The keys to success in patent litigation

The National Intellectual Property Strategy means that foreign patentees must adapt to a new litigation landscape when enforcing their patents in China

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Over the past 30 years, China has undergone unprecedented growth to become the second largest economy and manufacturing centre in the world. Meanwhile, Chinese courts have faced an increasing number of patent infringement litigations. According to statistics published by the Supreme People's Court, in 2012 Chinese courts heard 9,680 patent infringement cases at first instance – an increase of 23.8% on the previous year.

However, as Chinese patent litigation becomes increasingly popular, the success rate for foreign corporate patentees in enforcing their patents dropped unexpectedly. This article analyses this extraordinary phenomenon and provides guidance on the subject.

A new situation for foreign patentees

In the early days of China's reform and liberalisation policy, it was relatively easy for foreign patentees to succeed in patent claims in China. This was because central and local governments focused on attracting foreign investment. As such, in order to assist local governments in creating an environment that was conducive to foreign investment, courts across the country regularly implemented pro-foreigner policies in patent litigations involving foreign parties. As a result, foreigners' IP rights enjoyed excessive protection, which went above and beyond the national treatment.

In addition, due to a lack of awareness of IP protection and patent litigation among native Chinese companies, most infringement disputes which occurred at that time involved blatant plagiarism of patented technologies, which could easily be characterised as patent infringement. Moreover, there was an obvious gap between foreign and native companies in terms of their ability to formulate litigation strategies, which created an unfair imbalance between the two in the courtroom.

However, these circumstances – which previously favoured foreign patentees in litigation – are changing. As the focus of IP protection policy shifts from protecting foreign companies' IP rights to promoting indigenous innovation, China has developed and implemented the National Intellectual Property Strategy, aimed at improving the innovative abilities and patent protection capabilities of native companies. Correspondingly, courts tend to interpret patent claims strictly in order to promote innovation.

Simultaneously, as a result of full implementation of the strategy, patent competition awareness and patent litigation capabilities have improved dramatically and patent number filings among native companies are on the rise. According to statistics published by the State Intellectual Property Office, of the 172,1130 Chinese invention patents granted in 2011, 65.3% were granted to native applicants; and of the approximately 107,000 invention patents granted in the first half of 2012, 65.4% were granted to native applicants. Moreover, as of the end of 2011, the number of enforceable invention patents owned by native patentees reached 351,288, exceeding the number of enforceable invention patents owned by foreign patentees for the first time.

Foreign patentees thus face an

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unprecedented litigation situation. On the one hand, the courts are increasingly upholding equal protection for both native and foreign parties and will no longer afford foreign patentees the excessive protection that was once afforded to attract foreign investment. On the other, the national strategy has instilled and nurtured strong design-around abilities and patent litigation competence among native businesses. Foreign patentees that fail to familiarise themselves with these changes in the litigation environment and make the necessary adjustments to their enforcement strategies, or that continue with outdated practices, will eventually meet defeat when seeking enforcement in China.

How to succeed in patent litigation

The following tips will help foreign patentees to adapt to the new litigation situation.

Retain an experienced patent litigator

The final outcome of litigation is often determined by whether the right attorney is on the case. A significant number of unsuccessful cases are lost due to inappropriate litigation strategies. For foreign clients unfamiliar with patent litigation practice in China, it is usually difficult to ascertain whether the litigation strategy is suitable. Hence, whenever foreign parties lose in court, attorneys often blame defeat on the Chinese courts and the wider IP protection environment in China in order to avoid liability. In other words, in cases where the foreign party loses, an incompetent litigation attorney usually uses the Chinese court system as a scapegoat.

Parties which are seeking the right attorney for their case are advised to select experienced litigators by searching through high-profile cases. Since 2009 the Supreme Court has published (a few days before April 26, World IP Day) its top 10 Chinese IP protection cases from the previous year, its top 50 representative cases and its *National IP Report*, which also includes some cases. To date, hundreds of cases, including dozens of patent cases, have been published. These cases not only inform foreign patentees of developments and policies in the Chinese IP judicial system, but also can serve as a database for finding distinguished patent litigators, as attorneys whose names appear frequently in the lists of counsel in these cases are doubtless experienced litigators.

Design a customised litigation strategy

The majority of patent litigators are patent agents with a technical background; this is due to the fact that the difficulties of patent litigation typically result from the complicated technical issues that are involved. However, most Chinese judges who try patent cases have no technical background. If the patent agent cannot describe the patented technology in easily understandable layman’s terms to the judge, it is likely that the judge will become lost in the technical terms; arguments that cannot be understood are unlikely to be accepted.

Accordingly, one key to success in patent litigation is to avoid jargon and communicate effectively with judges, who usually have no technical background.

Prepare an appropriate litigation strategy

In lawsuits involving foreign parties, the foreign client may have its own in-house counsel (including attorneys from its country of origin) who provide detailed instructions for the litigation. However, those instructions might be unsuitable due to the differences between Chinese litigation practice and litigation in other jurisdictions; this could lead to a conflict between the Chinese counsel and the client's own counsel.

The Chinese counsel's attitude should adjust in light of different issues. More specifically, with regard to technical or business issues, the Chinese counsel should honour and defer to the client's wishes. However, for specific litigation strategy issues (eg, selection of arguments and drafting of documentation), the Chinese counsel should stand firmly by his or her own judgements after sufficient communication with the client, instead of slavishly following client instructions that are not appropriate to Chinese litigation.

In practice, however, some litigators slavishly follow their clients' instructions, fearful of liabilities. Such attorneys, in fact, serve as nothing more than translators and mail deliverers. Many unsuccessful cases are lost for this very reason. Therefore, Chinese counsel who pander to a foreign client's every wish are unlikely to be competent attorneys.

Analyse the robustness of the patent before enforcement

Foreign patentees are primarily focused on Chinese patent infringement litigation practice, but often fail to pay attention to patent invalidation proceedings and administrative litigation practice. The main risk facing foreign patentees is patent invalidation – not patent infringement.

The Patent Re-examination Board's remit includes coaching leading native companies in implementing the national strategy. This makes things awkward where the board has to referee a dispute between native and foreign businesses in an invalidation proceeding, and can jeopardise the impartiality and objectivity of the outcome.

Further, even though an invalidation decision is subject to judicial review, as in administrative lawsuits, in reality such review is not that effective. Between 2007 and 2011, the average annual reversal rate for the board's invalidation decisions was lower than 10%, which is far less than corresponding figures from the European Union, Japan and the United States.

Foreign rights holders face a new challenge after an enforcement action is initiated: the patent in suit is invalidated before the conclusion of patent infringement litigation or an infringement judgment is unenforceable because the patent in suit has hence been invalidated.

Therefore, to avoid such a situation, foreign rights holders should analyse and evaluate the robustness of their patents in advance. For defective patents which risk being invalidated, a patentee may initiate invalidation proceedings through a straw man to cure such deficiencies and then bring an infringement suit based on the revised patent.

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Mr Jiang has an excellent patent litigation record. He successfully handled four of the eight patent infringement court decisions heard up to 2012, which involved more than Rmb20 million in damages. He has successfully handled many retrial cases before the Supreme People's Court and, in several cases, his perspectives were accepted by the court as new judicial standards.

Mr Jiang also acted in four of the six patent invalidation cases that were published by the Supreme People's Court in 2011, and had the invalidation decisions of the Patent Re-examination Board overturned in three of those cases.