

5 Tips In The Art Of Patent War In China

By Erin Coe

Law360, San Diego (May 29, 2014, 4:03 PM ET) -- U.S. companies pursuing patent infringement litigation in Chinese courts face a steep uphill battle, but lawyers say the move can be a quick and relatively inexpensive way to pressure Chinese competitors to license patents from American companies, making it an important part of an overall intellectual property litigation strategy.

Chinese courts have seen patent cases more than double over a four-year period, from 4,422 filings in 2009 to 9,680 suits in 2012, according to the U.S. Patent and Trademark Office.

Richard Hung, deputy chair of Morrison & Foerster LLP's IP litigation group, attributed the increase to a greater focus by the Chinese government and domestic companies on patent protection as the country's economy grows, but he also said costlier U.S. patent litigation and continued legislative attempts to curb suits by nonpracticing entities may be prompting some U.S. companies to reassess their litigation tactics.

"People are thinking about China as a forum much more so than they were before," he said. "That includes U.S. lawyers."

Launching a case in China has several advantages for plaintiffs. Because of the lack of discovery procedures, courts are able to render decisions in patent cases in six to 12 months. And while patent cases in the U.S. typically cost plaintiffs millions of dollars, a case in China may cost only hundreds of thousands of dollars, according to lawyers.

In addition, Chinese courts look only at infringement issues, while any invalidity argument a defendant makes must go through the State Intellectual Property Office's Patent Reexamination Board, a proceeding that doesn't necessarily stay the litigation and tends to trail the infringement suit — both advantages for the plaintiff — Hung said.

If a plaintiff wins an infringement case, it shouldn't expect much in terms of damages, but it has a right to an injunction, and if a Chinese company is manufacturing and exporting the product at issue to the U.S. and other major markets, the enforcement of the injunction could have a global impact, according to lawyers.

"Considering that it is more difficult to get an injunction in the U.S. following the U.S. Supreme Court's eBay decision, winning an injunction is a big hammer to have," Hung said.

Here, attorneys offer U.S. companies tips for waging patent fights in China:

Expect More Presuit Prep Work

In China, the plaintiff and defendant each has the burden of obtaining discovery on its own, and a party is not required to comply with the opposing side's discovery request, according to lawyers. As a result, presuit preparation needs to be done much more thoroughly than for cases filed in the U.S.

"The expectation in China is that when you show up in court, you've already figured out the case," said Michael Lyons, a partner at Morgan Lewis & Bockius LLP. "The plaintiff needs to get the accused products, analyze them and develop its case against the defendant explaining why the defendant infringed its patent. Being well prepared is critical to success."

A notary public plays a major role in Chinese patent litigation, and plaintiffs often need to have the purchase of an infringing product notarized in order to authenticate the process and may also need to use a judicially certified testing lab to generate the infringement report before filing the complaint, according to Tony Chen, a partner at Jones Day. To help establish jurisdiction in the forum the plaintiff wants, it should make sure to purchase the accused infringing product in that jurisdiction.

Documentary evidence of infringing products and damages carries greater weight in Chinese courts than oral testimony. Because legalizing and notarizing foreign documents can take more than a month to complete, plaintiffs should start this process before filing in order to have an advantage over the defendant, according to Hung.

"Many winnable cases were lost because plaintiffs were unable to present admissible evidence," Lei Mei of Mei & Mark LLP said. "Plaintiffs must develop a comprehensive discovery strategy. For example, it is not uncommon that plaintiffs hire undercover private investigators to gather relevant information and evidence from defendants."

If plaintiffs know of additional evidence they need to secure from the defendant, they may be able to take advantage of Chinese evidence preservation procedures, according to Lyons. The defendant isn't immediately notified once a suit is filed, giving the plaintiff an opportunity to petition the court to have evidence seized from the defendant's business.

"This certainly puts a lot of pressure on the other side and gets its attention," he said.

Team up with Local Counsel

While retaining experienced local counsel is important in the U.S., it is essential for pursuing a successful patent case in China, according to Mei.

"Chinese courts are less transparent, and parties may have ex parte communication with judges, so local counsel plays a critical role in China," he said.

Because IP enforcement in China is still developing and attorneys involved in the case have more access to judges than in the U.S., the plaintiff's attorneys should select local lawyers who are well known to the court, with solid reputations and significant experience, according to Lyons.

"The most important factor in hiring local counsel for the case is the lawyers' track record of success in that particular courthouse," he said. "The attorneys should have existing relationships in the courthouse

and should also be well received. There can be a lot of homework to make sure the plaintiff has the right attorneys for that court and the case.”

Choose a Favorable Venue

Local protectionism is widespread in China, and defendants rarely lose patent infringement suits in their home courts, according to Mei. Indeed, some of the largest patent damages awards have come from courts in regions where plaintiffs, not defendants, have a large presence, he said.

For example, the Wenzhou Intermediate People’s Court in Zhejiang province handed Wenzhou-based Chint Group Corp. \$48.5 million in September 2007, finding that a Chinese unit of France-based Schneider Electric SA violated a Chinese patent covering a miniature circuit breaker. The parties ended up resolved the matter for about \$23 million during an appeal, Mei said.

A plaintiff has to be mindful that a suit may not be accepted for filing at the end of the year, according to Hung. If the defendant then attempts to file a declaratory judgment action elsewhere, this may result in a procedural dispute over the proper forum.

“A plaintiff has to be careful of the timing of the suit because it may not be accepted for filing, and it may expose itself undesirably to a declaratory judgment action in a different jurisdiction,” Hung said.

However, even if the U.S. plaintiff successfully lodges a suit first in a favorable venue, it should anticipate that a Chinese defendant may lodge a countersuit in a different jurisdiction in China, he said.

So if a U.S. company operating in China believes a local competitor is preparing to sue it for allegedly infringing a Chinese patent, it might want to take preemptive action, according to Chen.

“All Chinese courts are rocket docket,” he said. “You don’t want to be ambushed by your competitors in patent litigation. You can file a preemptive invalidity challenge with the Patent Reexamination Board to either get rid of the competitor’s patent or narrow its scope. There is no standing requirement for filing an invalidation request with the PRB.”

Consider Benefits Of Injunctive Relief

U.S. plaintiffs are still hesitant to file patent suits in China due to the lack of transparency and predictability in Chinese courts, according to lawyers. And although damages aren’t much of an incentive for bringing patent litigation in China, an injunction that stops a Chinese company from manufacturing, selling and exporting infringing products can have a global impact, according to Chen.

“U.S. plaintiffs are slowly coming to appreciate the potential benefits of bringing a patent lawsuit in China,” he said. “If you are looking to stop an infringer from coming into business to compete with you or if you are relying on selling a product to get value out of your Chinese patent, winning an injunction will be helpful.”

Seeking an injunction paid off for Jones Day and its local counsel, which recently secured two patent infringement wins for Milliken & Co., a South Carolina-based specialty chemical company, in Chinese courts.

The company asserted a patent covering a product for installing underground cables against Hangzhou

Lefa Network Technologies Co. Ltd. and Wujiang Xindian Innerducts Co. Ltd. in separate courts. The courts each rendered infringement judgments in favor of the U.S. company and issued injunctions and damages.

The uncertainty that exists in Chinese courts may even encourage certain U.S. plaintiffs to initiate litigation, according to Hung.

“We are very familiar with how litigation may proceed in courts in Delaware, the Northern District of California or Texas,” he said. “If a plaintiff wants to take advantage of a less certain forum given that Chinese litigation is on the rise and it’s fast, and if the plaintiff is trying to be aggressive, China would be a good jurisdiction.”

File the Chinese Suit as Part of a Broader Enforcement Plan

Companies may want to consider filing a patent suit in China in conjunction with litigation in other countries in an effort to gain leverage in settlement negotiations, according to Lyons.

He cites the success he had with one Silicon Valley-based client in pursuing parallel patent infringement litigation in the U.S. and China. The strategy led to a settlement where the defendants agreed to take a patent license.

“The Chinese litigation correlated to my client’s ability to bring the defendants to the table and settle,” he said. “We felt we got a faster and better settlement as a result of the filing in China. My client has done this multiple times now on the patent side, and it has become part of its enforcement strategy.”

While initiating a suit in the U.S. can put some financial pressure on a defendant, waging a complementary suit in China can put pressure on a defendant’s business reputation that could prompt settlement talks, he said.

“When bringing a suit in China, the risks to the defendant are that the plaintiff could get an injunction on the infringement and create a certain amount of embarrassment to the defendant in the business community,” he said. “If the defendant is a Chinese company that is trying to establish itself and be a significant player, it’s not going to want a Chinese court finding that it is infringing someone else’s patents.”

Initiating litigation in China is not always going to make sense in every case, but U.S. companies that include such a filing as part of their overall litigation strategies may find it’s an effective approach to drive a settlement, according to Lyons.

--Editing by Kat Laskowski and Richard McVay.