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China's SPC IP Tribunal: Router manufacturer and seller liable for infringement even though patented method performed by a third party

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The IP Tribunal of the Supreme People's Court (SPC) recently issued a decision in *Dunjun v. Tengda* ((2019) SPC IP Civil No. 147), holding that the manufacturer's making and selling of routers directly infringed a telecommunication method-of-use patent even though the manufacturer itself did not perform one single step of the patented method.

This article discusses this case and its potential influences on China's landscape for infringement of process patents in the telecommunications industry.

Case summary

The plaintiff Dunjun a Shenzhen based company, owns a patent that describes a method of accessing portal websites by using a "virtual web server" through interaction between a user computer and a router. One of the patented methods includes three steps:

Step A: the "virtual web server" inside the router receives an HTTP request from the user computer;

Step B: the "virtual web server" sends a message that relinks to the real portal website "Portal_Server" to the user computer; and

Step C: the user computer automatically accesses the real portal website "Portal_Server" after receiving the relinking message.

Dunjun sued Tengda, a router manufacturer, for directly infringing this patented method by making and selling routers that allegedly performed such method.

Tengda argued that it did not directly infringe the patented method because it merely made and sold alleged infringing routers and did not perform any of the steps of the patented method.

The trial court handed out a direct infringement ruling in favor of Dunjun. The SPC IP Tribunal upheld the ruling in the appeal.

Our comments

In this case, the SPC IP Tribunal established a groundbreaking rule for an equipment manufacturer's liability in a method-of-use patent in the telecommunications industry, which significantly broadened the scope of direct infringement. Specifically, the SPC IP Tribunal has ruled that a method-of-use patent is infringed by an equipment manufacturer for making or selling an alleged infringing product, where the product substantially embodies the patented method, such that the patented method would be performed by a third party e.g. an end user when using the product in an ordinary manner.

Chinese courts have long held that a method-of-use claim cannot be directly infringed merely by the manufacture or sale of a product used for patented method under the current legal regime in China. In another words, infringement of a method claim could only occur when all steps of the patented method have been performed, rather than when someone makes or sells a product that can be used in the performance of the patented method. Thus, a patentee has to sue for indirect infringement against a product manufacturer/seller on the ground that the manufacturer/seller contributed to or induced end users to infringe. However, contributory infringement is difficult to establish as the law requires firstly, a plaintiff to prove direct infringement occurred, and secondly, the plaintiff has to prove that the alleged infringing product was designed intentionally to exploit a patented method with no substantial non-infringing use.

In *Iwncomm v. Sony* (2018), a landmark case relating to infringement of a method-of-use patent, Iwncomm attempted to sue Sony for infringing its WAPI technology patent. Iwncomm claimed that by performing the patented method during the quality control testing of its cell phone products and by manufacturing and selling the cell phones, Sony committed direct and indirect infringement, respectively. The Beijing IP Court ruled in favor of Iwncomm for both claims. However, the Beijing High Court overruled the indirect infringement, as it found no direct infringement on the ground that no entity has performed all the steps of the patent, neither has any entity direct or control the performance of others, hence there was no joint coordination among the entities.

In *Dunjun v. Tengda*, the SPC IP Tribunal agreed that the fundamental question underlying the defendant's appeal was whether the making or selling of a method-embodiment product constitutes an exploitation of the patented method even if one step of the method was not performed. To answer this question, the court adopted a two-pronged "substantial embodiment" test. Specifically, the court looked at whether the alleged infringing routers "substantially embody" the patented method such that they have an "irreplaceable and substantial role" in facilitating the performance of all steps of the patented method by others. If so, the defendant should be deemed to have practiced and directly infringed the patented method by making and selling the products, even though it did not perform any of the steps of the patented method.

- Under the "substantial role" element of the substantial embodiment test, the court looked at whether the patented method would be performed by a customer in an ordinary and expected usage of the alleged infringing product. The court noted that in this case, steps A and B would be performed on the alleged infringing router when it is in a customer's possession, while step C would be performed by an ordinary computer operated by the customer. Therefore, the customer would perform steps A, B and C by using the router on an ordinary computer, under ordinary network environment, and without any other special devices. As such, the court concluded that the alleged infringing router has a "substantial role" in facilitating the end user's performance of the patented
- Turning to the "irreplaceable role" element of the substantial embodiment test, the court looked

at whether the alleged infringing product embodied the substantial features of the patented method. The court concluded that in this case, the claimed “virtual web server” in steps A and B are the essential and inventive features that distinguish the patented method over the prior art. The court found that the router used the claimed “virtual web server,” instead of using available alternative non-patented means to access portal websites. The use of the “virtual web server” proves that the alleged infringing router embodied the substantial features of the method claim. Accordingly, the court held that the router is “irreplaceable” in the end user’s performance of the patented method.

Finding that both prongs of the “substantial embodiment” test were met, the SPC IP Tribunal ruled that Tenda’s making and selling of the alleged infringing router directly performed and infringed Dunjun’s patented method. The SPC emphasized that holding the defendant a direct infringer is a feasible means to address this type of issue occurring in the telecommunications industry. The SPC considered the following factors:-

- there may not be other direct infringers in a method involving multiple entities or a directing or controlling entity such that the end user without commercial purposes may not be liable due to certain statutory exemptions;
- the defendant could easily avoid contributory infringement liability by adding a non-infringing function to the infringing products; and
- an injunction against the defendant’s testing is insufficient for patent enforcement purposes.

Therefore, the SPC broadened the scope of direct infringement on a method-of-use patent in the telecommunication industry.

Apparently, *Dunjun v. Tenda* has lowered the bar for proving direct infringement of method claims. But we should note the unique fact of this case that the infringing product is the only equipment which is irreplaceable to perform the substantial steps of the patented method. It is unclear whether the “substantial embodiment” standard will be met in a divided infringement situation where multiple entities collectively practice all steps of a patented method, but not a single entity has performed or is responsible for all the steps in the claim like the scenario in *Iwncomm v. Sony*.

The SPC IP Tribunal’s “substantial embodiment” test in this case share some similarities with the US Supreme Court’s reasoning in *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617 (2008). The US court held that method claims are subject to exhaustion as long as a sold product “substantially embodies” the method, i.e., the sold product embodies the “essential or inventive feature” of the method claims. While the US courts’ post-*Quanta* case law has failed to recognize that the sale of such an embodying product would also infringe a process patent, China’s highest court has taken the first step to hold that the making or selling of a method-embodying product constitutes exploitation and infringement of a patented method.

In *Iwncomm v. Sony*, Sony attempted to build its arguments based on the exhaustion doctrine when a product embodies a patented method. The Beijing High Court expressly held that the exhaustion doctrine does not apply to a method patent in China on the basis that the Patent Law does not explicitly state so. The judgement is currently under appeal for retrial before the 3rd Civil Tribunal of the SPC.^[1] It will be interesting to see how the SPC 3rd Civil Tribunal will deal with Sony’s exhaustion argument since the SPC IP Tribunal now expressly and unambiguously hold that a product can embody a method.

Dunjun v. Tengda certainly opens a gate for patent enforcement against a single party, or even multiple parties, in the telecommunication industry. This adds an incentive to patentees, including NPEs, to take another look at their patent portfolio and potential targets on the market.

[1] The SPC IP Tribunal is akin to the Court of Appeals for the Federal Circuit (CAFC) in the United States, while the SPC 3rd Civil Tribunal is akin to the US Supreme Court.

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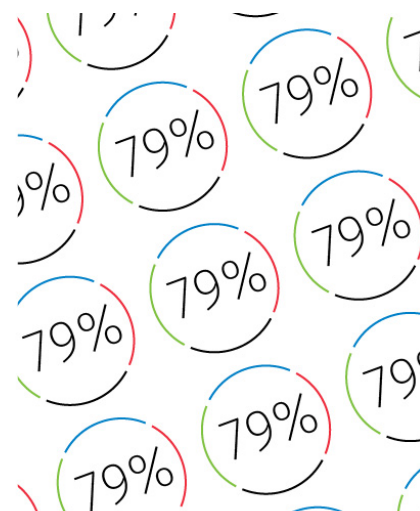
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