

# Kluwer Patent Blog

## China's Specialized IP Courts

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### 1. Background

In June 2008, China announced the *Outline of National IP Strategy* ("IP Strategy"), which set up a roadmap for China to become a country of high level of IP creation, utilization and protection by 2020. As a key part of the IP Strategy, China committed to carry out a number of judicial reforms to strengthen the protection of IP rights. One of the most promising reforms is that China would consider establishing centralized jurisdiction over some hi-tech cases, particularly patent litigations. Also, experiments would be conducted on the "three-in-one" adjudication for civil, administrative and criminal IP cases under a single tribunal. Another reform is to establish a unified appellate court for IP infringement and/or validity cases.

There have been lots of developments made to the Chinese IP judicial system since the issuance of the IP Strategy. The establishment of specialized IP Courts in late 2014 in Beijing, Shanghai and Guangzhou is a milestone of China's recent efforts in improving the IP protection. Two years after the launch of the IP Courts, four new specialized IP Tribunals were established in four cities of China, Nanjing, Suzhou, Chengdu and Wuhan in early 2017.

This article will make a brief overview of the performance of the IP Courts two years since their establishment, provide an introduction of the new specialized IP Tribunals, and look into the prospect of a unified IP appellate court.

### 2. Overview of the Three IP Courts' Performance

Since the three IP Courts in Beijing, Shanghai and Guangzhou officially opened in late 2014, there has been significant progress in the IP law area. These IP Courts are designed to try cases involving patents, technical secrets, computer software, new plant varieties, integrated circuit layout designs, and cases regarding recognition of well-known trademarks and antitrust issues.

#### 2.1. Achievements of the Specialized IP Courts

Damages awarded by the specialized IP Courts have grown aggressively in the past two years. Statistics show that in 2016, the average amount of damages granted by

the Beijing IP Court is RMB 1.41 million (around USD 200,000) for patent infringement, while prior to 2014 the average damages nationwide was only RMB 800,00 for patent infringement and the damages for other types of IP infringement were even less. In December 2016, the Beijing IP Court issued an unprecedented damage award, RMB 50 million, approximately USD 7.5 million in favor of a patent holder. The reason behind the increasing damages is that the IP Courts have lessened the burden of proof on the plaintiff according to a Supreme People's Court judicial interpretation, that is, where the plaintiff has exhausted reasonable efforts to show the infringer's profits obtained from the alleged infringement (e.g., providing the infringer's sales number and the average profit margin of the industry), the burden will then be shifted to the defendant and the court may make its damages determination based on the plaintiff's claim and evidence if the defendant fails to produce rebuttal evidence (e.g., the defendant's account books, etc.) to show its actual gain. In addition, the specialized IP Courts are willing to grant the plaintiff's motion to subpoena third parties (e.g., the defendant's customers, suppliers, banks, and etc.) to obtain information that is critical to the calculation of damages. Further, different from the very conservative approach in awarding damages in the past, in some cases, the IP Courts tend to impose maximum statutory damages (RMB 1 million, around USD 150,000) to reasonably reflect the market value of infringed IP rights, or grant punitive damages against intentional infringements, even though such punitive damages are provided in the 4th draft amendment of Chinese Patent Law, not yet officially issued.

The specialized IP Courts take a positive attitude towards provisional measures such as preliminary injunction and evidence preservation which are traditionally hard to secure in China. The Beijing, Shanghai and Guangzhou IP Court each published several typical cases concerning evidence preservation and preliminary injunction in the past two years, indicating that seeking provisional measures is now a real potential option for IP owners if evidence is solid to meet the prescribed circumstances.

The specialized IP Courts employ technical investigators for resolving complicated technologies. Statistics show that, during 2016, 35 technical investigators had been appointed by the Beijing IP Court in 352 cases, who submitted 262 technical opinions and many of the opinions were adopted by judges. Unlike expert witness hired by the parties and technical appraisal agencies appointed by courts, technical investigators act as internal technical assistants of judges. They are supposed to be generally more neutral and professional in assisting judges for finding technical facts than outside experts. However, our observation indicates that, quite a few of the technical investigators of the Beijing IP Court are former patent examiners from the State IP Office ("SIPO"), the neutrality for their involvement in patent validity review cases where the SIPO is a defendant appears a question.

The Beijing IP Court reversed decisions of the Patent Re-examination Board ("PRB", under the SIPO) in 52 out of 431 cases decided in 2016, representing a reversal rate of 12.06%, substantially higher than the historical reversal rates. Such statistics indicate that the Beijing IP Court has more genuine willing to exercise judicial review power over administrative decisions on patent validity review.

## 2.2. Shortcomings of the specialized IP Courts

While the establishment of specialized IP Courts is a great improvement to the Chinese judicial system, a number of unresolved issues remain. In particular, there are only three specialized IP Courts and their jurisdiction coverage are limited to a small portion of China. It is expected that more IP Courts should be established to stretch their jurisdictions to a larger territory.

The specialized IP Courts have no jurisdiction to hear IP-related criminal cases, and all non-technology-involved IP cases, such as trademark, trade dress, unfair competition, copyright (except for software related) cases, now have to be brought to Basic People's Courts for trial and to the IP Courts for appeal in Beijing, Shanghai and Guangzhou. Among these cases, some are quite sophisticated and may not be proper to be heard by Basic People's Courts.

The shortage of manpower is a notable issue for all Chinese courts, and especially for the Beijing IP Court which has exclusive jurisdiction over validity review of patents and trademarks in China. It is startling that each judge in the Beijing IP Court gets a quota of over 200 IP cases to conclude each year. Such extremely heavy caseload creates barriers for judges to issue high quality decisions.

Lastly, an IP Court of Appeal at the state level is missing from the current Chinese IP ecosystem. The three IP Courts in Beijing, Shanghai and Guangzhou are at the intermediate court level, subject to appeal review by provincial courts in the three municipalities. Building an IP Court of Appeal can carry on the specialty and uniformity of the IP Courts in appeal proceedings, and may pave a platform to improve the efficiency of patent validity review.

## 3. The New Specialized IP Tribunals

In January and February 2017, four new specialized IP Tribunals were established in four cities, namely, Nanjing, Suzhou of Jiangsu Province, Chengdu of Sichuan Province, and Wuhan of Hubei Province. The four specialized IP Tribunals are attached to the intermediate courts of the four cities. While the three IP Courts in Beijing, Shanghai, and Guangzhou cover throughout north and south China, the newly established IP Tribunals are located in the four most important provinces in eastern, middle and western parts of China. These provinces are also among the top 10 largest provincial economies and most innovative parts of China.

The specialized IP Tribunals resemble to the specialized IP Courts in many aspects. For example, they all sit at the intermediate level in the hierarchy of Chinese courts, exercise jurisdictions on similar subject matter - patent and alike technology-related cases, and the provincial courts above the four concerned intermediate courts supervise and hear appeals from the first-instance judgments made by the four specialized IP Tribunals. They all have the most qualified IP judges in China. Each of the specialized IP Tribunals is composed of 12 to 15 judges with extensive experiences in IP litigation.

Unlike the IP Courts in Beijing and Shanghai that only have jurisdiction over IP cases within their own cities, each of the four IP Tribunals has cross-regional jurisdiction

over the entire province or multiple cities within that province. For example, the Chengdu IP Tribunal and the Wuhan IP Tribunal hear first-instance civil cases relating to patent and alike cases in all Sichuan province and Hubei province respectively. The Suzhou IP Tribunal has jurisdiction over patent and alike cases from four cities of Jiangsu province, while the province's nine remaining cities fall into the jurisdiction of the Nanjing IP Tribunal. In addition, the new IP Tribunals are China's first courts/tribunals to hear civil, administrative and criminal IP matters under a single tribunal, which could minimize the inconsistencies caused by different tribunals handling the same subject matter.

It is reported that the Supreme People's Court has been planning to expand the Beijing IP court's jurisdiction to cover Tianjin and Hebei province. If that comes true, we may foresee that other IP Courts and the specialized IP Tribunals may have jurisdiction over their neighboring provinces for IP cases (e.g. the Shanghai IP Court covers Shanghai, Zhejiang province and Jiangxi province) in the future. So far, there are more than 60 intermediate level courts (including the three IP Courts and four intermediate courts to which the four IP Tribunals are attached) in China having jurisdiction over patent and complex technical cases, averagely two intermediate courts in each province. If the IP Courts have trans-provincial jurisdiction as proposed and more specialized IP Courts/Tribunals were to be launched, the number of courts that hear patent cases is expected to be less than 30.

#### **4. The Potential IP Appellate Court(s)**

The Vice President and the Chief Justice in charge of IP cases of the Supreme People's Court, Madam TAO Kaiyuan, mentioned on many occasions that the establishment of an IP-dedicated appellate court shall be considered in the following years.

The concept of IP Appellate Court is not new. The United States Court of Appeals for the Federal Circuit ("CAFC") is the only appellate-level court with the jurisdiction to hear patent cases in the U.S. Similarly, in the EU, the proposed Unified Patent Court ("UPC") comprises a Court of First Instance and a Court of Appeal which hears infringement cases and validity proceedings of European patents in all Contracting Member States.

Currently, the Beijing IP Court has exclusive jurisdiction over appeals from administrative decisions on validity of patents and trademarks by the PRB and the Trademark Review and Adjudication Board and its judgment could be further appealed to the Beijing High People's Court. On the other hand, appeals against judgments made by the specialized IP Courts, specialized IP Tribunals and general courts concerning patent infringement are heard by the High People's Courts of different provinces. There is no mechanism to guarantee that different High Courts will apply uniformed standards in the appeal proceedings.

The Beijing High Court is the best candidate for the unified IP Appellate Court, as it has already been hearing appeals involving validity of patents and trademarks and only needs to take over the appellate jurisdiction for civil patent cases from the other High People's Courts. Alternatively, China may consider establishing multiple IP appellate courts, just like the six Circuit Courts of the Supreme People's Court

established in recent years. These Circuit Courts are attached to the Supreme People's Court, with each Circuit Court covering three to five provinces. By the same token, there could be several IP appellate circuit courts, hearing appeals from the multiple provinces that compose each circuit.

Setting up IP Appellate Court, either a single unified court, or multiple circuits, would definitely help achieve adjudicative consistency between IP administrative proceedings and infringement actions, and among different trial court decisions, and will also help eliminate local protectionism.

Setting up an IP Appellant Court may also improve the efficiency of patent validity review. Currently, after the PRB issues a decision on re-examination or invalidation, the decision can be appealed to the Beijing IP Court for trial, to the Beijing High People's Court for appeal, and to the Supreme People's Court for a further discretionary appeal (the so called "retrial"). Such lengthy procedure may be slimed with the establishment of an IP Court of Appeal, for example, one instance of appeal to the Beijing IP Court could be omitted.

## 5. Concluding Thoughts

The three specialized IP Courts are progressively aggressive in China's IP enforcement, e.g., awarding increasingly high damages, granting provisional measures, taking stricter judicial review of administrative decisions, piloting a precedent system (please refer to our March blog), and etc.

The establishment of specialized IP Tribunals made a further step forward in China's IP protection landscape. These progresses show that China wants to centralize jurisdiction over patent cases, improve the quality, efficiency and consistency of IP adjudications. China is moving in the positive direction towards the goals set in its IP Strategy.

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