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China: Comments on the New Rules on Preliminary Injunction and Representative Precedents

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The Supreme People's Court of China recently issued a new judicial interpretation regarding preliminary injunctions (**PI**) for intellectual property (**IP**) disputes that took effect on January 1, 2019, officially titled "*Provisions of The Supreme People's Court on Several Issues Concerning the Application of Laws in Adjudication of Action Preservation Cases Involving IP Disputes*" (**Provisions**). The Provisions provide guidance on substantive and procedural rules for preliminary injunction in IP cases.

Chinese courts are traditionally very cautious in issuing PI. From 2014 to 2018, 150 pre-suit and 50 in-suit PI rulings in total were granted by courts in China, among which, PI rulings for patent cases only account a very small proportion, including a recent closely-watched patent case, *Qualcomm vs. Apple.*

This article explains key articles of the Provisions and representative precedents, from comparative perspectives of the PI systems in Germany and United States.

1. Factors for Evaluating the Necessity of PI

Article 7 defines four factors that the court should consider when granting PI, as discussed below in details. Literally, Article 7 appears similar to the four-factors test generally applied by US courts in determining whether to issue PI. However, the determination standards of Chinese courts on the "likelihood of success on the merits" and "irreparable harm" are quite subjective and stringent.

The four factors are as follows:

- **1.1 Factual and legal basis for PI, including stability of IP rights and likelihood of infringement**

This factor was originally raised as "likelihood of success on the merits" in the draft of the Provisions. For some reasons, likelihood of success was replaced with a general term, factual and legal basis. A possible reason for this revision might be to relieve judges' concern on the potential contradiction between a civil ruling granting PI and a final court decision not favorable for the patent owner. In practice, Chinese courts would consider: (1) whether the asserted IP rights are valid and stable; and (2) likelihood of infringement as the major factual basis for granting PI.

Article 8 further sets forth the factors for evaluating the validity of the asserted IP rights, including: (1) the type of IP rights; (2) whether it had gone through substantive examination before granting (e.g., invention patents v. utility model/design patents); (3) whether it had gone through an invalidation proceeding and the likelihood of being invalidated; and (4) whether the ownership of such IP rights is in dispute, etc.

The Provisions do not further explain how to determine likelihood of infringement.

Unlike German practice, PI can be granted in wider cases in China, including in cases involving complex invention patents. For instance, in *Qualcomm v. Apple* involving telecommunication patents, relying on a testing report submitted by Qualcomm for proving literal infringement, Fuzhou Intermediate Court found likelihood of infringement and issued PI against Apple.

German judges issue PI only when they can easily and obviously find infringement without the help of any outside expert or experimental report, they therefore rarely issue PI in disputes involving complex merits.

- **1.2 Irreparable harm**

Irreparable harm is a key factor in granting of PI, which is somewhat akin to "urgency" in German PI system. Unlike German judges, Chinese judges do not review the period from the moving party's awareness of infringement to submission of PI motion as an element of evaluating the necessity of granting PI. Also unlike the US courts which usually presume that "irreparable harm" is met once "likelihood of success on the merits" is established in IP cases.

In past practice, the threshold of establishing irreparable harm in China is much higher and gives Chinese courts large room to exercise their discretional power. A lot of PI motions were ultimately dropped after encountering rejections for not proving irreparable harm.

Encouragingly, the Provisions provide guidance on how to evidence irreparable harm. **Article 10** sets forth circumstances that constitute "irreparable harm", including: (1) harm to business reputation or personal rights (such as publication right and right of privacy) that would not be recovered; (2) uncontrollable acts, and significantly increase damages; (3) evident loss of market share; and (4) other case of irreparable harm.

"Uncontrollable act" in Article 10 is a new concept raised in the context of PI, referring to the situation where a wider infringement would inevitably occur if the accused infringing acts were not immediately enjoined. For example, as the cases mentioned below, sales of the accused infringing products would cause infringement in downstream or harm the business cooperation between the moving party and its commercial partners.

- **Case 1:** ***Abbott vs. Beijing Yiyangjie, et al.***

The involved patent is a design patent for formula cans. Patentee Abbot filed a suit against Beijing Yiyangjie, alleging that Yiyangjie had infringed the patent by producing and selling formula cans identical to the patented design. Beijing Third Intermediate Court held that if the alleged infringing acts were not immediately enjoined, the formula cans would be sold to milk manufacturers and finally reach end consumers through distributors, and in the subsequent sales chain more infringing acts would occur. Even a final judgment favorable to Abbott could hardly enjoin the infringement in downstream. Therefore, the court recognized that Abbott would suffer irreparable harm caused

by the alleged infringing acts because these acts are uncontrollable and would cause further infringements in downstream, and issued a pre-suit PI against Yiyangjie.

- **Case 2:** ***Qualcomm vs. Apple***

This case concerns three invention patents. The patentee Qualcomm sued Apple for unlicensed implementation of the three patents. Fuzhou Intermediate Court opined that if Apple's sales of new models of iPhone were not immediately stopped, such infringing acts would cause unquantifiable damages and thereby cause irreparable harm to the business cooperation between Qualcomm and its commercial partners. Thus, the court issued an in-suit PI, ordering Apple immediately stop importing, selling and offering to sell 7 models from iPhone 6S to iPhoneX.

- **Case 3:** ***Novartis vs. Jiangsu Hansoh, et. al.***

The involved patent is a Swiss-type patent claiming the second medical use of a compound, Imatinib. Imatinib was known to treat chronic myelogenous leukemia (CML), while the involved patent claims imatinib's second use in treating gastrointestinal stromal tumor (GIST). The patentee Novartis sued Hansoh for patent infringement, alleging that Hansoh made cross-label use of GIST in the drug insert of "Xin Wei". Beijing Second Intermediate Court held that Chinese Drug Reimbursement List only identified the INN name, not distinguishing indications and manufacturers of different drugs; once Imatinib was included in the Drug Reimbursement List, "Xin Wei" would probably deprive the market share of Novartis for treating GIST, causing irreparable harm on Novartis. The court therefore issued a pre-suit PI, ordering Hansoh immediately cease using the drug insert indicating its use for GIST when producing, selling and offering to sell "Xin Wei".

- **1.3 Balance of hardships**

The court issues PI only when the harm suffered by the moving party if PI not granted outweighs the damage imposed upon the opposing party by granting of PI, such that social interest can be maximized.

- **Case 4:** ***Christian Louboutin vs. Guangzhou Ventan, et al.***

This case concerns a design patent claiming bullet shape of lipsticks. The Patentee Christian Louboutin sued Guangzhou Ventan, alleging that Ventan had infringed its design patent by making and selling lipstick products identical or similar to the patented design. Guangzhou IP Court issued a pre-suit PI, ordering Ventan immediately cease making, selling and offering to sell nine models of lipstick products. In balancing the hardships of the parties, the court elaborated the loss incurred to both parties. That is, if PI was issued, the opposing party would lose money spent on molding, advertisement and manufacturing of the accused infringing product, as well as profit from production and sale of these products during the term of PI. However, in absence of PI, the moving party would suffer much more losses. Such losses include R&D expenses, advertisement cost, lower pricing, loss of market share and competitive edge. Based on the above, the court found that the balance of hardship favored the moving party.

- **1.4 Public interests**

If the patent in issue has significant impact on health, security, environment or other major public interests, such public interests will play an essential role in deciding whether to issue a PI. For

pharmaceutical patents, the court will consider public access to drugs and drug safety.

- **Case 4:** ***Christian Louboutin vs. Guangzhou Ventan et. al.***

In this case, Guangzhou IP Court held that both the patented products and the accused infringing products were cosmetics, thus the grant of PI concerned the opposing party's interests only, instead of public interests. And the court opined that, at the same time, as the design patent was novel and distinguishable, grating a PI would help to prevent confusion in the market. Instead of harming public interest, it would safeguard the public interest by maintaining a healthy market environment.

2. Urgent Situations

According to **Article 5** of the Provisions, unless "the situation is urgent" or an *inter parte* hearing may cause a PI cannot be enforced, Chinese courts can issue PI after an *ex parte* hearing, instead of an *inter parte* hearing. While German courts can generally issue PI without oral hearing or with *ex parte* hearing, and German courts often decide whether to render a PI within 24 or 48 hours upon the filing date of PI motion.

Article 6 lists "urgent situations" under Article 100 and 101 of the *Civil Procedure Law as amended in 2017* (**2017 CPL**), including: (1) the moving party's trade secret is about to be illegally disclosed; (2) the moving party's personal rights such as publication right and privacy right is about to be infringed; (3) the IP at issue will soon be illegally disposed of; (4) the moving party's IP is under or will suffer infringement in time-sensitive occasions such as trade fairs; (5) time-sensitive and popular shows is being or is to be infringed; and (6) other situation calls for immediate injunction.

Different from the German practice, "urgent situations" are not mandatory requirements for granting PI in China, but indicate a time-sensitive threat to the moving party's IP right which requires the court to issue PI within 48 hours, instead of in general situations to call for inter pate hearings before issuing PI. It should be noted that the 48-hour time limit starts from the "acceptance of the PI motion" rather than the filing date of the PI motion. In past practice, acceptance means the court decides to take a PI motion after reviewing and evaluating its merits. It remains uncertain how the 48-hour time limit will be counted under the Provisions, it's for sure that under "urgent situations", PI rulings would be issued *ex parte* and in a much shorter time frame.

3. PI Issued in Error

Pursuant to Article 105 of the 2017 CPL, where a PI ruling is made in error, the moving party should compensate the opposing party's loss caused by the PI. **Article 16** further clarifies scenarios of "PI issued in error": (1) the moving party does not file an infringement action within 30 days from PI enforcement; (2) the claimed IP rights is invalidated; (3) no infringement or unfair competition is found in the infringement action; and (4) other circumstances where the issuance of PI deemed wrong.

Compliance with TRIPS Agreement and foreign legislative practice, Article 16 indicates that the strict liability shall be applied in determining whether a PI is wrongly issued, regardless of whether the moving party has subjective fault or not. This aims to encourage patentees to prudently file PI motions and to objectively assess the stability of the asserted patent and the likelihood of infringement.

For pre-suit PI, the moving party has to file infringement action within 30 days from the granting date of PI; otherwise the PI would be lifted by the court. That is to say, in China, after granting a pre-suit PI, the moving party should immediately prepare to file a main action without delay. This is quite different from the German practice where no statutory time limit for filing main actions is provided. German courts would lift PI per the application of the opposing party after the opposing party requests the court to order the moving party to file an infringement action within a time limit and the moving party fails to file. In other words, in Germany, if the opposing party does not respond to a pre-suit PI, the pre-suit PI would remain in force even if the moving party does not file an infringement action.

- **Case 5:** ***Xu Zanyou vs. Jiangsu Baite et al.***

Patentee Xu Zanyou sued Jiangsu Baite et al. for infringement on its design patent. After a PI was issued, all claims of the design patent were invalidated in the third-round invalidation proceeding. The court then held that a wrongfully enjoined party is entitled to recovery of damages inflicted by the wrongfully issued preliminary injunction, provided that the wrongfully enjoined party demonstrates that the damages sought were proximately caused by the wrongful injunction. The court clarified that a patent owner's good faith belief that the patent in suit is valid or stable is not a defense to such damages claim against a wrongfully issued PI.

4. PI will not be lifted by counter-guarantee.

In Germany, if a moving party provides with the court a surety bond as guarantee for the PI, the opposing party can tender a counter-guarantee to lift the PI. But this is not the case in China. **Article 12** states that PI cannot be lifted by the opposing party's counter-guarantee, unless the moving party gives consent to lift the PI.

5. No appeal proceeding is set for PI rulings.

In Germany and US, the party that objects to a PI ruling can appeal to the superior court. There is no appeal proceeding for PI in China. **Article 14** says that the remedy of a PI ruling for both parties is only to apply for reconsideration to the same court that made the ruling. The court has 10 days to reconsider the PI ruling from receipt of the party's application. Obviously, rarely will the court making the ruling change its mind or rectify its own decision. This makes PI in China very powerful, also because the opposing party cannot pay counter-guarantee to lift an issued PI ruling.

In sum, the Provisions provide more detailed guidance for patentees to file PI motions, and indicate risk management for the patentee in case the PI is issued in error. Even though the Provisions are still needed to be improved and refined, it still provide Chinese courts more legal certainty to make PI rulings. We anticipate more motions and grants of PI in patent cases in the future.

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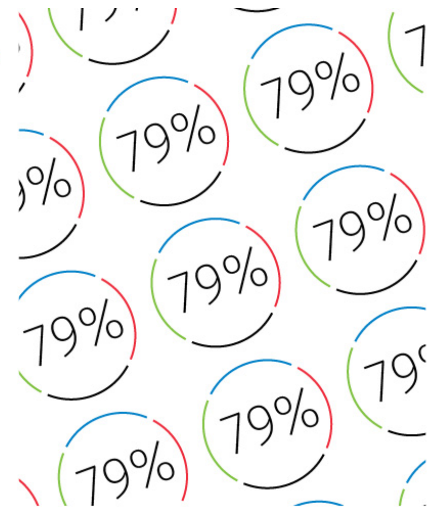

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