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Phone: +1 646 783 7100 | Fax: +1 646 783 7161 | customerservice@law360.com

China Becoming More Attractive For Foreign Patent Owners

By Matthew Bultman

Law360, New York (April 19, 2017, 2:22 PM EDT) -- Patent owners from the U.S. and other Western countries are increasingly looking to China as they consider places to file patent infringement lawsuits, drawn by the allure of a system that is faster, less expensive and offers powerful injunctions that can provide valuable leverage in a dispute.

"No place in the world can you spend less than a half-million dollars and get an injunction worldwide in less than a year," said Erick Robinson, the director of patent litigation at Beijing East IP Ltd. "That's the promise of China."

Long criticized as being lax in protecting intellectual property rights, China hasn't always been the most attractive place for foreign companies to file patent suits. Even a few years ago, Robinson said, he wouldn't have advised filing there.

But Chinese authorities have placed a greater emphasis on IP enforcement, beefing up the country's patent laws and creating specialized IP courts. While these efforts were driven in large part by a desire to encourage domestic innovation, experts say it can also benefit foreign companies.

"China has made a lot of progress over the last few years in terms of stepping up their enforcement efforts and protecting IP rights," said Yan Zhang of Baker Botts LLP. "As China is becoming a more important market for technology products, it's becoming increasingly important for foreign companies to take China as a valuable IP enforcement [forum] more seriously."

Statistics from the Supreme People's Court, the highest court in China, show there were around 11,600 patent cases filed in Chinese courts in 2015, more than double the number in the U.S. Most of these disputes were between two Chinese companies.

But some recent high-profile cases highlight the foreign interest.

Last summer, San Diego-based Qualcomm Inc. filed a lawsuit against Chinese electronics maker Meizu Technology Co. Ltd. alleging infringement of patents related to 3G and LTE wireless communication standards. The companies later settled the dispute.

Months later, a subsidiary of WiLan Inc., a Canadian patent licensing firm, made headlines when it sued Japanese electronics company Sony Corp. in the city of Nanjing. It was reported to be the first time that a foreign nonpracticing entity had sued a non-Chinese technology company in China.

In the past, “the words ‘intellectual property’ and China being used in the same sentence was usually in the form of a joke,” Robinson said. But in more recent years people “began to realize they were serious about putting forth a real enforcement scheme.”

China, which lacked a patent system until 1985, has taken criticism over the years over IP rights — it has, for instance, been a fixture on the U.S. Trade Representative’s annual watch list of countries needing to improve.

While outside pressure was likely a factor in China’s attempts to clean up its efforts, experts say it was more about a desire to encourage companies within its own borders to create and protect their IP.

“China realized that ultimately it’s to China’s benefit and the benefit of Chinese companies to protect IP rights in general, not just for foreign companies but for domestic companies as well,” Zhang said. “And there’s more and more demand from domestic Chinese companies.”

Regardless of the driving force behind the changes, there are advantages to filing suit in China for patent owners, both foreign and domestic.

Due to a lack of discovery, cases are often resolved within 6 to 12 months, much faster than in the U.S., where it can often take more than two years to get to trial. Litigation costs are also a fraction of what they are in America.

Perhaps most appealing, though, are the injunctions. Patent holders who win an infringement case have a right to an injunction, which applies not just to products sold in China but also to the exports of goods that are made in the country.

“The teeth, if you will, really lies in injunctive relief,” said David Yang of Morrison & Foerster LLP.

Historically, damages awards in China have been extremely low. But even that could be changing.

While the damages law in China is similar to the U.S., the lack of discovery made it difficult to get financial information to prove damages. Attorneys say the fallback has been statutory damages, which are traditionally capped around \$150,000.

But last year China’s highest court issued an important ruling that shifted the burden of proof in situations in which damages information is difficult to obtain.

“It basically was a sea change because now all of a sudden, instead of everything by definition being capped at \$150,000, you can take advantage of the damages law in China that prior to that ruling you couldn’t,” Robinson said.

In December, the IP Court in Beijing awarded Watchdata Data Systems Co. Ltd. a total of \$7.2 million in a case against Hengbao Co. Ltd. over a USB patent. It was said to be the largest damages award from the Beijing court and the third-largest IP damages award ever in China.

Damages are “no longer a joke, which is interesting because the real reason to file in China until this has always been the injunction, which is virtually guaranteed,” Robinson said. “Now not only do you get the injunction, but you also get the possibility of legitimate damages.”

Foreign companies have long harbored concerns they won't be treated fairly in China's courts, which were seen as favoring domestic industry. But a recent study that looked at more than 470 cases with patent infringement claims decided over a six-year period found that foreign companies appear to perform quite well as compared to Chinese companies.

"On the whole, our findings suggest that the Western technology community may have been too quick to write off the Chinese patent system as a rigged game," the report said. "To the extent that Chinese authorities sought to establish a protectionist system, they appear to be failing."

To be sure, the system isn't perfect. And while there remains a good deal of uncertainty, attorneys said foreign companies should be paying attention to China.

"I would advise any U.S. companies that are doing business in China to include China in their portfolio of patent countries," Yang said. And if the patents are being infringed "there's no reason why you shouldn't go in there and try to enforce them."

But it goes both ways.

"If you're really successful in China," Yang added, "you should be prepared that you may be sued by your competitors in China, whether that be a Chinese company or another foreign company."

--Additional reporting by Kelly Knaub and Erin Coe. Editing by Rebecca Flanagan and Jack Karp.