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Recent Development in Chinese Patent Cases –Interim Judgment, Interlocutory Appeal, Invalidity Defense

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In our blog of last December, we reported that China has established a new IP Tribunal within the Supreme People's Court (the "SPC") as a national IP appellate court akin to the federal circuit in the United States. The new SPC IP Tribunal commenced operation from Jan 1, 2019 in Beijing.

Interim Judgment

On March 27, 2019, the SPC IP Tribunal issued its first decision in a patent case *Valeo v. Xiamen Lucas Automotive Parts Co., Ltd. et al*. The French company Valeo sued Xiamen Lucas Automotive Parts ("Lucas Automotive") and two other Chinese defendants in the Shanghai IP Court ("trial court") for infringing a patent relating to windshield wiper control devices of motor vehicles. Valeo requested for an injunctive order and RMB 6 million (USD 900k) in damages. After a hearing and several investigations, the trial court found the infringement issue clear but the damages is yet to be determined, so it granted Valeo's motion for judgment of infringement with an permanent injunction, leaving damages to be decided later on. Lucas Automotive filed an interlocutory appeal to the SPC IP Tribunal, which affirmed the trial court's infringement finding and permanent injunction.

The Valeo case has great significance as it let the plaintiff to obtain a permanent injunction order quickly without abandoning its damages claims. It is the first time that China's highest court recognizes interim judgment on the substantive issue for patent cases. In the past, Chinese courts tend to dispose all claims of the parties in a final decision, instead of making interim judgment/rulings on the merits of the dispute during trial. Preliminary injunction order is probably the only interim order that is explicitly enumerated in Chinese law concerning the court's opinion on substantive issues. China does not have claim construction order or summary judgment. Therefore, patent litigations normally take a long time (e.g., average two or three year for the Beijing IP Court to make a final decision), and during such period, the parties can hardly obtain any interim judgment reflecting the court's determination on the merits.

Article 153 of the Civil Procedure Law of China provides that if some of the issues being tried are already evident, the court may entry an interim judgment as to those issues first with other issues adjudicated at a later stage. This Article theoretically gives courts broad discretion to render interim judgment or ruling on the substantive merits during trial. If a court can issue a claim construction order during trial as opposed to withholding its claim construction until the final

judgment, the defendant may immediately use such claim construction in support of its invalidity arguments in the PRB proceeding (similar to the IPR proceeding before the PTAB). Thus, the public resource of the PRB will be saved and the parties are more likely to reach a settlement during litigation.

The Valeo case might be a signal that China's Supreme Court is considering allowing more interim judgments/rulings in the future, e.g., claim construction order, judgment on validity, ruling on plaintiff's standing or inequitable conduct, etc. This allows both courts and counsel to avoid the waste of public and private resources on the same claims and defenses.

Interlocutory Appeal

In Valeo, the defendants sought an interlocutory appeal of the trial court's judgment of infringement to the SPC IP Tribunal, which accepted the appeal. The Chinese law does not provide a clear guidance on whether other kind of interim judgment/ruling is interlocutory decision for immediate appeal. The only clear thing is that interlocutory appeal of a preliminary injunction order is not available. You can only file a motion for reconsideration with the same trial court, which normally would uphold the preliminary injunction order.

In our opinion, Chinese courts might allow, in very limited circumstances, interlocutory appeal of interim judgment like judgment on validity if they were to be available in China someday.

Invalidity Defense in Infringement Proceeding

Invalidity is not an available defense to patent infringement claims in China. China currently adopts a bifurcated adjudication system that patent infringement and validity proceedings are decided by different authorities, similar to that in Germany. Courts have no authority to decide on patent validity during infringement proceedings, while patent validity is solely determined by the PRB under the CNIPA (previously the SIPO). Unlike the United States, an invalidation action before the PRB usually would not stay the infringement proceeding for invention patent. Hence, sometimes after a court makes an infringement decision, the patent is invalidated by the PRB, and the court would need to revoke its infringement judgment. This causes great problems to the patent litigation system and wastes the resources of the court and the parties.

Mr. Luo Dongchuan, the vice president of the SPC and the head of the SPC IP Tribunal, recently proposed at China's National Congress that, infringement and validity should be allowed to be decided simultaneously in the same court proceeding, just as the United States does. He proposed to amend China's Patent Law to allow invalidity defense based on prior art, lack of enablement, indefiniteness as other invalidity grounds during infringement proceeding.

PRB as Third Party Rather Than Defendant in Appeal

Mr. Luo further suggested that in judicial review of PRB's patent validity decision before the Beijing IP Court and the SPC IP Tribunal, the invalidity petitioner and the patent owner should be Plaintiff/ Appellant or Defendant/ Appellee respectively, like the United States and European Union do.

Currently, a party dissatisfied with the PRB decision can appeal to the Beijing IP Court first and then to SPC's IP Tribunal. For example, a petitioner whose invalidity request was denied by the PRB may bring an administrative lawsuit to the Beijing IP Court as the plaintiff, while the PRB is

the defendant and the patent owner is the third party. Chinese law treats the PRB's validity decision as an administrative decision, and in judicial review, courts generally are not allowed to look at the merits of the decision but rather with the lawfulness of the decision-making process, that is, how the decision was made and the fairness of it. As such, the PRB has to spend a lot of time and energy to defend its decisions during judicial review, which would waste judicial resources.

Moreover, since the invalidity proceeding is an inter partes proceeding— the petitioner and the patent owner participate as the adverse sides and the PRB acts like a referee/arbitrator to rule on the parties' disputes, it seems more reasonable to name the PRB as a third party in appeal of the validity decision, and to name the petitioner and the patent owner as Plaintiff/Appellant or Defendant/Appellee.

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