Trademark Law should be interpreted as a whole in accordance with the Law, and should not be determined by segmenting such act and only looking at one particular step”, and “the relevant public should also include, in addition to the consumers of the accused infringing goods, the operators closely related to the marketing of the accused infringing goods.

For example, the operators engaged in the transportation of the accused infringing goods are also likely to come into contact with the goods. Moreover, with the development of e-commerce and the internet, even if the accused infringing goods are exported abroad, there is still a likelihood of the goods coming back to the domestic market. At the same time, China's growing economy enables a large number of Chinese consumers to travel and consume abroad, thus increasing the likelihood of contact and confusion about the ‘OEM goods.’

This judgment shows that when reviewing the case, the SPC did not deny the foreign trademark's impact on identifying the source of the goods merely on the grounds that the concerned OEM and mark labelling only took place inside the Chinese manufacturer and the goods did not enter the Chinese market. It also did not deny the likelihood of confusion merely on the grounds that the OEM goods were only sold overseas.

As to whether the use of a foreign trademark authorised by an overseas entrusting party can be used as a defence for non-infringement, the SPC also emphasised the territoriality of trademark rights, holding that “as an intellectual property right, a trademark right is territorial. A trademark not registered in China, regardless of its registration in a foreign country, does not have the exclusive right as a registered mark in China. Correspondingly, the so-called ‘authorised use of a trademark’ obtained by civil subjects in China is not a legitimate trademark right under China's trademark law, and therefore cannot be used as a defence of non-infringement of trademark rights.”

The judgment in the Honda trademark case shows that, when reviewing this OEM case, the SPC applied a different set of rules to the territorial protection of trademark rights from those in the previous cases. Specifically, the SPC not only blurred the impact of trademark territoriality on identifying the source of goods and causing a likelihood of confusion, but also emphasised that the authorised use of foreign trademarks cannot be automatically protected in China in view of trademark territoriality. This strengthened the protection of the owners of Chinese trademark registrations.



### Xue Li

Counsel  
AFD China Intellectual Property  
Law Office  
T: +86 10 8273 0790  
E: info@afdip.com

Xue Li has been working as a trademark attorney with AFD China Intellectual Property Law Office since graduating from Dalian Maritime University with a master's degree in constitutional and administrative law in July 2011.

Xue passed the Chinese Bar in 2010 and obtained her Chinese law licence in July 2012. She has significant experience in trademark practice, IP enforcement and litigation.



### Jingjing Wu

Manager  
AFD China Intellectual Property  
Law Office  
T: +86 10 8273 0790  
E: info@afdip.com

Jingjing Wu is a manager at AFD China Intellectual Property Law Office. She specialises in patent prosecution, trademark prosecution, protection and enforcement, other IP protection related to domain name, trade secret, anti-unfair competition and copyright, and IP administrative lawsuits and litigation.

Jingjing is a member of the All China Patent Attorneys Association and a patent litigation attorney, admitted before the Supreme People's Court of China in 2013.

Jingjing graduated from Tianjing University with bachelor degrees in chemical engineering and LLB, and began practicing IP law in 2002.



### Mingzhao Yang

President  
AFD China Intellectual Property  
Law Office  
T: +86 10 8273 0790  
E: info@afdip.com

Mingzhao Yang is president of AFD China Intellectual Property Law Office. He leads the firm's strategic management and operation teams and focuses on IP matters including prosecution, post-grant proceedings, dispute solutions, litigation, and counselling.

Mingzhao is a patent attorney registered before the CNIPA and patent litigation attorney registered before the SPC. He obtained his bachelor of engineering degree from Beijing University of Technology.

## Flexible application of trademark territoriality

OEM processing generally involves three parties: the registrant of a foreign trademark, the manufacturer in China, and the registrant of a Chinese trademark.

As mentioned above, OEM processing involves a number of case elements. It is possible to analyse how to use the territoriality of trademarks reasonably to resolve trademark infringement disputes in OEM cases through some hypothetical scenarios.

### Scenario 1: Trademark is properly registered in China

As ruled in the SPC's judgment in the Honda trademark case, the authorised use by an overseas entrusting party cannot be used as a defence against trademark infringement. The so-called 'authorised use' of a foreign registered trademark obtained by a domestic

manufacturer is not a legitimate trademark right under China's trademark law, nor can it successfully defend the non-infringement of the OEM processing.

The most direct embodiments of the territoriality of trademarks lie in protecting the rights of trademarks registered within the territory of China and prohibiting trademark infringement (including the act of affixing foreign trademarks to OEM goods) within the territory of China according to the law.

### Scenario 2: Trademark is properly registered in China and has gained a certain reputation

The protection of intellectual property in China has increasingly been reinforced, and punitive compensation rules have been comprehensively established against the infringement of intellectual property.

In terms of OEM cases, when a domestic trademark

**“In order to protect their trademark rights, it is necessary for entities from various countries to register their trademarks in China.”**

properly registered has gained a certain reputation, other manufacturers, as competitors, have a duty to take reasonable care. In one aspect, having fulfilled the duty to take reasonable care can become an effective defence of non-infringement, which may exempt or mitigate the compensation liability of a bona fide manufacturer.

More importantly, strengthening the impact of the territoriality of trademarks, and requiring domestic manufacturers to fulfil the duty to take reasonable care, can indirectly regulate the squatting of Chinese trademarks by overseas entrusting parties, further prevent trademark infringement in China caused by

OEMs and urge all concerned parties to abide by the principle of good faith stipulated in the Trademark Law.

### **Scenario 3: Trademark registered in China by an unfair means**

If a trademark is registered in China in bad faith, then the foundation of the right to seek protection is inherently flawed. In this case, attention should be paid to the protection of domestic OEMs, international traders and genuine trademark registrants even when the genuine trademark owners are not Chinese entities and their trademarks are not protected in China.

Likewise, if a domestic trademark registrant causes damage to a domestic OEM through malicious litigation, it will be liable for compensation.

### **Importance of trademark registration**

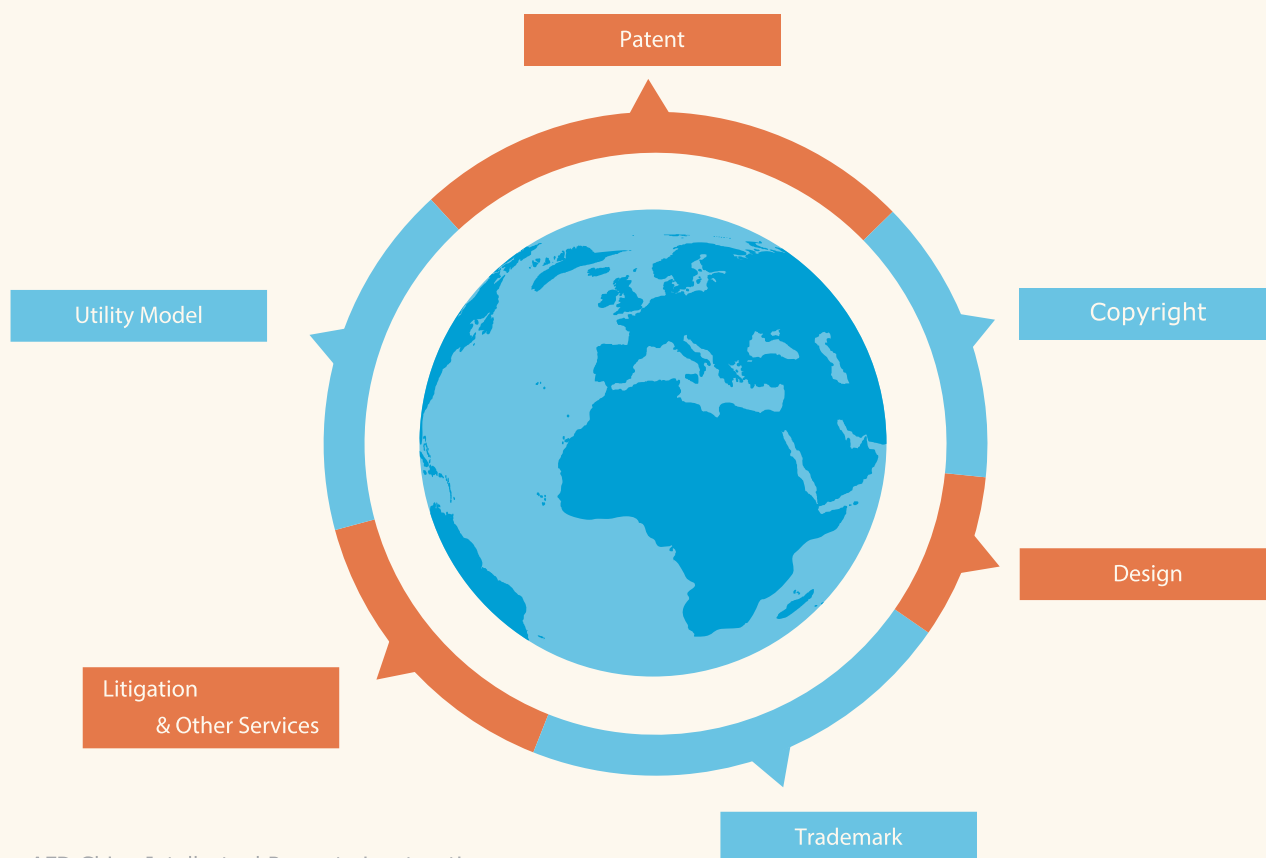
With the deepening of global economic integration, the Chinese market gains a closer connection with the global market. In order to protect their trademark rights, it is necessary for entities from various countries to register their trademarks in China.

The change of attitude of the SPC in OEM cases shows that where foreign entities do not intend to enter the Chinese market for the time being due to trademark territoriality then registering trademarks in China is the only way to receive proper protection for their rights if they face trademark infringement from competitors associated with OEMs in China.



# AFD China Intellectual Property Law Office

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### Contact Us:

Head Office: Golden Towers, Tower B,  
21st Fl., 38 Xueqing Road, Beijing  
100083, China

Tel: +86 10 8273 0790

Fax: +86 10 8273 0820

Email: [afdbj@afdip.com](mailto:afdbj@afdip.com)

Website: [www.afdip.com](http://www.afdip.com)

# Key considerations when protecting Chinese language marks

**Yan Zhang and Austin Chang of Beijing East IP** consider why adopting and promoting a Chinese equivalent of a foreign language mark is critical for foreign businesses to shine in China's market

**C**hina has risen to be one of the most important markets in the world with its enormous population and growing purchasing power. Branding and marketing strategy become every business' frontline in attracting customers. Compared to Roman languages, the Chinese language is much easier for Chinese customers to pronounce and memorise, so adopting and promoting a Chinese equivalent of a foreign language mark is critical for foreign businesses to shine in China's market.

If a foreign business does not adopt a Chinese equivalent, the local Chinese media, consumers, or distributors will create their own, which may inevitably create a series of problems for the brand owner.

First, the locally created Chinese words may not have the pronunciation, expression, or connotations that the brand owner would like to present to the China market. Second, there is a risk that the general public would begin referring the foreign brand using the locally created words, instead of a chosen Chinese equivalent by the brand owner. Also, under China's 'first-to-file' trademark system, failure to register a Chinese equivalent

**"If a foreign business does not adopt a Chinese equivalent, the local Chinese media, consumers, or distributors will create their own, which may inevitably create a series of problems for the brand owner."**

mark in time runs the risk of an unwelcomed third party squatting it, which often leads to laborious hours and significant money spent on retrieving the squatted mark.

In practice, registering the foreign language mark alone may not be sufficient to establish priority over its unregistered Chinese equivalent because a foreign language mark may not automatically be deemed similar to its Chinese equivalent.

An important lesson of securing protection of Chinese language marks can be learned from the New Balance case. New Balance registered its English mark 'New Balance' but neglected to register a Chinese equivalent timely. A Chinese individual registered the marks 'Bai Lun in Chinese' and 'Xin Bai Lun in Chinese' that later became the popularly recognised Chinese equivalent of 'New Balance'. This individual sued New Balance and the courts found New Balance infringing.

To avoid these potential pitfalls, nearly all famous brand owners have selected, registered, and used their Chinese equivalent marks in China. For example, Apple uses 'Ping Guo in Chinese', which means apple in Chinese and Microsoft uses 'Wei Ruan in Chinese', which means micro software.

Both Apple and Microsoft literally translated their English marks as their Chinese equivalents. Transliteration is another popular way of creating a Chinese equivalent, which could be highly distinctive and have a similar pronunciation to its Roman letter mark. For example, Hilton uses 'Xi Er Dun in Chinese' and Armani uses 'A Ma Ni in Chinese'.

In addition to literal translation and transliteration, combination of literal translation and transliteration is also widely used among foreign businesses in selecting their Chinese equivalents. A good example is 'Lock & Lock'. Its Chinese equivalent is pronounced as 'le kou le kou', which means 'happily locked' and the repeated words also make it much easier for consumers to memorise.



## LANGUAGE MARKS





In addition to various ways to select Chinese equivalent, it is important to corroborate that the selected Chinese equivalent does not have negative meaning or unwanted connotation.

### Factors to be considered in trademark prosecution and litigation

In practice, the determination of similarity between a foreign language mark and Chinese language mark varies depending on the proceeding.

In substantial examination proceeding, the China National Intellectual Property Administration (CNIPA) mainly focuses on literal translation of a foreign language mark by referring to online dictionaries, such as Kingsoft dictionary. Thus, it is unlikely that examiners will cite transliterations of a prior mark or phonetically similar prior marks to block a new foreign language trademark application. To increase the likelihood of registration, it is advisable to conduct a clearance search for literal translations of the foreign language mark to ensure that there is no prior Chinese language mark with identical or similar meaning.

In refusal appeal proceedings, the CNIPA and courts apply a broader similarity examination scope, and the following factors should be considered according to the 'Beijing High Court Guidelines for the Trial of Trademark Right Granting and Verification Cases': (i) the ability of Chinese consumers to recognise the foreign language mark; (ii)



### Yan Zhang

Managing partner  
Beijing East IP  
T: +86 10 8518 9318  
E: yan.zhang@beijingeastip.com

Yan Zhang is the managing partner of Beijing East IP Law Firm. Her practice focuses on trademark prosecution, enforcement and litigation, anti-unfair competition, Customs protection and domain name disputes.

Yan has handled many trademark prosecution matters before the Trademark Office, court appeals and infringement lawsuits before Beijing courts and other various courts across the PRC for Fortune 500 companies and leading multinationals.

Yan has successfully obtained well-known mark recognitions for some major clients before the Trademark Office, the Beijing First Intermediate Court, the Beijing IP Court and the Beijing High Court.

the relevance or correspondence in meaning and pronunciation between the foreign language mark and the Chinese language mark; (iii) the distinctiveness, popularity, and ways of use of the cited mark; and (iv) the actual use of the mark in dispute.

In assessing '(i) the ability of Chinese consumers to recognise the foreign language mark', the type of foreign language and the frequency of use of foreign words should be considered.

Taking the 'Little Black Dress' case for example, the court held that the refused mark 'Little Black Dress in Chinese' and the cited mark 'La Petite Robe Noire' did not constitute similar marks because most Chinese consumers do not understand French, let alone knowing the Chinese meaning of the cited French mark. They would only recognise the cited French mark as a combination of Latin letters and would not associate it with a Chinese language mark.

In assessing '(ii) the relevance or correspondence between the foreign language mark and the Chinese language mark', as one foreign word can be translated or transliterated into different Chinese characters and vice versa, when determining similarity between a foreign language mark and a Chinese language mark, their correspondence should be considered. For example, the 'Forever Mark' mark can be translated into 'Yong Heng Yin Ji in Chinese', while 'Yong Heng Yin Ji in Chinese' can also be translated into 'Forever Mark'.

As 'Forever' and 'Mark' are both frequently used English words in China and Chinese consumers can readily understand the Chinese meaning of the mark and will likely associate the mark with its corresponding Chinese translation.

In reviewing invalidation and litigation proceedings, the courts apply a more comprehensive 'likelihood of confusion' judging standard. On top of comparison of marks per se, other factors may be considered, such as the cited mark's distinctiveness, use and reputation, the relatedness of goods or services, and the registrant's bad faith.

The courts look for a 'stable', as opposed to 'sole', corresponding relationship to be established between a foreign language mark and its Chinese equivalent. To achieve the 'stable' status, the brand owner needs to provide significant amount of evidence to prove that its foreign language mark and Chinese equivalent have

**"Nearly all famous brand owners have selected, registered, and used their Chinese equivalent marks in China."**

been widely used over a long period of time, and the corresponding relationship has been established and known to the relevant public.

### Typical cases

Having explained the above, we would like to share some selected typical cases that show how the courts apply the factors when determining similarity between a foreign language mark and its Chinese equivalent.

A common business practice mistake found in many typical cases involving the Chinese equivalent of a foreign language mark is that the brand owner does not have an 'official' Chinese equivalent for its foreign language mark.

This often leads to the public or media creating and using a Chinese version of the foreign language mark to refer to the brand owner and its products. This is considered as 'passive use' in contrast to the active use of a mark by the brand owner. In practice, the courts will examine whether the asserted 'passive use' is used against the brand owner's will, and whether a corresponding relationship between the foreign language mark and its Chinese equivalent has been established. Further, the correspondence between a foreign language mark and its Chinese equivalent shall be in connection with the specific goods or services used.

In the Freddie Mac case, the China Supreme Court held that 'Fang Di Mei in Chinese', as one of the Chinese translations of 'Freddie Mac', has been widely used by Chinese media to refer to Freddie Mac, and has established a corresponding relationship with 'Freddie Mac' in the field of financial services despite there exists several other translations. This case highlights that the existence of several Chinese translations does not affect the establishment of corresponding relationship between one of the most popular Chinese translations and the foreign language mark.

In the Facebook case, the Beijing High Court held that, based on the third party evidence including Chinese media reports and general understanding of the Chinese relevant public, the 'Lian Pu in Chinese' mark was the corresponding translation of the Facebook mark when used on networking services. Although 'Lian Pu in Chinese' has its fixed meaning in Chinese, facial makeup in Chinese operas, when used in connection with networking services, it refers to Facebook, rather than any other entities.



### Austin Chang

Counsel  
Beijing East IP  
T: +86 10 8518 9318  
E: austin.chang@beijingeastip.com

Austin Chang is a counsel at Beijing East IP Law Firm. He joined Beijing East IP Law Firm in 2012.

Austin's practice focuses on trademarks, anti-unfair competition, anti-counterfeiting, copyright, and Customs protection. He has been providing services to Fortune 500 companies and leading multinationals for approximately nine years. During this period, Austin has been providing in-depth and creative analysis and advice to clients for their IP issues in China.

A worse scenario of 'passive use' may happen when a Chinese distributor created a Chinese equivalent for the foreign brand and registered the Chinese equivalent on its own. This often results in unpleasant disputes because once the business cooperation between the foreign brand owner and the Chinese distributor ends, the Chinese distributor may start supplying identical products using the Chinese mark it created, which may inevitably mislead consumers about the origin of products.

An important tip to remember when enforcing or defending a case involving a Chinese equivalent is that the evidence proving the creation of corresponding relationship shall be either prior to the application date of the disputed mark or prior to the first use date of the accused mark.

In the New Balance case saga, New Balance attempted to invalidate the 'Xin Bai Lun in Chinese' mark by claiming 'Xin Bai Lun in Chinese' is a Chinese equivalent of 'New Balance', but the Beijing High Court denied New Balance's appeal, finding that New Balance used 'Xin Bai Lun in Chinese' as the Chinese equivalent of 'New Balance' later than the application date of the 'Bai Lun in Chinese' mark owned by the registrant of the disputed mark. New Balance failed to submit sufficient evidence to prove the corresponding relationship between 'Xin Bai Lun in Chinese' and 'New Balance' was formed prior to the application date of the disputed mark.

In the Penfolds case, however, Treasury Wine Estates eventually prevailed in the invalidation action against the trademark squatter, who had registered the Chinese equivalent of Penfolds, 'Ben Fu in Chinese'. The Beijing High Court held that the submitted evidence was sufficient to prove the corresponding relationship between 'Ben Fu in Chinese' and 'Penfolds' prior to the application date of the disputed mark.

Another important claim that can be asserted when enforcing trademark right involving the Chinese equivalent of a foreign language mark is that the Chinese equivalent can be protected as an unregistered well-known mark based on its well-established correspondence with its foreign language mark. For instance, Treasury Wine Estates, before successfully securing the registration of its Chinese equivalent, won an infringement action against a Chinese brewing company. Here, the local court affirmed the well-known status of 'Ben Fu in Chinese' as an unregistered mark based on its cor-

responding relationship with the English mark ‘Pen-folds’, and held the defendants’ use of the accused ‘Ben Fu in Chinese’ mark constituted trademark infringement.

### Takeaways

To better protect the Chinese language marks, it is recommended that:

- The brand owner should create its own Chinese equivalent before entering the China market. If not, Chinese consumers or media will create its own Chinese version and squatters may even register them;
- The brand owner should timely register its foreign language mark and Chinese equivalent as soon as possible. Those Chinese versions created by the media and public may also be considered and registered as trademark for defensive purposes;
- The brand owner should regularly monitor Chinese equivalents in key classes and address squatting or counterfeiting problems in a timely manner; and
- The brand owner should collect sufficient evidence to establish the use and fame of the foreign language mark as well as the corresponding relationship between the foreign language mark and its Chinese equivalent.





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# Navigating administrative actions for IP protection in China

Administrative actions are an important tool for IP protection in China. **Zhang Bin** and **Yang Yifan** of **CCPIT Patent and Trademark Law Office** discuss how they can be used in practice and what advantages they offer

**T**he IP system plays an increasingly important role in protecting innovation and promoting economic and social development, due to the deepening of economic globalisation and the march of scientific and technological progress.

IP protection is a vital part of the development of the IP system. When the IP system was established, China provided for IP protection by both administrative and judicial means. Practice has shown that this is in line with China's national conditions.

Administrative relief provides an effective way to protect IP. From the perspective of international rules, administrative procedures are also specifically stipulated among relief procedures in the Trade-Related Aspects of Intellectual Property (TRIPS) Agreement.

The administrative enforcement and judicial protection of IP are complementary and mutually reinforcing. Many countries are now adopting administrative enforcement in addition to judicial protection to strengthen IP protection.

**“Administrative actions are a simple and powerful tool for foreign IP owners to combat infringement in China”**

In its White Paper on China's Intellectual Property Rights in 2020, the China National Intellectual Property Administration (CNIPA) committed to establishing a comprehensive IP rights protection mechanism. In particular, it noted the importance of having:

the public security authorities (police) strengthen communication with various departments within the administrative authorities, e.g., intellectual property, market regulation, customs, copyright, medical products, tobacco, to improve collaboration system among them regarding sighting reports, case transfer, information sharing, and joint enforcement actions.

In the meantime, in recent years CNIPA has issued numerous guidelines for the lower authorities with regard to the determination of trademark infringement, the handling of enforcement/mediation of patent infringement cases, etc.

These moves by CNIPA and other authorities signal that the Chinese government is taking steps to empower the administrative authorities to be an equal or more effective force compared to the courts in resolving disputes related to, and in the protection of, IP rights.

## General description and data

Different departments of the administrative branch of the Chinese government have responsibility for different aspects of IP protection. After the 2018 re-organisation of the Chinese government, the current demarcation is:

- Copyright enforcement – usually the Law Enforcement on Cultural Market (LECM) within the local Bureau of Culture and Tourism;
- Patent and trademark enforcement, unfair competition (passing-off, misleading representation, know-how protection, etc.) – local Administration of Market Regulation (AMR, succeeding both former local Administrations for Industry and Commerce and local Intellectual Property Administrations).







The following authorities also provide protection from different perspectives:

- Customs – having authority to seize exporting and/or importing goods that are suspected of infringing IP rights.
- Public Security Bureaus (PSBs) – responsible for investigating IP infringements should they reach a certain level and constitute criminal offences, and for supporting local procuratorate offices in prosecutions.

Combined, these law enforcement authorities have formed a formidable and multi-faceted force in combatting IP infringements in China. According to the CNIPA White Paper, during 2020 the above law enforcement authorities launched dozens of successful ad hoc campaigns to clamp down on IP infringement and to provide effective protection to IP rights owners. These included:

- PSBs nationwide have cracked over 21,000 criminal cases of IP infringement and manufacture and sale of counterfeits and arrested more than 32,000 suspects. The aggregated volume involved in these actions reached RMB18 billion (approximately \$2.85 billion).
- AMRs around the country have conducted tens of thousands of enforcement actions against trademark infringement, patent infringement and/or unfair competition. The aggregated case volume reached over RMB3 billion and aggregated economic penalties over RMB1.1 billion.
- The IP divisions within the AMR handled over 42,000 administrative adjudications related to patent infringement, an increase of 9.9% from the previous year.

**“In recent years CNIPA has issued numerous guidelines for the lower authorities with regard to the determination of trademark infringement”**



### Zhang Bin

Deputy director  
CCPIT Patent and  
Trademark Law Office  
T: +86 10 6604 6266  
E: zhangb@ccpit-patent.com.cn

Zhang Bin is deputy director of the legal department of CCPIT Patent and Trademark Law Office. He graduated from Wuhan University with an bachelor's degree in international law in 1989 and obtained his master's degree in IP law from UNH School of Law in the US in 2003.

Since joining the firm in 1989, Zhang has successfully handled many IP cases covering trademark, copyright, licensing, unfair competition, customs protection, trade name and cybersquatting through litigation, administration or negotiation.

- Campaigns tackling piracy and copyright infringement such as Sword Next 2020 resulted in deletion/removal of around 3.24 million infringing links and closure of around 2,900 infringing websites/apps. The aggregated case volume reached RMB300 million.
- Chinese customs as a whole seized around 56.18 million pieces of goods suspected of IP infringement, an increase of over 20% in both the amount of the seizures as well as the seized goods.
- Among the above, roughly three cases opened by AMR/LECM were transferred to PSB each day. (During 2020, AMR transferred 811 cases in total to judicial authorities for prosecution, and the LECM transferred 177.)

### Investigation of critical importance

Despite the success of the Chinese government in general in taking administrative actions against IP infringement, how well a specific administrative action can be carried out varies significantly depending on the circumstances of the case.

For cases initiated based on the IP rights owner's complaint, having a careful investigation and collecting as much information as possible regarding the infringer is critically important for law enforcement authorities to launch a successful raid against the infringer.

On one hand, the administrative mechanisms and the public awareness of IP protection are both improving, leading to a heavier workload for local-level law enforcement officials, particularly those in coastal areas such as Guangdong, Jiangsu and Zhejiang.

It is understandable that these local-level officials do not have the time and resources to dig deep into every case and trace down the real culprit behind it. They rely on the IP owners to have investigations first and then present as much information as possible about the infringer when filing the complaint, so that they can take swift and effective action to end the infringement.

On the other hand, local-level officials are generally concerned about whether the case could lead them to a solid conclusion that will not backfire should the infringer file an administrative or judicial review of the penalty decision. Therefore, it is crucial for the IP owners to have concrete evidence and straightforward reasoning with regard to establishing IPR infringement before the law enforcement authorities so as to help

reduce or even remove the potential risks for the handling officials.

Generally speaking, information and evidence that is helpful for the law enforcement officials to take raid actions includes:

- Evidence on the complainant's title in respect of the IP rights (certificate or licence);
- Identity, location, and/or contact number of the suspected infringer;
- Sample of the alleged infringing products, or pictures thereof; and
- Comparison between the two parties' products if necessary.

### Overall enforcement strategy

After proper investigation is made and sufficient information and evidence is collected, administrative actions are not the only option available to IP rights owners to enforce their rights. They must be contemplated on the basis of the evidence and as a part of an overall strategy, which may comprise both administrative and court actions.

Compared to court actions, administrative actions have the following pros and cons that IP rights owners should take notice of in formulating strategies:

#### Pros of administrative actions

- Low time (usually three-to-four months) and hence low costs;
- Case records eligible for court's admission as evidence to prove infringement;
- Most law enforcement authorities have incentive mechanisms in place for officials to take administrative actions.

#### Cons of administrative actions

- No compensation can be obtained from such actions without a parallel agreement with the infringers;
- Most local law enforcement officials tend not to accept cases involving legal ambiguity or complexity.

A good enforcement action for an IP right in China would carefully consider these pros and cons to make the most of administrative actions. Factors that should be taken into consideration include:

- The aim of the IPR owner: law enforcement authorities do not have the authority to award compensation to the complainant. If there is no parallel settlement agreement reached between the complainant and the complained-about party, the costs of administrative action could not be recovered. Therefore, whether to file administrative actions or not largely depends on the IP owner's aim. If the aim is to stop the infringing acts as soon as possible and



### Yang Yifan

Trademark attorney  
CCPIT Patent and  
Trademark Law Office  
T: +86 10 6604 6008

E: yangyifan@ccpit-patent.com.cn

Yang Yifan is a trademark attorney at CCPIT Patent and Trademark Law Office in Beijing. He joined the firm after graduating from University of International Business and Economics, where he obtained a master's degree.

Yang specialises in handling trademark infringement and unfair competition cases. His expertise also includes copyright infringement, domain name disputes, legal advice on IP licences and other IP-related contracts.

not ask for compensation, administrative actions are highly advisable.

- The complexity of establishing IPR infringement: law enforcement officials, especially those at local level, are not as highly qualified as judges. And their administrative decision is subject to review by higher administrative authorities or competent courts. This results in the law enforcement officials being careful when handling complaints.

Therefore, if the facts on the alleged infringement are simple and straightforward, the administrative action can be carried out swiftly and effectively. However, if the facts are complex, or involve legal ambiguity, or the fact ascertaining requires the local officials to have professional knowledge or skill, filing administrative actions would not be as swift and effective as expected.

- Timing: firstly, administrative action is the preferable course of action when the alleged infringement is at an early stage. Under those circumstances, it is probably hard for the IP owners to obtain evidence on the infringer's profits and its own losses. Collecting evidence on the infringer's bad faith or living from the infringement could be hard as well, and the establishment of such facts is crucial to obtain punitive damages in the court proceeding. Filing an administrative action complaint is therefore preferred over filing a court action, which is unlikely to produce much compensation for the IP owner in such cases.

**“The IP system plays an increasingly important role in protecting innovation and promoting economic and social development”**

Secondly, the right timing means that the law enforcement authorities would put extra attention and resource into the case. For example, according to CNIPA's 2022 National Intellectual Property Administrative Protection Work Plan (2022 年全国知识产权行政保护工作方案), nationwide law enforcement authorities are required to "develop work plans, establish emergency response mechanisms, and strengthen IPR protection" around the important dates of the year, such as May Day, the Mid-Autumn Festival and National Day.

- Coordination with court proceedings: in some cases when the infringement is severe, an administrative action can be filed as a pre-lawsuit step to obtain an administrative order, enjoining the infringer from continuing its infringement. The evidence preserved through the administrative action can also be used in the following court proceedings against the infringer. In order to determine the volume of the case, law enforcement authorities have the right to check the

records of the infringer, which is usually not available to the IP owners. If the numbers so obtained are indicated in the official penalty decision, it could effectively expand the factual basis on which the compensation could be claimed during the court proceedings.

Only based on properly preserved evidence and the analysis above could an administrative action be a sound course of action in enforcing IP rights and produce a favourable outcome.

Administrative actions are a simple and powerful tool for foreign IP owners to combat infringement in China. However, as the Master Sun Tzu said in The Art of War: "Plan before you move" (谋定而后动).

Using this tool and using it well require IP owners to consult with experienced lawyers or private investigators in respect of factual and legal grounds, as well as other factors that may affect the implementation.





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# Encountering Chinese SEP litigation in foreign jurisdictions

Michael Wu of Chang Tsi & Partners explains why Chinese enterprises dealing with SEP litigation should respond actively to ensure the issue is litigated before the Chinese courts

One of the major advances in the telecommunications industry in recent times is that 3GPP standards for mobile phone communications are applied on a global basis.

The global nature of the mobile phone trade market requires that licenses for standard essential patents (SEPs) are granted worldwide. However, the territorial nature of patent rights raises the question of how the courts of the country of origin should handle the issue of worldwide licensing based on this territorial right when the enforcer's defense to allegations of patent infringement on the basis of the fair, reasonable and non-discriminatory (FRAND) principle invariably involves a dispute over global trade and global licensing?

Patent lawyers spend a great deal of energy arguing about what FRAND is and who should decide the definition of FRAND, with each side trying to argue to the court what it thinks is the most favourable outcome for itself.

Licensing of SEPs is usually brought before the relevant domestic courts in two situations: either to seek a court decision granting a domestic injunction against infringement, or to seek a court decision granting a license rate consistent with FRAND commitments.

**"In SEP litigation and negotiation, the judicial determination of global royalties without the consent of both SEP owners and licensees may cause the hold-up of royalties worldwide."**

In March 2014, Unwired Planet brought an action against Huawei, Samsung and Google for the infringement of its UK patents, including five standard essential patents covered by 2G, 3G and 4G telecommunication standards.

After technical trials concerning the validity and infringement of the patents at issue, two of these SEP were held valid and infringed. Since Google and Samsung settled with Unwired Planet during the proceedings, only the non-technical issues on competition law and FRAND remained to be resolved between Huawei and Unwired Planet.

In April 2017, High Court of England and Wales (English High Court) issued a judgment for the non-technical issues (*Unwired Planet v Huawei*). In this judgment, Mr Justice Birss issued a novel and interesting opinion regarding the meaning of FRAND, FRAND royalties and injunctions, which have raised intense discussions in the academic and legal practice fields.

The English High Court's decision, which decided that Unwired Planet and Huawei should accept a global FRAND license for the alleged SEP, may have exceeded the territorial reach of the English court since the jurisdictional reach of a court typically only extends to patent rights granted in that jurisdiction. Any determination of patent royalties outside that jurisdiction, which would stem from patent rights granted by foreign jurisdictions, would exceed the territorial reach of the court.

Huawei appealed to England and Wales Court of Appeal (English Court of Appeal) and contended that the imposition of a global license on terms decided by a national court based on a national finding of infringement was wrong in principle and led to manifestly unjust results. However, the English Court of Appeal supported the decision of the English High court, although it disagreed the opinion that there is only one set of FRAND license terms.

The court took a similar approach in the subsequent cases of *Conversant v Huawei and ZTE*. Both the







Wireless Planet case and the Conversant case were eventually appealed to the UK Supreme Court. The UK court stated that the injunction would not be enforced if the implementer accepted the FRAND license, and set out the relevant FRAND license terms. The English court held that it was consistent with the FRAND principle to rule on a global license and therefore set out specific conditions for a global license. This decision is likely to impact IP strategy for Chinese companies in the field of SEP litigation and negotiation.

This article begins with an analysis of the negative impacts of *Unwired Planet v Huawei* and Conversant case, and examines the jurisdictional claims as they relate to Chinese SEP, and then provides a comparison of how this situation may be viewed under Chinese legal practice. Finally, this essay will conclude with advice to Chinese enterprises on how to deal with foreign enterprises when they encounter SEP litigation in foreign jurisdictions.

### Negative impacts due to the judgment in *Unwired Planet v Huawei*

Patents are territorial in nature, and the principles of territoriality cannot be casually breached. Nevertheless, the English court decided to award global royalties for Unwired Planet's SEP, including those valid in China, without the mutual consensus of Unwired Planet and Huawei.

The rights granted by a patent are restricted to the country or region where the patent is granted, and courts in other countries cannot decide the validity of this patent. In addition, the value of the patent should be determined by courts in the country or region where the patent is granted, in accordance with national and local law. On the basis of the doctrine of international comity, courts in other countries should not overstep these territorial boundaries.

**“Global licenses are concluded on the basis of consensus between SEP owners and licensees, after they consider all commercial aspects.”**

However, according to paragraph [543] in *Unwired Planet v Huawei* [2017] EWHC 711 (Pat), the English High Court considered the scale and geographical scope of Unwired Planet's portfolio, and held that only the global license complied with FRAND, because “a licensor and licensee acting reasonably and on a willing basis would agree on a worldwide license. They would regard country by country licensing as madness. A worldwide license would be far more efficient”. Similarly, the English Court of Appeal also held at paragraph [55] in *Unwired Planet v Huawei* [2018] EWCA Civ 2344, “It may be wholly impractical for a SEP owner to seek to negotiate a license of its patent rights country by country, just as it may be prohibitively expensive for it to seek to enforce those rights by litigating in each country in which they subsist”.

As a result, Huawei was required to conclude a license agreement with Unwired Planet based on the global royalties and terms confirmed by the English High court. Without a SEP license, Huawei's marketing activities would be blocked by an injunction. This effectively meant that, without the license, Huawei's mobile phones and servers would be prohibited from sale in the UK. This decision is a violation of the principle of territoriality, because the English High court also decided royalties for the SEP valid in China when awarding global royalties for Unwired Planet's SEP.

The judicial determination of royalties in other territories should be based on the agreement between SEP owners and licensees. However, in *Unwired Planet v Huawei*, the English court decided on global royalties and ordered both parties to conclude a global license agreement, despite the objections of Huawei.

As a matter of fact, global licenses are concluded on the basis of consensus between SEP owners and licensees, after they consider all commercial aspects, for example, transaction costs, in terms of worldwide patent portfolios covered by international standards. Thus, global licenses are the embodiment of the freedom of commerce and the autonomy of the parties. SEP owners and licensees can also agree to a national license.

Nevertheless, in *Unwired Planet v Huawei*, Unwired Planet's proposal included offers of a worldwide SEP portfolio license and a UK SEP portfolio. Huawei had expressed its willingness to conclude a license based on the UK patent portfolio, and a willingness to accept any royalties and terms determined by the English High Court as they relate to the UK patent portfolio. In this scenario, the English High Court insisted on the validity of the global license, and forced Huawei to conclude a license agreement with global royalties under the threat of an injunction.

In SEP litigation and negotiation, the judicial determination of global royalties without the consent of

both SEP owners and licensees may cause the hold-up of royalties worldwide. For example, in the event of a dispute under the jurisdiction of Chinese courts, the conduct of the English court may ‘abduct’ patent licenses in China. The reason is that it may force Chinese enterprises to accept unreasonable royalties (i.e. Huawei in this case) or otherwise abandon the market in the UK. In the meantime, it may encourage some non-practicing entities (NPEs) to forum shop, to choose one favourable jurisdiction for the sake of achieving a global license for their SEP.

Accordingly, the judgment in *Unwired Planet v Huawei* is more likely to cause an increasing number of SEP owners to bring an action against Chinese enterprises for patent infringement in the UK, in order to seek global royalties, which will have a negative influence on Chinese enterprises. In fact, Convince case, which may have been a direct result of *UP v Huawei*, was followed by a series of patent actions initiated by numerous NPEs in the UK.

### Rules on the jurisdiction over SEP litigations in the framework of Chinese Patent Law

Article 16 of ‘Guidelines of Guangdong High People’s Court on Adjudicating Cases of Disputes over Standard-Essential Patents (Trial)’ stipulates that, “Where the claimed territorial scope of the relevant licensed SEP on which judicial determination is requested by the patentee, or the licensee of the SEP exceeds the territorial scope of the court, and the other party does not explicitly raise an objection in the judicial proceeding, or the objection raised is deemed unreasonable after examination, determination can be made on the royalty for such claimed territorial scope”.

### Royalties to be determined are limited to the territorial reach of the court

The case of *Huawei v IDC* ((2013) Yue Gao Fa Min San Zhong Zi No. 305) concerned the disputes on SEP license royalties. In this case, IDC held patents essential for the 3G standard. It participated in the relevant standard-setting organization and provided a FRAND commitment. The two parties held a long-term negotiation, but they did not reach an agreement on the amount of licensing fees. Therefore, Huawei initiated an action and requested the court to determine the license royalties in accordance with FRAND principles.



**Michael Wu**

Partner  
Chang Tsi & Partners  
T: +86 10 8836 9999  
E: michaelwu@changtsi.com

Michael Wu is a partner at Chang Tsi & Partners specialising in matters related to patent infringement, copyright infringement, trademark infringement, and unfair competition litigation, enforcement of intellectual property rights through administrative procedures and patent invalidation proceedings.

Michael has earned licenses to practice as an attorney at law and as a patent attorney. He has a unique understanding of mobile telecommunications patent litigation, software patent litigation, and copyright litigation related to the internet.

He obtained his bachelor’s and master’s degrees in material science from Wuhan Technology University in 1996 and 1999, respectively. He further pursued a JM/JD degree at Peking University, School of Transnational Law in 2014, where he systematically studied Chinese and American law.

Based on Chinese law, the Guangdong High People’s Court comprehensively considered the quantity, quality, and value of the relevant SEP, the share of patents in the standard, and the relevant licensing conditions. The court finally determined that the licensing rate should not exceed 0.019%. The royalties decided by the Guangdong High People’s Court was that Huawei needed to pay IDC for Chinese SEPs in China. Note that his decision was limited in scope to royalties in China, instead of globally.

### Global royalties compliance with FRAND based on negotiation between SEP owners and licensees

In the case of *Huawei v Samsung* ((2016) Yue 03 Min Chu No. 816), Huawei, as an owner of the SEP for the 3G standard, claimed that Samsung manufactured, sold, promised to sell, and imported handsets implementing the 3G communication standards without permission.

In the negotiation of SEP cross licenses between the two parties, FRAND principles was violated and the negotiation was delayed. Thereafter, Huawei requested an injunction for patent infringement. The Shenzhen Intermediate People’s Court analysed this issue and found that Huawei did not violate FRAND principles, while deciding that Samsung did. Therefore, it granted an injunction against Samsung.

In order to reach a license agreement for the worldwide SEP portfolio, the subject matter of the negotiation between Huawei and Samsung involved a worldwide cross license. Therefore, the Shenzhen Intermediate People’s Court determined the global royalties that Huawei provided to Samsung were in conformity with FRAND principles, based on the negotiations between

Huawei and Samsung.

Contrary to the decision in *Unwired Planet v Huawei*, Chinese courts can decide on royalties for Chinese patents in China, or decide on whether global royalties complied with FRAND based on the negotiation between SEP owners and licensees.

In 2021, the Supreme People’s Court of China heard the case of *OPPO v Sharp*, in which the Supreme People’s Court found that it was entitled to determine the global FRAND license rate for the defendant Sharp’s patent package.

## Advice for Chinese enterprises in terms of SEP litigation

Considering the negative impacts caused by *Unwired Planet v Huawei*, Chinese enterprises should not abandon their rights in respect of SEP disputes in Chinese courts. The available options are, for example, requesting the court to determinate SEP license royalties, challenging the validity and essentiality of the SEP, seeking a determination of non-infringement, or bringing an antitrust claim against the SEP owner.

In terms of worldwide SEP, if the relevant patents are valid in China, Chinese courts have jurisdiction over disputes between the relevant patents. In *Huawei v IDC*, IDC objected to the jurisdiction of the court. IDC argued that the negotiation between IDC and Huawei focused on worldwide patent portfolios covered by international standards, rather than merely on Chinese patents. Both parties never negotiated a specific patent license in a particular country. Nevertheless, the Guangdong High People's Court held that this case was under the jurisdiction of the original court where the harm caused by the infringement occurred.

According to Article 533 of *Interpretations of the Supreme People's Court on the Application of the Civil Procedure Law of the People's Republic of China*, "Where both a court of the People's Republic of China and a court of a foreign country have jurisdiction over a case, if one party files a lawsuit in a foreign court, and the other party files a lawsuit in a court in the People's Republic of China, the People's Court can accept the lawsuit."

Moreover, Su Hua suggested in her article *Standard essential patent disputes: jurisdiction, license and antitrust — from the perspective of Unwired Planet v Huawei* on the publication of *Price Supervision and Anti-Monopoly in China* (issue 3, 2018), in *Unwired Planet v Huawei*, if the judicial determination of global royalties are requested, Chinese courts are more suited to make this decision because Huawei's products are sold on a small scale in the UK and Huawei's products are manufactured entirely in China.

Second, the provisions of Chinese Law should be referred to and applied when competent Chinese courts adjudicate SEP disputes. In China, the application of patents should be governed by the rules of Chinese Patent Law. Also, the protection for patents, after they are granted, such as the duration of the patent and the procedures, should follow the provisions of Chinese Law, rather than following the rules of the applicants' domicile or the rules of other countries.

Article 8 of the *Guidelines of Guangdong High People's Court on Adjudicating Cases of Disputes over Standard-Essential Patents (Trial)* provides that for adjudication of disputes concerning SEP, with regard to

issues including, but not limited to, the interpretation of FRAND principles, the determination of the scope and exercise of the rights of the relevant SEP, and the definition of the nature of related actions, the court shall in general consider applying the local laws of the place where the protection is claimed or the *lex fori*.

In *Huawei v IDC*, the court held that, first, this case was about SEP license royalties. The dispute between the two parties was not about whether Huawei and IDC should participate in the ETSI agreement, or whether the relevant provisions of the ETSI agreement were appropriate.

Second, according to Huawei's claim, the SEP in this case only pertained to those granted in China, not those granted in France or other countries. In other words, the subject matter of the dispute was IDC's patents or patent application in China.

Third, there was no agreement between Huawei and IDC on the law to be applied in case of a dispute over the SEP royalties. Huawei, with its domicile, had the closest relationship with China. Fourth, the SEP in this case was granted in accordance with Chinese patent law. Therefore, Chinese law should be applied in this case.

Finally, when the same subject of a case litigates against the same subject matter in different jurisdictions, the initiation of litigation in China will have a substantial impact on the rights and obligations on the SEP. For example, in *Huawei and IDC*, IDC sued Huawei for patent infringement in the United States and requested an injunction, while Huawei accused IDC of abusing its dominant position in China ((2013) Yue Gao Fa Min San Zhong Zi No. 306).

The Guangdong High People's Court finally requested IDC to immediately stop the overpricing, differential pricing, tie-in selling, attaching unreasonable trading conditions, and refusing to trade. The court also agreed with the damages requested by Huawei and decided that IDC should compensate Huawei for economic losses of RMB 20 million. This judgment has helped Huawei reduce its burden of patent infringement cases launched by IDC in the United States.

In September 2021, ZTE filed a suit before the Shenzhen Intermediate People's Court, asking the court to determine a global license rate in line with the FRAND principle for its own global patent portfolio of 4G LTE SEPs held by ZTE. This is the first time a Chinese company has taken the initiative to request a court in China to determine the global license fee rate for its own patent portfolio.

In conclusion, when Chinese enterprises encounter SEP litigation, they should respond actively, and ensure the issue is litigated before Chinese courts.



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## Beijing Office

6-8th Floor Tower A, Hundred Island Park, Bei Zhan Bei Jie Street, Xicheng District, Beijing 100044, P.R. China

Tel. (+86) 10 8836 9999  
Fax. (+86) 10 8836 9996  
E-Mail. [info@changtsi.com](mailto:info@changtsi.com)



## Shanghai Office

2508 A, Office Section 3, Jinmao Tower, 88 Century Avenue, Pudong New Area, Shanghai 200121, P.R. China

Tel. (+86) 21 6168 2668  
Fax. (+86) 21 6106 2098  
E-Mail. [info@changtsi.com](mailto:info@changtsi.com)



## Guangzhou Office

2305 Tower B Center Plaza, No. 161 Linhexi Rd, Tianhe District, Guangzhou 510620, P.R. China

Tel. (+86) 20 2881 6699  
Fax. (+86) 20 2881 6669  
E-Mail. [info@changtsi.com](mailto:info@changtsi.com)



## Shenzhen Office

38E China Energy Storage Building, No.3099, Keyuan South Road, Nanshan District, Shenzhen 518057, P.R. China

Tel. (+86) 755 8660 3009  
Fax. (+86) 755 8660 3005  
E-Mail. [info@changtsi.com](mailto:info@changtsi.com)



## Hong Kong Office

Level 19, Two International Finance Centre, 8 Finance Street, Central, Hong Kong, P.R. China

Tel. (+852) 3101 7277  
Fax. 852 3101 7288  
E-Mail. [info@changtsi.com](mailto:info@changtsi.com)

# The rise of the patent prosecution highways programme in China

**Shengjie Piao** of **DEQI Intellectual Property** explains why the patent prosecution highways programme is the most and active international cooperation programme in patent examination around the world

**P**atent Prosecution Highways (PPH) is a programme that provides a fast examination channel for foreign applicants. Since the PPH pilot was started between the JPO and the USPTO in 2006, the number of IP offices participating in the PPH programme via the bilateral or multilateral agreements has gradually increased, and now 55 offices have participated in the PPH programme.

The PPH programme is proposed with the economic globalisation and the enhancement of the enterprises' awareness of IP protection. The patent application of the enterprises is no longer limited within the own countries.

With the increase of the foreign patent applications, the examination burden of IP offices in various countries/regions increases year by year. For the patent application of the same invention entering a plurality of countries, the examiners in various countries may repeatedly search and examine.

To reduce the examination burden, improve the examination quality, shorten the examiner cycle, reduce the examination cost and improve the grant rate, the PPH programme has emerged.

**“To reduce the examination burden, improve the examination quality, shorten the examiner cycle, reduce the examination cost and improve the grant rate, the PPH programme has emerged.”**

At present, the PPH programme is a patent examination cooperation programme with high participation and utilisation rate around the world, and is an effective means for foreign applicants to obtain an early examination of application entering China.

## The basic concept

PPH means that, in the case that at least one or more claims contained in the application submitted by the applicant in the office of first filing (OFF) are determined to be grantable, the applicant can submit a request for accelerated examination of the subsequent application to the office of second filing (OSF).

The above basic concept was first proposed when the PPH bilateral agreement on patent applications was signed between the US Patent and Trademark Office and the Japan Patent Office in July 2006. However, in the actual patent applications to foreign countries, the IP office, which first made the examination results of grant, is not the OFF due to the differences in patent examination systems and examination cycles in various countries.

In July 2011, the JPO proposed the PPH expansion pilot programme- PPH MOTTAINAI, which expands the acceptance conditions of PPH, that is, adding the situations that the OFF is the IP office of the third country/region and that the OSF makes the examination result of grant in advance.

Thus, the concepts of the Office of Earlier Examination (OEE) and the Office of Later Examination (OLE) emerge. At present, the concepts of the OEE and the OLE are widely employed in PPH practice in China. Therefore, it can be considered that the PPH means that, in the case that at least one or more claims contained in the application submitted by the applicant in the OFF are determined to be grantable by the OEE, the applicant can submit a request for accelerated examination of the subsequent application to the OLE.

## Classification of PPH

There are five types of PPH: Normal PPH, PPH MOTTAINAI, PCT-PPH, IPS PPH and Global PPH.

## PATENT PROSECUTION HIGHWAYS





Normal PPH means that the applicant makes a PPH request to the OSF using the domestic work products made by the OFF, and can be further divided into PPH via the Paris Convention and PPH via PCT. The difference between the PPH via PCT and the PCT-PPH lies in that the PPH via PCT depends on the work products made in the national state, whereas the PCT-PPH depends on the work products made in the international stage.

PPH MOTTAINAI is an expanded procedure based on Normal PPH, can make use of the PPH procedure without being restricted by the fact that the OFF first makes the work products, and thus increases the opportunity for the applicant to make use of the PPH procedure.

It should be noted that, although based on Normal PPH, PPH MOTTAINAI cannot be used as long as Normal PPH is included, and can be used only in the countries/regions participating in PPH MOTTAINAI.

PCT-PPH is a procedure which uses the work products in the international phase for PCT application. These work products in the international phase include: the Written Opinion of the International Searching Authority (WO/ISA), the Written Opinions of the International Preliminary Examining Authority (WO/IPER), International Preliminary Examination Report (IPER).

Both the PCH-PPH and the PPH via PCT of Normal PPH are PPH related to PCT application, the PPH via PCT needs to wait for the examination products of national stage, but the PCT-PPH uses the work products of international state and thus facilitates early examination and the grant.

IP5 PPH is an examination cooperation procedure implemented on January 6, 2014 between five offices (IP5) including CNIPA, JPO, EPO, KIPO and USPTO, and meanwhile Normal PPH, PPH MOTTAINAI and PCT-PPH can also be implemented between IP5.

Global PPH is established to solve the problem of inconvenience to the applicant due to the different requirements of PPH request by the OLE. According to the programme, a unified qualification applicable standard is employed, when one of the participating offices makes an examination result of grant, the applicant



### Shengjie Piao

Patent attorney  
DEQI Intellectual Property  
T: +86 10 8233 9088  
E: mail@deqi-iplc.com

Shengjie Piao is the patent attorney of DEQI Intellectual Property in Beijing.

Shengjie focuses on IP legal services, and has abundant experience in patent prosecution, patent reexamination and invalidation in the fields of chemical, materials, biology and medicine. In addition, she also has experience in analysis and advice regarding patent protection, including evaluation of patentability and infringement evaluation.

Shengjie obtained a master's degree in applied chemistry from Beijing University of Chemical Technology and has 17 years of experience in IP profession. She is a member of the All-China Patent Agents Association.

then may request other participating offices to accelerate the examination. Like IP5 PPH, Global PPH was implemented on January 6, 2014, and Normal PPH, PPH MOTTAINAI and PCT-PPH can also be implemented.

At present, 27 countries/regions have joined the Global PPH programme, China has not joined this programme and thus Normal PPH, PPH MOTTAINAI, PCT-PPH and IP5 PPH can be implemented in China.

### Practice of PPH in China

It has been 10 years since China implemented the first PPH programme with the JPO on November 1, 2011. During these 10 years, China has signed bilateral/multilateral PPH agreements with 30 foreign patent examination institutions, such as US, Germany, South Korea, Russia and the Eurasian patent office. Among them, the utilisation of PPH is highest between China and US, Japan, Europe and South Korea.

The charts show the PPH application numbers in other four offices when China is the OLE and the OEE (the PPH application numbers in 2021 in this figure refer to those from January to June 2021).

As can be seen from the charts the numbers of PPH request submitted by US and Japan to the CNIPA far exceed those in other countries or regions. The China's PPH requests abroad are mainly directed to US, which substantially corresponds to the numbers of overseas application submitted by the applicants from various countries.

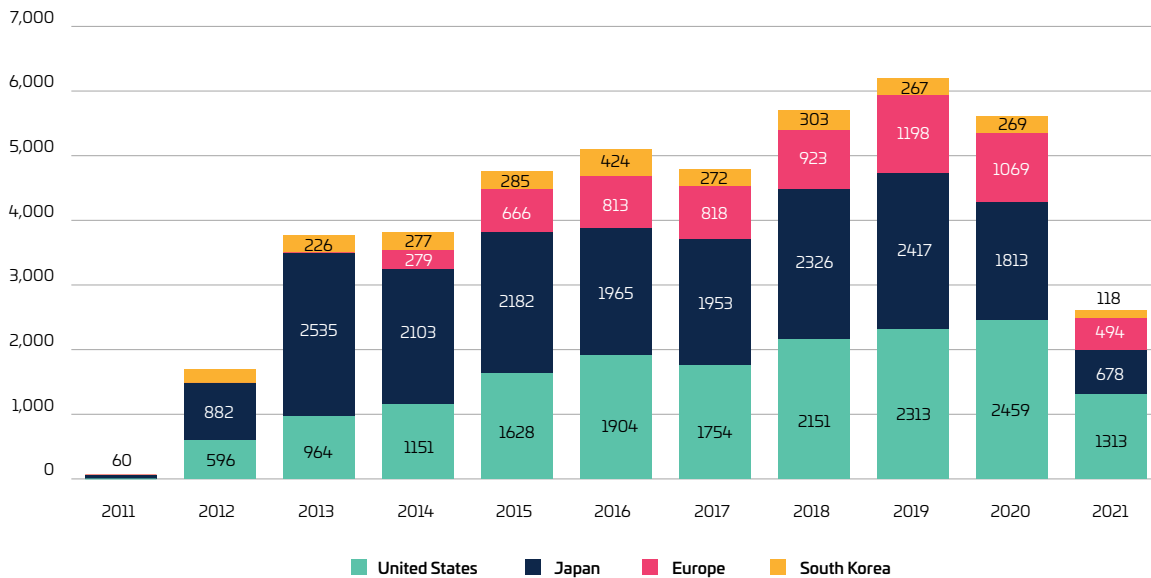
Further, from January to June 2021, in China, the average time from the filing of the PPH request to the receipt of the first office action is 2.2 months, and the average time from filing the PPH request to the receipt of the final examination results is 11 months, and the average number of office actions received in the substantial examination as for the application filing PPH request is 1.

The PPH request to China can greatly speed up the examination time, fully make use of the examination results of the OEE, enable the patent applications to be granted as soon as possible and improve the grant rate.

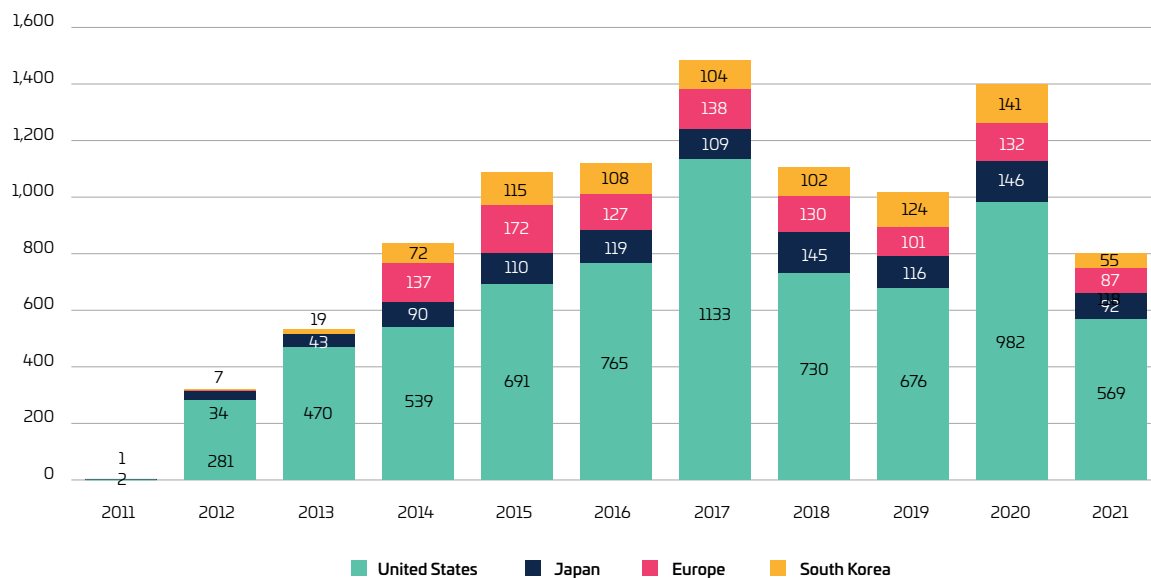
(Note: the data herein refers to the information disclosed from PPH global portal <https://www.jpo.go.jp/toppage/pph-portal-j/index.html>).

## PATENT PROSECUTION HIGHWAYS

### Chart 1: Officer of later examination (OLE)



### Chart 2: Officer of earlier examination (OEE)



### “The PPH programme is an effective means for foreign applicants to obtain an early examination of application entering China”

#### Key points when submitting a PPH request

(1) When submitting a PPH request, the claims in China and the claims of the corresponding application that has been found allowable/patentable by the OEE should meet the sufficient correspondence which means the protection scopes of the claims are exactly same or smaller. It should be noted that ‘smaller protection scope’ can be understood to further define the claims based on the original records in the Chinese description and not to further define the claims by summarising the technical features even if the summarised technical feature does not go beyond the scope disclosed in the original description and claims.

(2) Chinese patent application must have been published. That is, the PPH request in China must be submitted until the notice of publication of the patent application is made by the CNIPA.

(3) Chinese patent application must have entered the stage of substantive examination. That is, the PPH request in China must be submitted until the notice of entering the substantive examination stage is made by the CNIPA.

However, an allowable exception is that the applicant may make a PPH request at the same time of filing a request for substantive examination.

(4) Chinese patent application has not received any notice of office action made by the substantive examination department of the CNIPA.

(5) Chinese patent application must be an electronic application.

(6) There are only two opportunities to make a PPH request and the requirements for submitting PPH should be strictly observed.

(7) When making a Normal PPH request, the granted announcement text of the corresponding application should be published. When making a PCT-PPH request, the PCT application should be published. Although it is not the reasons why the PPH request is not passed that the granted announcement text and the PCT application has not been published, the CNIPA will examine whether such PPH request meets the conditions of the PPH request, that is, to review whether the PPH request meets the related conditions after the publication of the granted announcement text and the PCT application.

(8) The opinion on the possibility of grant/patentability made by the OEE must be the latest examination results. When the third party raises an invalidation or objection to the corresponding application after the OEE has made a decision to grant the corresponding application and the announcement text has been issued, it is necessary to wait until the results of the invalidation or objection is made before considering whether or not to submit the PPH request.

#### PPH programme plays a positive role

As a programme sharing the patent examination results among various participating countries, PPH programme brings about the benefits of accelerating examination, saving costs, having a higher grant rate, reducing the examination workload, improving the quality of examination, and is currently the most extensive and active international cooperation programme in patent examination around the world.

It plays a positive role in terms of promoting patent examination cooperation among countries, boosting technology innovation and protecting IP rights.



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📍 Beijing 📍 Hong Kong

mail@deqi-iplc.com  
www.deqi-iplc.com

# A closer look at the compensation system for the patent protection term in China

Haixia Li of Kangxin explains why applicants and patentees should understand the functionality of the compensation system for the patent protection term

Since its implementation in 1985, the Chinese Patent Law has been revised four times in 1992, 2000, 2008 and 2020, respectively. The last revision of the Patent Law came into effect on June 1 2021.

One of the highlights of this revision is the establishment of a compensation system for the patent protection term when there is an unreasonable delay during the granting process.

According to Article 42, paragraph 2, of the revised Patent Law, “Where the patent right was granted for an invention after the expiration of four years from the date of filing and three years from the date of requesting for substantive examination, the patentee may request for compensation for the protection term of the patent right when there is an unreasonable delay during the granting process of the invention patent, except for if the unreasonable delay was caused by the applicant.”

From Article 42, three key pieces of information can be extracted:

- 1) The compensation for the patent protection term is not initiated automatically, but needs to be requested by the patentee;

**“One of the highlights of this revision is the establishment of a compensation system for the patent protection term when there is an unreasonable delay during the granting process”**

- 2) The patent for which compensation of protection term is obtained needs to meet two time requirements, one is that the grant date is beyond four years from the date of filing, and the other is that the grant date is beyond three years from the date of requesting for substantive examination, both of which are indispensable; and

- 3) The ‘unreasonable delay’ that should be compensated for the protection term shall exclude an unreasonable delay caused by the applicant. The revised Patent Law provides general provisions on the compensation system for patent protection term, but does not provide relevant explanations on specific implementation issues such as the determination of an ‘unreasonable delay’ and the calculation of the compensation term.

For reference, “the granting process of the invention patent” in Article 42 refers to “the prosecution procedure of the invention patent application”.

In order to ensure the implementation of the revised Patent Law, the State Intellectual Property Office has formulated and issued the Interim Measures for the Handling of Examination Services Related to the Implementation of the Revised Patent Law (Interim Measures), which also came into force on June 1 2021.

Item 5 of the Interim Measures stipulates: “For invention patents granted from June 1, 2021, the patentee may, in accordance with Article 42, paragraph 2 of the revised Patent Law, submit a request for compensation for the protection term of the patent right in paper form, within three months from the date of announcement of the patent grant, and then pay the relevant fees in accordance with the payment notice issued by the State Intellectual Property Office.”

From the item above, the following preliminary guidance can be ascertained:

- 1) The compensation system only applies to the invention patents granted on or after June 1 2021; and

## PATENT PROTECTION





Figure 1: Formula calculates the compensation time

$$\boxed{\text{compensation time}} = \boxed{\text{actual number of days delayed}} = \boxed{\text{unreasonable delay time during granting process}} \text{ minus } \boxed{\text{unreasonable delay time caused by applicant}}$$

## Unreasonable delay time during granting process

The unreasonable delay time during granting process refers to the date of the announcement of grant of the invention patent minus the date of the expiration of four years from the filing date of the invention patent and the expiration of three years from the date of requesting for substantive examination.

Delays caused due to the following circumstances do not belong to the unreasonable delays during the granting process: **suspension procedures, preservation measures, administrative litigation procedures, and reexamination procedures of patents granted after amending the patent application documents in accordance with Rule 66 of the Implementing Regulations of the Patent Law.**

The filing date here refers to the filing date stipulated in Article 28 of the Patent Law. **For international applications, it refers to the date of entry into the Chinese national phase. For a divisional application, it refers to the date of submitting the divisional application.**

The date of requesting for substantive examination refers to the effective date of the substantive examination request, which is the issuance date of the notice of entering the substantive examination stage of the invention patent application.

## Unreasonable delay time caused by applicant

For the following unreasonable delays caused by the applicant, the delay time is:

- 1) For a delay caused by **failure to reply to the notice issued by the Patent Office within the specified time limit**, the delay time is from the date of expiration of the time limit to the date of the actual submission of the reply;
- 2) For the case of **requesting for delayed examination**, the delay time shall be the actual delay time of examination;
- 3) For a delay caused by **the incorporation by reference**, the delay time is the delay time caused in accordance with the Rule 45 or Rule 46.1 of the Implementing Regulations of the Patent Law;
- 4) For a delay caused by **request for restoration of right**, the delay time shall be from the date of expiration of the original time limit to the issue date of the notice of approval of the request for restoration of right, unless it can be proven that the delay was caused by the Patent Office;
- 5) For a delay under the situation that the **international application enters the Chinese national phase within 30 months from the priority date (which means the entry date is earlier than the expiration date of 30 months) but the applicant does not request an early processing of the application**, the delay time is from the date of entering the Chinese national phase to the date of expiration of 30 months from the priority date.

- 2) A patentee can request for patent term compensation within a time limit, i.e. within three months from the date of announcement of the patent grant, and after the time limit, the right to request for compensation will be lost.

At the same time, the State Intellectual Property Office has also issued the “Amendments of the Implementing Regulations of the Patent Law (Draft for Comment)” (draft regulations). Although the final revised version of the Implementing Regulations of the Patent Law has not yet been released, the amendments related to the compensation system proposed in the draft regulations can be referred to by applicants and patentees.

In the draft regulations, rule 85.3 states that “The compensation for patent protection term shall be made according to the actual number of days delayed. An unreasonable delay caused by the applicant includes the following situations: (1) Failure to reply to the notice issued by the patent administrative department within the specified time limit; (2) Request for delayed examination; (3) Incorporation by reference; and (4) Other circumstances.”

According to the draft regulations, a preliminary understanding of how the compensation time is calculated can be obtained. However, based only on the provisions above, for a specific case, the patentee may still not be able to determine whether there is an opportunity to obtain compensation for the protection term and the specific compensation time that may be obtained at present.

In addition, the State Intellectual Property Office has further carried out adaptive revisions to the Guidelines for Patent Examination. In the “Draft Amendment to the Patent Examination Guidelines (Draft for Comment)” (draft guidelines), the relevant provisions on compensation for the patent protection term have been added.

Although the final revised version of the Guidelines for Patent Examination has not yet been released, we believe the detailed explanations on the compensation system in the draft guidelines could provide practical guidance and assistance for applicants and patentees to some extent.

The draft guidelines clearly stipulate that “The compensation for the patent protection term shall be made



## Haixia Li

Patent attorney  
Kangxin Partners P.C.  
T: 010-56571588  
E: congxin3470@sina.com

Haixia Li is a patent attorney at Kangxin. She is responsible for patent applications in a wide range of industries but particularly focuses on chemistry, biology and medicine.

Haixia has handled many patent cases for foreign clients, and accumulated rich experience on patent application strategy in China.

Haixia is a lecturer on China’s Patent Law and patent practice for Kangxin Training Center and also the Intellectual Property Training Center of China. She obtained the qualification of Chinese Patent Attorney in 2012. She obtained her master’s degree in biotechnology in 2008 from Beijing Forestry University.

according to the actual number of days delayed, and the actual number of days delayed refers to the unreasonable delay time during the granting process of the invention patent minus the unreasonable delay time caused by the applicant.”

Figure 1 shows the formula that calculates the compensation time.

The draft guidelines further specify what is “unreasonable delay time during granting process” and what is “unreasonable delay time caused by the applicant”. The specific description in the Draft Amendment could be summarised in the following table.

Based on these explanations, a basic understanding can be obtained of the conditions for compensation for the patent protection term and of the calculation of the compensation time.

For cases that have recently obtained patent rights, we can preliminarily consider whether a request for compensation for the patent protection term can be made, and estimate the possible compensation time. See below an example that demonstrates the calculation of the possible compensation time.

There is a Chinese invention patent application which is a divisional application with the filing date of the parent application on October 19 2007, and with the date of submitting the divisional application on April 30 2015.

On September 23 2015, the Patent Office issued a notice of entering the substantive examination stage for the divisional application. During the substantive examination process, the applicant submitted four requests for a two-month extension of replying to office actions. The examiner issued a decision of rejection on November 19 2018.

The applicant filed a request for reexamination on February 28 2019, and made amendments to the application documents during the reexamination process to overcome the defects pointed out in the decision of rejection. The panel issued a decision of reexamination on March 18 2021 to withdraw the decision of rejection. The divisional application was finally granted on July 13 2021.

Let’s first determine the filing date, the date of requesting for substantive examination and the grant date. For a divisional application, it should be noted that the fil-

### “Since its implementation in 1985, the Chinese Patent Law has been revised four times”

ing date for determining compensation refers to the date of submitting the divisional application, then the filing date for calculating the delay time in this case should be April 30 2015. The date of requesting for substantive examination is September 23 2015 and the grant date is July 13, 2021.

The granted application has gone through the reexamination procedure, and the defects pointed out in the decision of rejection were overcome by amending the application documents in the reexamination procedure.

In such a situation, the entire reexamination process does not belong to the unreasonable delay during the granting process, and the time period of the reexamination process should be excluded from the unreasonable delay time during the granting process.

Regarding how to calculate the time period of the reexamination process (particularly, how to define the starting time and ending time of the reexamination process), we could not find any description in the draft guidelines. It is estimated that the patent office may opt to define the time period of the reexamination process to be from the issue date of the decision of rejection to the issue date of the decision of reexamination. However, this is only for reference and should be subjected to the practical operation measures of the patent office. For this case, we can just calculate the time period of the reexamination process as taking about two years.

During the substantive examination process, the applicant submitted four requests for a two-month extension, and each time the applicant submitted a reply on the date of expiration of the two-month extension period. That is, the unreasonable delay time caused by the applicant can be calculated as eight months.

From the above listed information, we could obtain the “unreasonable delay time during granting process” and the “unreasonable delay time caused by applicant” for the specific case, and could conclude that the “unreasonable delay time during granting process” is less than the “unreasonable delay time caused by applicant”. Thus, there is no “actual number of days delayed”. Accordingly, a compensation for patent protection term could not be obtained for this case.

Attention needs to be paid in terms of two aspects for this case: one aspect is the definition of ‘filing date’ under the compensation system for the patent protection term; the other aspect is the situation which needs to be excluded from the unreasonable delay during the granting process (e.g., the reexamination procedure of a patent granted after amending the application documents during reexamination). If these two aspects are not taken into account, it may be mistakenly believed that this case can be compensated for the patent protection term.

Although the revised versions of the Implementing Regulations of the Patent Law and the Guidelines for Patent Examination have not yet been released, the draft regulations and draft guidelines, as well as the revised Patent Law and the interim measures, provide a general framework of the compensation system for the patent protection term.

Applicants and patentees could preliminarily consider whether the granted invention patent is likely to be compensated for the patent protection term and estimate the possible compensation time based on the above.

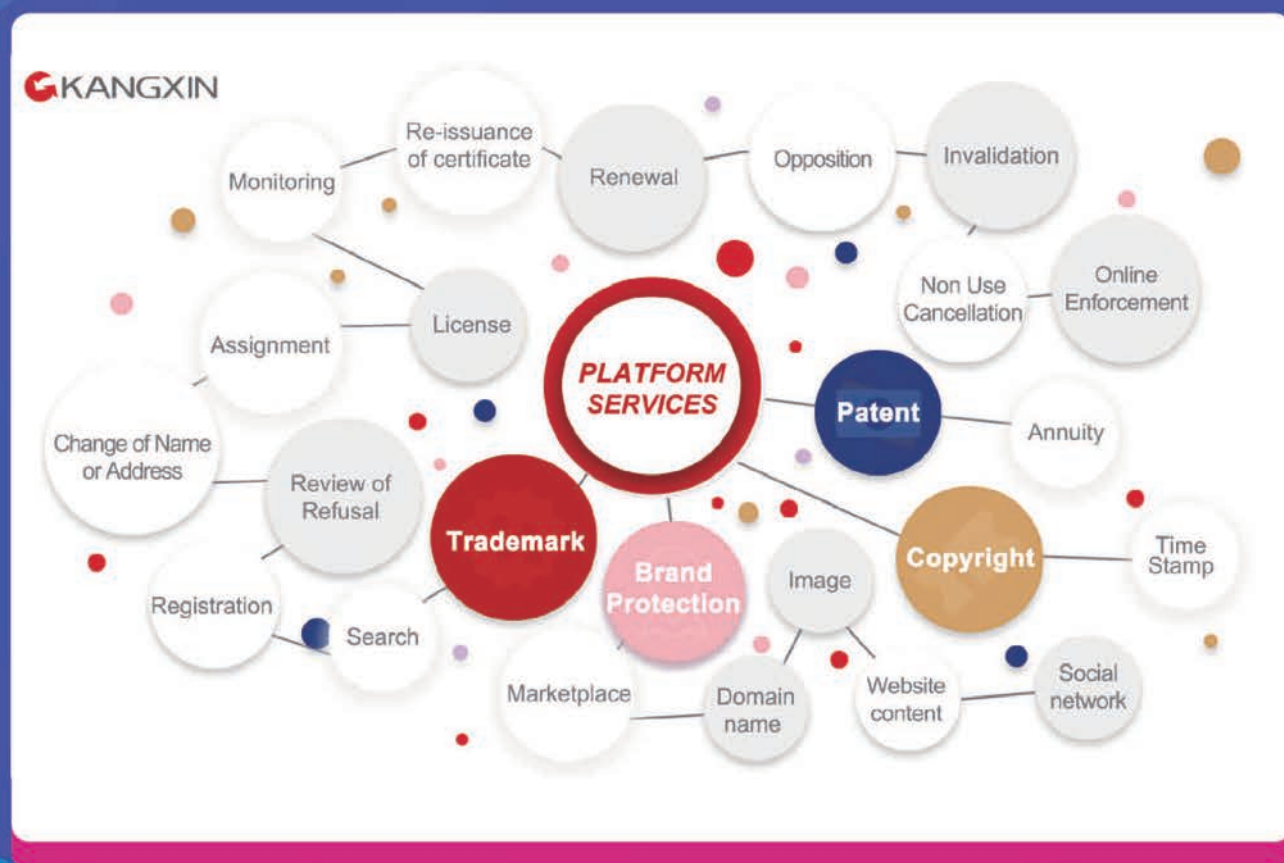


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Tel: (8610) 56571588

Fax: (8610) 56571599

Email: [tm@kangxin.com](mailto:tm@kangxin.com)

web: <https://eservice.kangxin.com/>

# Defining IP cases decided by China's Supreme Court

Guanyang Yao and Zhifei An of Liu Shen & Associates provide an analysis of IP cases decided by China's Supreme Court and consider the characteristics of each

**T**he Supreme Court IP Tribunal was established on January 1 2019. Statistics publicly issued on February 28 2022 are attracting attention.

In 2021, there were 4335 newly-accepted technical cases and anti-monopoly cases, an increase of 36.4% on a yearly basis. 3460 cases were concluded in 2021, an increase of 24.1% on a yearly basis. In 2019 and 2020, the newly-accepted cases were respectively 1946 and 3117. In 2021, the average trial cycle was 134 calendar dates for all cases. The average trial cycle for second instance civil cases is 129.4 calendar dates and that for second instance administrative cases is 143.6 calendar dates.

Different types of IP cases have their own characteristics. For patent infringement cases, claim construction has become the most important and difficult issue and the court is making efforts to match patent protection scope and strength with patent contribution over the prior art.

Defences in patent infringement cases are mostly legitimate source defence and prior art defence, with reversal rate of 18.8%. For patent invalidity cases, fields related to pharmaceuticals, telecommunications,

internet, big data, electrical commerce, artificial intelligence and block chain are increasing.

Most cases are related to evaluation on novelty and inventiveness, with a reversal rate of 6.6%. Legal mechanism interconnecting patent infringement and administrative invalidity cases has further improved.

Feedback mechanism is established between the courts and the China National Intellectual Property Administration (CNIPA) on patent infringement proceedings and patent invalidity procedure, so that the adjudicating on cases related to both infringement and invalidity can be synchronised.

For computer software cases, most are related to software copyright dispute and software development contract dispute. Ownership of software presents many difficulties, such as a loop in date to complete the software and multiple rounds of evidence collection.

Some influential Supreme Court cases are discussed providing a general picture on developments of Supreme Court practice.

## Difficulty of proving prior use reduced

Prior use defence concept has been existing in the patent system for a long time, however, in legal practice, small amounts of defendants finally win the case based on prior use defence. In *Shezhen Saiyuan v. Dongguan Lefang*, the Supreme Court IP Tribunal issued a judgment (2021) SPC IP Final No. 508 to reverse a Guangzhou IP Court first instance judgment by supporting such prior use defence.

In the first instance, the defendant Dongguan Lefang produces 40 pieces of evidence to prove that accused infringing loudspeaker has been prepared well for manufacturing before the filing date of patent. This evidence is collected from various angles, including design documents, PCB sampling letter, modelling factory offer sheet, email correspondences, testing reports of speakers, trial product quality summary reports, robustness testing reports, sampling testing reports,

**“China Patent Law bans five infringing acts, including manufacturing, selling, offering for sale, using and importing.”**







materials lists and offer sheets. However, the Court of First Instance admits none of this evidence with the reason being that they are made by the defendant, therefore authenticity cannot be confirmed.

In the second instance, four new pieces of evidence are submitted by the defendant, including communications with one modelling factory and plant lease contract. The attitude of the Supreme Court IP Tribunal is quite different from the Court of First Instance.

The Supreme Court points out that regarding effectiveness of the evidence, all the evidence should be comprehensively considered, and the effectiveness should not be directly denied simply based on the reason that those technical drawings, processing files and testing reports are formulated single-handedly by one party. Only if the evidence is reasonable and can be corroborating with each other to meet the standard of a “high degree of probability”, should the evidence be accepted.

In view of this, the Supreme Court believes that the evidence submitted by the defendant is sufficient to prove that before the filing date of the patent, the defendant has prepared main manufacturing device and purchased necessary raw materials, and manufacturing scope and scale have not been extended ever since. Therefore, the prior use defence is successful.

This case shows that the difficulty of proving prior use is being reduced, with the application of standard of a “high degree of probability”. Although not a frequent defence, prior use defence may still be worth considering in future. The most important point to note is that the courts would not be so hesitant to accept as before.

### Limitation on doctrine of equivalence

In the *Xuzhou Zhongsen v Changzhou Gardening* case, the doctrine of equivalence is applied in the first instance since the patent is protecting an electrically driven hedge trimmer, while the accused infringing product is a trimmer driven by oil.

The first instance judgment believes that electrical driven and oil driven are two most commonly used



## Guanyang Yao

Partner  
Liu Shen & Associates  
T: +86 10 6268 1616-7008  
E: gyao@liu-shen.com

Guanyang Yao is a partner at Liu Shen & Associates, with a focus on providing patent-related legal services. He has extensive experience in complicated patent invalidation, infringement and administrative disputes.

Guanyang provides legal opinions on litigation strategy making, freedom-to-operate analysis, patent licensing, anti-unfair competition and trade secret protection. He has represented multiple domestic and international enterprises, covering technical fields including engineering, automobiles, software, telecoms SEPs, home appliances and medical devices. A number of cases handled by him have been selected as annual IP representative cases by local high courts and the Supreme Court, in providing guidance and clarifications on legal issues.

Guanyang has a master's degree in information systems from Beijing Aeronautics and Astronautics University, and a LLM from UIC John Marshall Law School. He has a further master's degree from China University of Political Science and Law. He is also an active speaker at domestic and international IP conferences.

driving solution in the hedge field, both of which are using driving blade to reciprocate to perform the trimming function. No matter what kind of driving solution is used, there is no influence on the switching between flat trimming mode and round trimming mode. Therefore, the driving solution has no relation with the inventive concept of the patent.

The Supreme Court IP Tribunal thinks differently by laying more focus on being ‘electrically driven’. The Tribunal believes that the electrically driven has been defined in the claim language and no pollution is alleged as a new technical effect over the prior art, which means that when drafting, the patent applicant has the intention of not pursuing oil-driven engine as driving source. In this situation, if the oil-driven solution is still protected by the patent, it would not be beneficial to protect public trust interests and the principle of publicity. Therefore, this case is reversed in the second instance to support the opinions of the defendant.

This case provides guidance to the interactions between patent drafting and enforcement. If the patentee has clearly known certain solution during drafting but does not involve the solution into the claim scope, the doctrine of equivalence should not be applied to cover this solution into the protection scope. Then the question comes to how to judge whether ‘the patentee has a clearly known certain solution’ The answer is to see what can be understood by those skilled in the art when reading the claims, the description and drawings as a whole. It can be seen that abuse of doctrine of equivalence is being prevented so that a clarified boundary between patent and known information is presented to the public.

### Extension on scope of background and conditional feature

The background and conditional feature is a kind of claim feature describing the background or condition where the protected subject matter is applied. Such a feature is special since if a feature is considered as background or conditional, it would generally not be necessary to map this feature to accused infringing products, but only the need to prove that the protected subject matter may be used in such background or condition.

In the past, such background and conditional feature is generally recognised as mounting structures, connecting relations and use case. In *ALC Technology v Wenzhou Xionggeng*, the newly issued Supreme Court IP Tribunal judgment (2020) SPC IP Final No. 313 decides that claim features such as the use, objects where the subject matter is applied and using manner should also be considered as background and conditional feature although such features are not directly defining the product structures.

This case is related to an adhering device. A first and second band and an object are defined in the claim language, however such a first and second band and the object are actually what the adhering device is working on, which is not an internal structural feature of the adhering device. The main issue is that if such a first and second band and object are needed for infringement mapping, the difficulty of evidence collection and complexity of infringement mapping will be greatly increased. The second instance judgment decides that the object and the related first and second bands are background feature and inference can be made that the object can be, for example, an outsole, which is reasonable commercial use for infringing an adhering device.

### Value of 'offering for sale' added

China Patent Law bans five infringing acts, including manufacturing, selling, offering for sale, using and importing. Among them, 'offering for sale' is always considered not that important since damages caused by offering for sale are hard to calculate. However, the second instance judgment (2020) SPC IP Final No. 1658 in the *Qingdao Qinke v Qingdao Chenyuan* case provides updated judicial opinions on damages on 'offering for sale'.

The Tribunal summarises the influences by infringing offering for sale in three scenarios: since the price of offering for sale is lower than that of patented products, adverse hints will be caused in the consumer's mind to influence reasonable pricing of patented products; consumers may give up purchasing patented products but turn to infringers, causing regular sale of patented products delayed or decreased; such infringing offering for sale may cause adverse influences on advertisement for patented products.

This is the first time adverse influences caused by offering for sale by the Supreme Court IP Tribunal has



**Zhifei An**

Partner and Head of  
Shenzhen Office  
Liu Shen & Associates  
T: +86 10 6268 1616-3072  
E: zfan@liu-shen.com

Zhifei An is a partner at Liu Shen & Associates and head of the Shenzhen Office. He is specialised in telecommunications, computer hardware and software, AI, video codec.

Zhifei has handled many patent-related proceedings before the courts and a considerable amount of cases relating to infringement analysis, validity analysis, patent searching, patent evaluation.

Zhifei received his bachelor's degree in telecommunication from the University of Science and Technology Beijing in 2002 and a master's degree in computer science from the University of York in 2004.

been recognised. The Tribunal also points out that the infringing offering for sale will cause adverse outcome to the patentee, such as price erosion of patented products and loss or delay of commercial opportunities. The Tribunal concludes that although the infringing loss caused by offering for sale is difficult to calculate, statutory damages may still be applied case by case based on factors such as willfulness of infringement and specific case circumstances.

From this case, from the strategic level, the patentee should not ignore the attacking on infringing offering for sale since it is recognised by the Supreme Court of its own value, thus can be corroborating with other infringing acts to strengthen the willfulness of infringers.

Another point to note for offering for sale is forum shopping. If the plaintiff wants to bring the defendant out of its hometown but it is difficult to purchase the products from other places, some trade shows in such other places may be leveraged to establish the jurisdiction since appearance in trade shows can be considered as infringing act of offering for sale.

### Determination of damages in trade secret cases

Trade secret cases have become a hot topic in IP litigation. The amount of trade secret cases are increasing continuously, within widespread technical fields. In 2019, 12 trade secret cases were accepted by the Supreme Court IP Tribunal, in 2020, this number increased to 44 cases and in 2021, it further increased to 79 cases.

The legal issues in such cases are complicated and diverse, including how to identify trade secret points and scope, how to determine damages of trade secret infringement and secret-keeping measures, how to identify the acts in trade secret infringement, substantive contribution in trade secret and whether the trade secret as claimed is really unknown to the public.

More cases are being awarded with high damages, such as 'Kapo' the trade secret case awarded with five times punitive damages of \$5 million and the 'Vanilin' case awarded with \$26 million.

How to determine damages is a tricky problem. In Chinese practice, accurate calculation is adopted in some cases, but the commonly used way is to list the factors to be considered and finally determine a figure

**“The amount of trade secret cases are increasing continuously, within widespread technical fields.”**

discretionarily by courts based on those factors, without accurate calculation steps.

In the *Shanghai Youkai v Shanghai Luqi* case, the second instance judgment lists these factors: innovative degree, development costs, commercial values, competitive advantages, technical contribution, subjective fault degree of infringers and specific case circumstances.

In this case, the trade secret is related to sawing processing technology, not a simple technical mixed-up and different from common sawing with regular measuring and sawing separated, which should be combined with special designed software, electronically-controlled hardware and related mechanical structures. The advantages include sawing efficiency improving and processing accuracy. The development costs are approximately \$75,000, with repetitive testing and in-depth analysis. The average price is \$50,000-\$80,000 and 82 devices were sold by the defendant between 2008 and 2013, with the sales amounts as high as \$7 million and raw profit rate being 55.43%. Based on the above, the damages are determined as around \$900,000, higher than the average.

The experiences are that the more data evidence provided, the higher the damages to award. Such data evidence includes annual reports, financial books, third party sales amounts statistics and the plaintiff should try their best to collect the evidence.

If an accurate calculation cannot be made, the court shall determine the damages on its discretion, which would not be that high as those calculated based on accurate and reasonable figures.



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# The impact of negative patent evaluation reports in China's patent infringement litigation

**Victor Guo** of **Panawell & Partners** explains why the patent evaluation report plays an important role in patent infringement litigation

Since the 'utility model patent search report system' was added by the second amendment of the Patent Law in 2000, Chinese patent law has gradually introduced and formed the current 'patent evaluation report system', which is a supplement to the patent type that adopts the preliminary examination system.

The subject matter and scope of the report has been extended: from the original utility model patent only to utility model and design through the third amendment of the Patent Law in 2008; from only determining the novelty and inventiveness of utility model to almost all the grounds for invalidation.

As the fourth amendment of the Patent Law officially enter into force from June 1 2021, the applicant who can request such a report has been expanded from 'limited to the patentee' at the beginning of the search report system, adding 'the interested party' in the third amendment, now to 'the accused infringers'.

The 'Proposal for Amendments to the Implementing Rules of the Patent Law (Draft for Comment)' published in November 2020 intends to further expand the applicant who can request such a report to 'any entity or individual'. It can be seen that the patent evaluation report system has been continuously improved at the

**"With the continuous improvement of China's patent evaluation report system, the patent evaluation report will play an important role in patent infringement litigation."**

legislative level in recent years, and has gradually become an important system in the patent system.

Since the third amendment of the Patent Law in 2008, the patent evaluation report has been allowed to be viewed and copied by any institution or individual, so that the patent evaluation report with a negative conclusion (that is, the patent evaluation report finds the grounds that lead to the invalidation of the patent at issue) will also be open to the public.

Combined with the fourth amendment of the Patent Law and the tendency of the implementation rules of the Patent Law to completely open up the applicant of the patent evaluation report in the future, the patentee should have a full understanding of the possible impact of a negative evaluation report in a patent infringement lawsuit based on utility model or design patents.

This article discusses the impact of negative patent evaluation reports in patent infringement litigation, and is intended to introduce relevant legislation and practice, rather than to advise on the full range of options that may be offered in a particular case.

## Submitting a patent evaluation report when filing a patent infringement lawsuit

During the implementation of the 'utility model patent search report system', the "Several Provisions of the Supreme People's Court on Issues concerning the Application of Law in the Trial of Cases on Patent Disputes" (Patent Judicial Interpretation) stipulated in Article 8, paragraph 1, that "a plaintiff shall provide a search report issued by the patent administrative department of the State Council when instituting an action for infringement upon a utility model patent", which has led to a requirement that the utility model patentee must submit a patent search report when filing a lawsuit, otherwise the case will not be accepted as it will be deemed not meet the conditions for filing.

The Supreme Court once clarified that "the search report is only used as a preliminary evidence of the validity of an utility model patent, and the issuance of a





search report is not a requirement for the plaintiff to file a utility model patent infringement lawsuit. The word 'should' mentioned in the judicial interpretation is intended to emphasise the strict implementation of this system, so as to prevent it from being too loose and making it meaningless. All cases that meet the prosecution conditions stipulated in Article 108 of the Civil Procedure Law shall be accepted by the people's court". Then, when the Patent Judicial Interpretation was revised in 2015, the word 'should' was changed to 'may'.

In view of this, it can be seen that the patent evaluation report is not a necessary condition for the right owner of an utility model or design patent to file an infringement lawsuit.

### **Potential impact of negative evaluation reports in patent infringement litigation**

The guidelines for patent examination clearly mention that the patent evaluation report is not an administrative decision, and the patent owner or the interested

party cannot initiate an administrative reconsideration or administrative litigation against it, but can only request correction when certain conditions are met.

Consequently, a negative patent evaluation report itself does not have the effect of denying the validity of the patent. Combined with the above-mentioned interpretation of the Supreme Court and Article 66 of the Patent Law saying that the patent evaluation report is used as evidence for adjudicating or handling disputes over patent infringement, it can also be known that the patent evaluation report is a reference used by the court to access the stability of the patent at issue when hearing patent infringement cases.

In patent infringement litigation, the stability of the patent at issue is the starting point and focus of dispute for the court when hearing the case. According to the current patent judicial interpretation, the court may require the plaintiff to submit a patent evaluation report (or a search report) on the patent at issue according to its needs for the adjudication of the case.



In the case where the plaintiff did not apply for a patent evaluation report when filing the lawsuit, the court may require the plaintiff to submit a patent evaluation report and rule to suspend the trial to give time to apply for the report.

Where the plaintiff fails to submit the report without any justifiable cause, the court may: (i) decide to suspend the trial and wait for the review result of the invalidation proceeding before the CNIPA initiated by the defendant; or (ii) if the defendant does not file a request for invalidation of the patent within a reasonable period, the court may rule to dismiss the lawsuit and the plaintiff shall be responsible for such an adverse consequence.

When a patent evaluation report is submitted, in most cases, the conclusion of the evaluation report will mainly affect the court's judgment on whether to suspend the trial:

- If the report issued by the plaintiff does not find any ground for the invalidation of the patent, according to the provisions of the Patent Judicial Interpretation, even if the defendant has requested to declare the patent invalid within the period of submitting a statement of defense, the court may not suspend the litigation;
- If the report issued by the plaintiff finds some ground for the invalidation of the patent, the court may do the following in practice:
- In the case where an invalidation proceeding against the patent at issue has been initiated by the defendant, ruling to suspend the trial and awaiting the review result of invalidation;

**“The patent evaluation report has the function of knowing in advance whether the legal status of the patent is stable.”**



### Victor Guo

Attorney-at-law  
Panawell & Partners  
T: +86 10 8525 3778  
E: chunxi.guo@panawell.com

Victor Guo is an attorney-at-law at Panawell & Partners. He specialises in IPR counselling, IP customs protection, unfair competition, anti-counterfeiting and anti-piracy, computer and copyright registration, domain name registration and disputes resolution, and patent drafting and counselling.

Victor received his bachelor's degree in automation science from Beijing University of Aeronautics and Astronautics in 2010, and then turned to study IP law and received an LLB from Renmin University of China in 2012, and an LLM in IP law from The John Marshall Law School in 2014.

- In the case where the defendant has not filed an invalidation proceeding against the patent at issue, ruling that the patent is still valid before invalidation, and the trial continues;
- In very few cases, the court will refer to the grounds for invalidation given in the report and determine that the patent at issue does not meet the conditions for granting the patent right, and reject the plaintiff's claims.

### Summary

With the continuous improvement of China's patent evaluation report system, the patent evaluation report will play an important role in patent infringement litigation.

From the perspective of the right holder, the patent evaluation report has the function of knowing in advance whether the legal status of the patent is stable.

Considering that an evaluation report with a negative conclusion will have an impact on the prospect of the patentee's right protection, especially the issue of whether to suspend the lawsuit that affects the trial cycle of the case, and the refusal to submit such a report when the court requires it may lead to serious adverse consequences of dismissing the lawsuit, the right holder should make a prudent assessment of the stability of the patent before filing a lawsuit, especially in the case of having more than one patent over the accused product, choose a patent with relatively strong stability as much as possible to initiate the lawsuit.

At the same time, since submitting a patent evaluation report is not a requirement for filing a patent infringement lawsuit, the right holder can also choose not to apply for a patent evaluation report when filing a lawsuit, but it needs to weigh and evaluate the following three situations that may exist: (i) If the defendant has not filed a request for invalidation in the litigation and there is not sufficient evidence to prove that the patent at issue is unstable, the court may not require the plaintiff to apply and submit such an evaluation report; (ii) The court, after active review, may consider that the stability of the patent at issue needs to be proved by a patent evaluation report and thus require the plaintiff to apply and submit one; and (iii) If the defendant files a request for invalidation within the period of submitting a statement of defense or there is evidence to prove that the legal status of the patent at issue is unstable, the court may also require the plaintiff to submit an evaluation report accordingly.



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**Addr.: 1002-1005, 10th Floor, China Life Tower, 16 Chao Yang Men Wai Street  
Chaoyang District Beijing**

**Tel : 86 10 85253778**

**Fax: 86 10 85253671**

**Email: [mail@panawell.com](mailto:mail@panawell.com)**

**Homepage: [www.panawell.com](http://www.panawell.com)**

# China's revision of trademark law and the impact on CNIPA practices

Vivien Chan and Ann Xu of Vivien Chan & Co explain how brand owners can benefit from the changes introduced by the CNIPA including reducing bad faith filings

**T**he Amended Trademark Law of the PRC has been implemented for more than two years since it became effective on November 1 2019. It is therefore a good time to take stock and to analyse the real effect of the changes. Further steps have been taken by the China National Intellectual Property Administration (CNIPA) to ensure its effective implementation and crack down on bad faith filings.

This article discusses the significant updates on CNIPA practices with insight on how brand owners may effectively benefit from such positive moves.

## CNIPA's initiative to reject bad faith filings

One of the most important amendments made to the Trademark Law was the codification of prohibition against bad faith filings. Article 4 was specifically amended to state that "applications for trademark registrations in bad faith which are not intended for use shall be refused". The amended Article 4 confers power on the CNIPA to pro-actively reject bad faith trademark applications with no intent to use.

**"In 2021, the CNIPA rejected over 450,000 bad faith trademark applications for lack of intention to use based on Article 4."**

The CNIPA has since taken a more active role in rejecting bad faith filings. In 2021, the CNIPA rejected over 450,000 bad faith trademark applications for lack of intention to use based on Article 4.

To align the examination standards across examiners, and to bridge the gap between the previous edition of the Trademark Law and the Amended Trademark Law, the CNIPA has further published the new 'Guidelines for Trademark Examination and Trial' (the Guidelines) which came into effect on January 1 2022.

In particular, section 2 of the Guidelines elaborates on the standards in examining applications which are not intended for use, and sets out the factors that the CNIPA may consider when applying Article 4:

- Applicant's company status and scope of business;
- Number of trademarks filed and classes designated by applicant and their affiliates;
- Number of applications filed within a short interval and number of classes designated;
- Whether marks applied for:
  - Are similar to others' prior marks with certain degree of reputation or high distinctiveness;
  - Incorporate geographical names, scenic spots, industry terms or other names/terms within the public domain;
  - Incorporate famous individuals' names, trade names, online shop names, and character names;
  - Incorporate famous and distinctive slogans, artistic works, designs and other commercial symbols;
- Previous offers for sale of trademarks and failure to provide evidence showing the intent to use before sale or assignment;







- Whether the applicant has compelled others to enter into business cooperation arrangements with them;
- Applicant's demands for high assignment fees, license fees, monetary compensations for infringements and settlement fees; and
- Prior decisions holding that the applicant lack the intent to use, commence infringement actions or lawsuits for profit or is acting in bad faith.

While we may not fully assess the impact on the Guidelines on practice of the CNIPA at this stage, it is expected that the Guidelines will encourage examiners to take a more consistent and holistic approach in determining bad faith.

### Bad faith as a basis of opposition and invalidation

Apart from pro-active steps taken the CNIPA against bad faith filings, the amended Article 4 can also be relied upon by brand owners as a basis of opposition and invalidation against bad faith applications/registrations. It is encouraging to note that since the implementation of the Amended Trademark Law, the CNIPA has adopted a more flexible approach in finding bad faith.

Traditionally, a large number of filings has always been seen as a prerequisite to establish that an applicant is a squatter. However, the CNIPA has been shifting away from such a rigid approach. Apart from the number of filings made by the applicant, the CNIPA considers other factors, such as those listed above. Further, in one of the examples given, the CNIPA found an applicant to be acting in bad faith on the basis that it was unable to establish its intent to use nor explain the origin of the mark applied-for, despite holding only 20 trademarks.

**“One of the most important amendments made to the Trademark Law was the codification of prohibition against bad faith filings.”**



**Vivien Chan**

Founding and senior partner  
Vivien Chan & Co  
T: +852 2522 9183  
E: vivchan@vcclawservices.com

Vivien Chan is the founding and senior partner of Vivien Chan & Co. She has over 40 years of experience in mergers and acquisitions (M&A), information technology, IP and related tax issues.

Vivien is a justice of the peace and a past president of the Inter-Pacific Bar Association. She is a notary public, a notarial attesting officer in China, and an arbitrator at the China International Economic and Trade Arbitration Commission, Shanghai International Arbitration Center and the Shenzhen Arbitration Commission. She was awarded the Lifetime Achievement Award in 2017 by the American Chamber of Commerce in Hong Kong SAR and has also been awarded the Bronze Bauhinia Star and Silver Bauhinia Star by the Hong Kong SAR government for her outstanding contributions to Hong Kong SAR.

Vivien received her law degree from King's College London, and is admitted as a solicitor in England and Wales, Hong Kong SAR, Australia and Singapore.

When filing opposition or invalidation against bad faith filings, especially those filed by squatters holding a relatively small number of marks, it is therefore helpful for brand owners to elaborate on the creation of their mark(s) and adduce supporting evidence. Brand owners should also draw the examiner's attention to the fact that it is not a mere coincidence for the squatter to have filed/registered a mark that is highly similar or identical to the brand owners' mark(s) despite the small number of marks held by the squatter.

### Defensive filing exception

When the amended Trademark Law was first implemented, there was a concern on whether defensive and gap filings may accidentally be caught by Article 4 as applications which are 'not intended for use'. Such concern has been addressed in the Guidelines. The Guidelines has explicitly set out two exceptions to Article 4, namely (i) defensive applications; and (ii) reasonable number of applications for future business needs.

The CNIPA further clarified that Article 4 intends to only combat trademark squatting and elaborated on the scope of the two exceptions in its 'Answers to Key Questions to the Guidelines' (the 'Q&A') published in February 2022. In particular, it was discussed in the Q&A that:

- For 'defensive applications', it refers to acceptable filings for marks similar/identical to the core brand on goods/services outside the applicant's principal business for the purpose of preventing others from riding on or damaging the reputation already formed in the principal business and the core brand; and
- As for 'reasonable number of applications for future business needs', the CNIPA acknowledges that there may be a time gap between trademark filing and actual rollout of the products and services, and early trademark filings to prevent trademark squatting or avoid infringement shall be allowed.

That said, the CNIPA emphasised in the Q&A that the above exceptions are not absolute, and brand owners

should avoid excessive filings beyond the reasonable and necessary scope when devising defensive and/or gap filings strategy.

If the marks filed are for future business needs, it is also prudent for brand owners to docket evidence related to such business plan which can illustrate genuine intention to use the marks filed.

### Closer scrutiny on trademark assignments by squatters

In China, trademark assignments must be approved by the CNIPA before they may become effective, and the CNIPA has power to disapprove trademark assignments which would easily cause confusion or have adverse effects on the public. The CNIPA traditionally would only invoke such power to raise objections if similar marks covering similar goods/services are not assigned together.

However, we have seen a recent trend for the CNIPA to disapprove assignment applications where trademark squatting may be involved. The Guidelines has further codified this examination practice and has specified that objections may be raised by the CNIPA if a registrant owns a relatively large number of trademarks and has previously assigned the marks to various assignees. The objection may only be overcome only if valid evidence showing the intent to use the assigned trademarks is submitted.

While this practice may deter trademark squatting, it may not be favourable for those brand owners who have already reached an agreement with the squatter to buy back the mark. In such situations, it is advisable to include clauses in assignment agreements to deal with possible disapproval of assignment applications. For example, brand owners should put in place clauses stipulating that if an objection is raised by the CNIPA, the squatter should cooperate with the brand owners in responding to the same, and in case the assignment is eventually disapproved, the squatter should voluntarily surrender the relevant trademark(s). Back-up trademark applications should also be filed by the brand owners to protect its rights.

### Trademark agencies who assist in bad faith filings

It is expressly prohibited under the Amended Trademark Law for trademark agencies to assist in bad faith filings:

- Article 19 provides that “trademark agency is forbidden to represent the client where it knows or



**Ann Xu**

Head of Beijing Office  
Vivien Chan & Co  
T: +852 2522 9183  
E: annxu@vcclawservices.com

Ann Xu is a trademark attorney and heads the Beijing office at Vivien Chan & Co. She has more than 20 years' experience in IP cases in mainland China.

Ann has trademark, copyright and designs expertise. She regularly advises on prosecution and portfolio management.

should know the trademark to be filed for registration by such client falls under the circumstances prescribed in Article 4...”

- Further, under Article 68, the assistance of bad faith filings in violation of Article 4 or Article 19 is included as a new situation where administrative penalty such as warning and a maximum fine of RMB100,000 (approximately \$15,000) may be levied. The trademark agency's person in charge and other directly responsible personnel may also be fined up to RMB50,000.

In March 2020, the above Articles 19 and 68 were first invoked in penalising the agencies who assisted in filing of bad faith trademarks related to the coronavirus epidemic.

In early 2021, the CNIPA further issued the Special Action Plan to Combat Malicious Squatting of Trademarks (the 'Action Plan'). The trademark agency which knows or should know that its client is engaged in the malicious filings, but still accepts its instruction in violation of the Amended Trademark Law was identified as one of the acts to be curbed in the Action Plan. It was also stated in the Action Plan that such trademark agencies shall be investigated and penalised.

Since then, enforcement of penalties against trademark agency has rapidly expanded beyond the scope of those who assist with bad faith filings with notable political and social impact, but to those who has

**“It is expected that the Guidelines will encourage examiners to take a more consistent and holistic approach in determining bad faith.”**



assisted squatters in applying for trademarks imitating or copying foreign brands in bad faith. In most cases, the CNIPA will work closing with local administration of market regulation authorities in rejecting such bad faith filings and in imposing fines and other penalties on the squatters and their trademark agencies.

### Squatter database

To further step up the effort against trademark squatting, the CNIPA has maintained an internal blacklist of bad faith applicants. Blacklisted applicants' applications may be provisionally rejected, and the applicants will be required to produce evidence and explanation showing that the application was not filed in bad faith. The same greatly saves the time and costs for brand owners to launch oppositions against each of the applications made by the squatter.

While the process is informal and yet to be codified, the CNIPA has been increasingly receptive to brand owners filing informal complaints against bad faith applications during the examination stage.

From our experience, to enhance the chance of the complaints being fully considered by the CNIPA, it is helpful to include prior favourable opposition/invalidation decisions obtained against the applicant and to draw the CNIPA's attention to the applicant's history of bad faith filings. The same will assist in establishing that the applicant is a habitual squatter.

### Conclusion

It is apparent from the above that reducing bad faith filings and related activities has been a focus of the CNIPA. Brand owners can further rely on these measures in protecting their marks in China.

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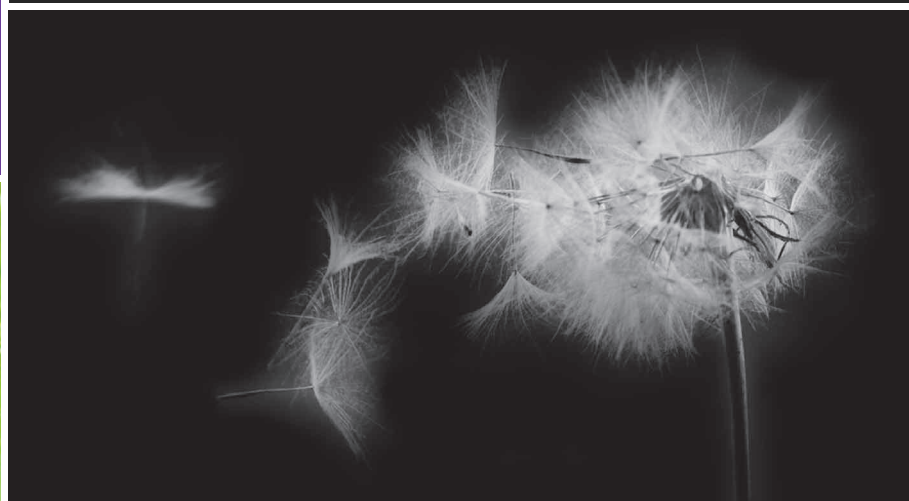
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32/F, Harbour Centre  
25 Harbour Road, Hong Kong

T : (852) 2522 9183

F : (852) 2845 9205

E : vivchan@vcclawservices.com

## Beijing Office

Suite 508, Beijing Tower  
10 East Chang'an Street, Beijing 100006, China

T : (8610) 6522 7072

F : (8610) 6522 6967

E : beijing@vcclawservices.com

[www.vcclawservices.com](http://www.vcclawservices.com)

# Obtaining evidence for patent litigation in China

**Feng (Janet) Zheng** of **Wanhuida Intellectual Property** provides an insight into obtaining evidence on the infringing product/process and the calculation of damages in China

**O**btaining evidence has long been acknowledged as one arduous task for patentees seeking to take legal actions in China. The fact that plaintiff bears greater burden of proof in judicial proceedings in China has drawn criticism from the legal community. The matter is further complicated by the lack of discovery procedure and the high bar set for admissibility of evidence.

## Evidence on the infringing product/process

### Notarised purchase

Courts in China have set high bar for the assessment of the authenticity of evidence. It is practically impossible for Chinese courts to rely purely on witness affidavit. Documentary evidence is the most popular and frequently adduced evidence in China.

Under most circumstances, notarisation is recommended in preservation of key evidence, given the notarisation process will lend further credence to the evidence. Therefore, patentee usually resorts to notarised purchase when gathering evidence on the infringing product/process.

The typical procedure is to purchase the accused product (often by the patentee or its proxy) directly from the infringer (manufacturer or distributor) under the witness of notary public. The infringing products will be packed and sealed by the notary public for court inspection at a later date (usually at the hearing).

Generally speaking, if the infringing product is consumer goods, the right holder could make a purchase as an anonymous consumer under the witness of notary public. Conversely, the difficulty for the notarised purchase of infringing products designed for industry use will increase significantly. The reason is simple – the infringer would want to vet the identity of the buyer, especially in an industry with a small number of players.

Patentees will have to disguise their true identities and pose as trustworthy buyers. It could take the

patentee some time to build trust with the infringer before the latter lets down his guard and sells the infringing product.

### Legitimacy issue under procedural law

Technically speaking, notarised purchase is not risk-free under procedural law. After all, the infringer could challenge the legitimacy of the evidence gathered from the notarised purchase, contending that the right holder fabricated an identity and tricked the infringer into selling the infringing product.

Fortunately, China's Supreme People's Court (SPC) affirmed the legitimacy of the approach in an exemplary case *Founder v Gaoshu* [(2006) Min San Ti No.1] in 2006. The principle observed in this case has been widely followed since then.

The plaintiff, Founder is the copyright owner over a set of software. The defendant, Gaoshu secretly duplicated and sold the pirated software to quite a few customers. To obtain evidence, an employee of Founder posed as a customer and approached Gaoshu, using a bogus name, to purchase the pirated software.

The employee first purchased some hardware product to gain the defendant's trust and then asked the defendant whether they provided pirated software. After receiving a positive answer, the parties signed sales contract and the defendant installed the pirated software on the buyer's computers as per his request. The transaction and software installation process were witnessed by the notary public, without divulging their true identities throughout the process.

In the ensuing litigation, the defendant argued that Founder tricked their salesperson into selling the pirated software, because their standard offer would be genuine software, it was Founder's employee specifically requested pirated software. The evidence collection approach is therefore illegal and the evidence shall not be admitted by court. The opinion of the trial court and that of the court of appeal diverged greatly





on the legitimacy of the approach and the case was later petitioned to the SPC for re-trial.

The SPC allowed the aforesaid evidence collection approach: “Despite the fact that laws have expressly stipulated offences, more often than not, due to the breadth of social life and complexity of interests at stake, laws tend to establish legal principles, rather than provide an exhaustive list of offences, so that judges may exercise discretion by weighing interest and taking into account value orientation.

Therefore, regarding an act that is not expressly prohibited by laws and regulations, whether such act is detrimental to public interest shall be assessed based on its substantive fairness. The notarised approach Founder employed in evidence collection is not unjustified in terms of its objective and the acts did not harm public interest or others’ legitimate interests.

In addition, considering that computer software infringement is often covert and relevant evidence is difficult to gather, the approach employed by Founder is conducive to overcoming the difficulty in evidence collection, deterring potential infringers and ramping up intellectual property protection. The approach shall be deemed as legitimate and valid, and the evidence

gathered shall be found admissible in ascertaining the facts of the case.”

## Alternative evidence collection approaches

In case it is impossible for the plaintiff to gather evidence of his own accord, the plaintiff may seek assistance from the court. Courts may, upon the plaintiff’s request, investigate and gather evidence on the accused product/process.

To serve that purpose, plaintiff needs to produce prima facie evidence to substantiate the infringement, adducing evidence showing the whereabouts of the accused product or product line and submitting a written statement, elaborating on the urgency of gathering evidence and the hindrance keeping the plaintiff from obtaining evidence of his own accord. With or without a pre-litigation hearing to listen to plaintiff’s grounds, court will decide whether the prima facie evidence merits the granting of the plaintiff’s evidence collection request and to what extent the plaintiff’s burden of proof is to be alleviated.

In *Henglian v Changyi* [(2013) Min Shen Zi No. 309], the patent at issue concerns a type of paper manufacturing process, for which the plaintiff is unable to produce notarised evidence. Plaintiff thus requested the court to

gather evidence. To make a strong case, the plaintiff produced a video record of the defendant's product line as preliminary evidence and the request was granted. When the judges went to the defendant's factory to preserve evidence, they were deliberately led by the defendant to the wrong product line. The trial court ordered the defendant to disclose the manufacturing process, but to no avail. The court thus found infringement based on the plaintiff's preliminary evidence.

The lower court's decision was upheld by the SPC, affirming that courts may shift the burden of proof to the defendant, provided that the plaintiff has proved the accused product is identical with that produced by the process patent at issue, and the plaintiff has made every effort to gather evidence, based on common sense and life experience, judges may conclude it is highly likely that infringement can be established.

In practice, courts may also designate other parties to gather evidence. By issuing court order, courts may authorise lawyers to gather evidence by asking the parties to hand over evidence in their possession. Such court order rarely applies when the plaintiff needs to collect the infringing product/process from recalcitrant infringer. Nevertheless, the approach is being widely used in the scenarios where the evidence is controlled by government agencies or the third-party companies (like e-commerce platforms).

### Evidence on the calculation of damages

#### Parameters in determination of damages

In China, damages may be calculated by the following methods: i) actual losses incurred to the right holder; ii) illegal proceeds acquired by the infringer; or iii) reasonable multiple of patent royalties.

Where it is difficult to ascertain damages by the afore-said three approaches, the court may resort to statutory damages and determine at its discretion the amount of damages ranging from RMB30,000 to RMB5 million.

In practice, right holders often opt to calculate the illegal proceeds acquired by the infringer, or statutory damages substantiated by proof of infringer's illegal proceeds, which is calculated based on the below formula:



### Feng (Janet) Zheng

Partner  
Wanhuida Intellectual Property  
T: +86 10 6892 1000  
E: zhengfeng@wanhuida.com

Feng (Janet) Zheng is a partner at Wanhuida Intellectual Property. She practices in the areas of IP law with a focus on patent litigation. Her expertise also extends to technology-related trade secret and copyright matters.

Feng has served both multinational and Chinese corporations in patent infringement litigations, patent invalidation proceedings and the subsequent administrative litigations, civil and criminal trade secret cases, patent ownership disputes, and disputes over patent licensing agreements. She also advises clients on anti-trust and regulatory matters involving patent aspect.

Feng holds an LLM degree from the University of Chicago Law School and another from China's University of International Business and Economics. She is admitted to both the China Bar and the Bar of New York State.

$$\begin{aligned} & \text{Infringer's illegal proceeds} \\ & = \\ & \text{Turnover of the infringing product} \\ & \times \\ & \text{Operational profit margin of the} \\ & \text{infringing product} \\ & \times \\ & \text{Patent contribution rate to the profit} \end{aligned}$$

The question is – without discovery procedure, how could the right holder find evidence of infringer's profit? In practice, right holders may find sales price of the infringing products, bits and pieces of sales figures through public channel and maybe the average profit of the infringer if they get lucky, but not a chance when it comes to the infringer's profit margin of the specific infringing product nor the patent contribution rate to the profit. The most direct evidence – the infringer's transaction record of the infringing product – is usually under the infringer's control and out of the reach of the patentee.

Figure 1 shows the outcome and number of cases with damages over RMB 1 million (inclusive) of all the published patent civil decisions (available at <https://www.iphouse.cn/>) made by the Intellectual Property Court of the Supreme People's Court (the SPC IP Court), the sole appellate court for patent infringement litigation since 2019. Of all the cases where infringement could be established, those with over one million damages accounts for 4.4% in 2019. The percentage rises slightly to 4.7% in 2020 and 4.8% in 2021, which means securing high damages has yet become less onerous in China.

#### High damages

The fourth amendment of China's Patent Law, which comes into effect as of June 1 2021, incorporates into law (Article 71.4) the possibility of shifting burden of proof to the defendant, mandating that the defendant is to produce the account books related to the accused product, if the patentee has made best efforts to adduce evidence whilst the financial books or materials related to the infringement are controlled by the infringer.



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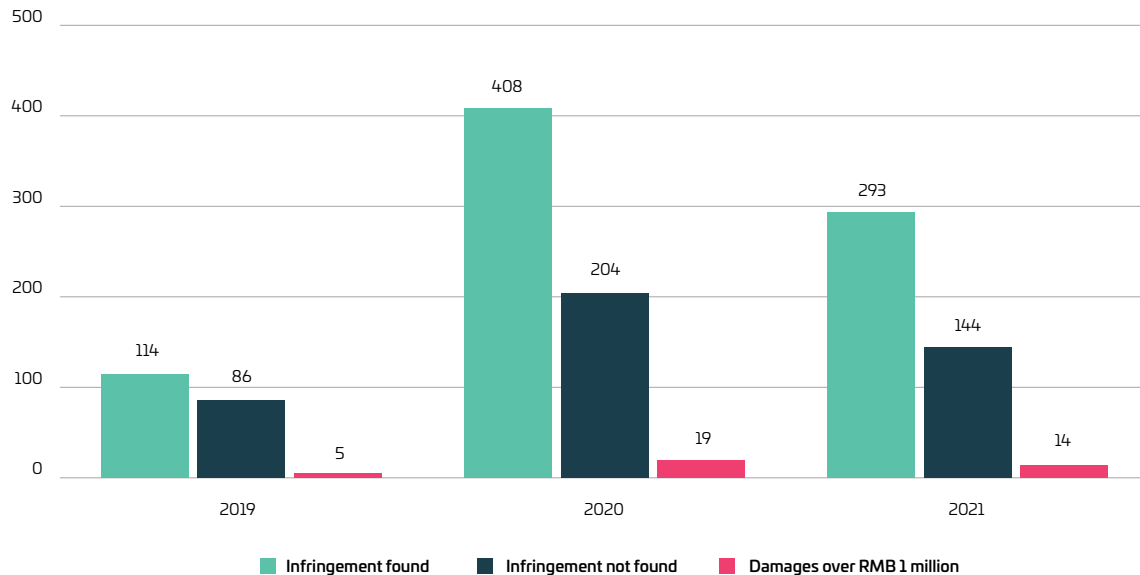
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Add: Yiyuan Office Building, Friendship Hotel, 1 Zhongguancun Street South,  
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Tel: 86-10-6892 1000 Fax: 86-10-6894 8030 E-mail: [whd@wanhuida.com](mailto:whd@wanhuida.com)



**Figure 1: Patent civil appeals adjudged by SPC IP Court - Outcome & Indemnity ≥ RMB 1 million**



Noncompliance may result in the court's award of damages by reference to the claims and the evidence provided by the patentee. The case below is a live example of the application of Article 71.4.

In *Synthes GmbH v Double Medical* [(2021) Zui Gao Fa Zhi Min Zhong No. 148] the SPC IP Court awarded the plaintiff RMB 20 million (\$3.2 million) by admitting the plaintiff's evidence and shifting burden of proof to the defendant.

The plaintiff Synthes owns a patent concerning a medical device for the treatment of femoral fractures. The defendant Double Medical, which is a listed medical device company, was sued by Synthes for patent infringement. Synthes sought damages of RMB 20 million. The court of first instance only awarded damages of RMB 1 million. Both parties appealed to the SPC IP Court.

To prove defendants' illegal profit, Synthes collected preliminary evidence about the defendant's turnover of the accused product, including defendant's online sales figure of the accused product for about 42 days and defendant's revenue as disclosed by its financial report, based on which Synthes deduced that the turnover of the accused product reached RMB 39.74 million.

Though the defendant also published its overall operational profit margin (53%) in the financial report, this rate does not specifically correspond to the accused product. Given that Synthes had fulfilled its burden of proof, the court ordered the defendant to produce the account books of the accused products. The defendant, in defiance of the court order, merely produced photocopies of partial sales data and several invoices, alleging that the

original documentary proof were no longer available. The defendant also argued the calculation method adopted by Synthes is flawed: the turnover and operational profit of the accused product is not accurate, the patent contribution rate is not considered, among others.

The court opined that there is no just cause warranting the defendant's refusal to disclose its account books. As a listed medical device manufacturer, the defendant is obliged to keep an elaborate dossier on the production and sales record of the accused products and should be capable of accurately calculating the sales and profit margin based on its account books.

The court acknowledged that the plaintiff's evidence might not be accurate, but also concluded that based on the prospectus, annual reports and the narratives published on the defendant's website, which are available to the public, it would be safe to deduce that the defendant's illegal profit has exceeded RMB 20 million. The court therefore found the preliminary evidence produced by the plaintiff admissible and awarded damages of RMB 20 million.

Due to the lack of discovery, obtaining evidence will remain a challenge in China. As the nation's judiciary is growing increasingly pro-right holder, patentees are encouraged to fulfill their burden of proof by leaving no stone unturned in their search for physical and electronic evidence surrounding the business operation and financial performance of the infringer. With the implementation of China's new Patent Law, we expect to see a trickle-down effect in the alleviation of plaintiff's burden of proof and the award of significant damages in the long run.



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