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**PROTECTING
INTELLECTUAL
PROPERTY
RIGHTS IN
CHINESE COURTS:
An Analysis of
Recent Patent
Judgements**

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China Program



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INTRODUCTION

Since China joined the World Trade Organization (WTO) in December 2001, the country's commitment to abiding by the global body's rules has captured the attention of businesses and policy makers in the United States. Such attention is likely to grow because the Democrats are expected to use their regained power in Congress to toughen their stance on China trade issues, including intellectual property protection.

Much of the discussion of China's intellectual property protection has focused on the *infringement* of patents, copyrights, and trademarks. Though the magnitude of the problem warrants the focus, businesses and policy makers should know that problems pertaining to intellectual property could emerge before infringement happens. The controversial invalidation of Pfizer's Viagra patent by the Patent Reexamination Board (PRB) of China's State Intellectual Property Office (SIPO) is a good example to illustrate this point.¹ Although the PRB's decision was recently revoked by the First Intermediate People's Court in Beijing (FIPC), the final outcome remains uncertain. An appeal is to be heard by the High People's Court in Beijing (HPC).² A further appeal to the Supreme People's Court, China's highest appellant court, while unusual, is still possible.

Regardless of the final result, this case has aroused concern about an otherwise important but little known area of Chinese law—the judicial review of PRB decisions—and its effectiveness in protecting patent rights in China.³ The judicial review of PRB decisions covers those decisions made during *reexamination* (*fushen*) and *invalidation* (*wuxiao*) proceedings. When a party's application for a patent is rejected by China's Patent Office, the party may request that the PRB *reexamine* the Patent Office's decision. When a party believes that a granted patent does not conform to the Patent Law, the party may invoke the *invalidation* proceeding to request that the PRB declare the patent invalid in whole or in part. In practice, this often—but not necessarily—happens when a patent holder brings a civil lawsuit against another party for infringing upon his or her patent rights. The defendant may rebut by claiming that the patent itself was invalid in the first place.⁴

Decisions made during these proceedings are subject to judicial review. In most cases, the FIPC and HPC are the first-instance and second-instance courts. In theory, these cases can be further appealed to the Supreme People's Court. In practice, this rarely happens.⁵ For some cases that courts consider to be “major and complex” (*zhongda yinan*), the HPC and the Supreme People's Court could be the first-instance and second-instance courts, respectively.

A few issues about judicial review of PRB decisions are worth considering. What percentage of all judicially reviewed PRB decisions was reversed by courts? Do courts succumb to the administrative agency's pressure to uphold its decisions, a common problem in China's judicial review system?⁶ What is the impact of legal representation on the “losing rate”? Does this avenue provide aggrieved parties with an inexpensive and efficient means to protect their patent rights? To what extent do non–Mainland Chinese parties such as foreign parties and parties from Hong Kong and Taiwan use this avenue? How likely is it that these parties win these cases? Are there significant trends in the process that U.S. businesses and policy makers can learn to strengthen patent rights protection in China?

Of the 232 second-instance cases analyzed, three cases are related to a judicial review of PRB's *reexamination* decisions. In two of these three cases, the FIPC upheld the PRB's decision to support the Patent Office's rejection of the plaintiffs' patent applications. On appeal, the HPC upheld the FIPC's ruling. The issue of the third case was similar, except that the FIPC revoked the PRB's decision to support the Patent Office's rejection of the plaintiff's patent application. But the HPC reversed this ruling to uphold the PRB's decision.

The remaining 229 appeal cases involve the judicial review of PRB *invalidation* decisions. Any party to the case who is dissatisfied with the FIPC ruling can appeal to the HPC. In 80.3 percent of these 229 cases, the HPC dismissed the appeal to uphold the FIPC's ruling. In only 19.7 percent of these cases did the HPC allow the appeal.

Overall, in 70.3 percent of these 232 appeal cases, the PRB's reexamination and invalidation decisions were upheld after the case had gone through the first-instance and second-instance processes. In the remaining 29.7 percent of these cases, the PRB's decisions were either reversed by the FIPC (and the HPC subsequently supported this ruling) or the HPC (to reverse the FIPC's ruling that upheld the PRB's decision).

Do Courts Succumb to the Patent Reexamination Board's Pressure to Uphold Its Decisions?

In China, government officials and academics often refer to the "losing rate" of defendant agencies in administration litigation (that is, judicial review) to discuss the extent that the law is respected by officials and, by extension, Communist Party members, because most officials are these members.¹¹ The term "losing rate," though not defined, primarily covers the rate at which one of three outcomes occurs: (1) plaintiffs withdraw their administrative cases from the courts after the defendant agencies agree to change the challenged administrative acts; (2) the courts decide to revoke or change the challenged administrative acts; and (3) the courts order defendant agencies to act, that is, implement their legal obligations.¹²

In the judicial review of the PRB's decisions, the first and third of these outcomes are rare. Unlike administrative agencies at the basic level of the Chinese government structure, the PRB, an agency of the central government, rarely "fails to act." It is also rare for the PRB to change its decisions informally so that a party finds it unnecessary to continue the lawsuit and thus withdraws the judicial review case. Therefore, in this type of judicial review, the losing rate mainly covers the second outcome—a reversal of the PRB's decisions, which, as found in the preceding section, is 26 percent.

Is this losing rate low or high? Comparisons with other jurisdictions could be misleading because their legal cultures are very different from China's. Compared with the 35 percent average losing rate of defendant agencies in China as a whole, this is lower.¹³ When the losing rate of a certain defendant agency or of agencies in a certain geographical area is lower than the national average, it is often interpreted in China as a sign of either one of two opposite situations: (1) that the concerned officials show *more* respect for the law than their counterparts in the country as a whole and, therefore, courts are more likely to find their administrative acts lawful; or (2) that the concerned officials, due to various reasons such as their poorer qualifications and training of law, show *less* respect for the law than their counterparts in the country and they, therefore, are more likely to pressure the courts to rule in favor of them.

Which of the two explanations prevails requires deeper understanding of the legal and political environments in which the concerned judicial review is practiced. In the context of the judicial review of administrative acts made by lower-level governments of less developed localities, the second explanation is often found to prevail. This stems from a major problem in China's judicial review system. Local courts, especially basic-level courts, are susceptible to local government's interference to rule in favor of local administrative agencies' decisions. Their susceptibility to such interference is largely due to local government's control over the financial and personnel arrangements of local courts and local officials' inadequate respect for and understanding of the law.¹⁴

By contrast, in more developed cities such as Shanghai, the first explanation—local officials' greater respect for the law—was found to prevail in explaining the overall 20 percent losing rate of Shanghai's defendant agencies. Interviewed experts attributed Shanghai agencies' lower than national average losing rate to the fact that the city's officials and Communist Party members demonstrate greater respect for the law, compared with their counterparts in other parts of the nation.¹⁵ This, in turn, is largely due to their better qualifications and training. As a result, these officials and party members are less likely to interfere with courts and are more likely to make lawful administrative acts that are subsequently upheld by courts.¹⁶

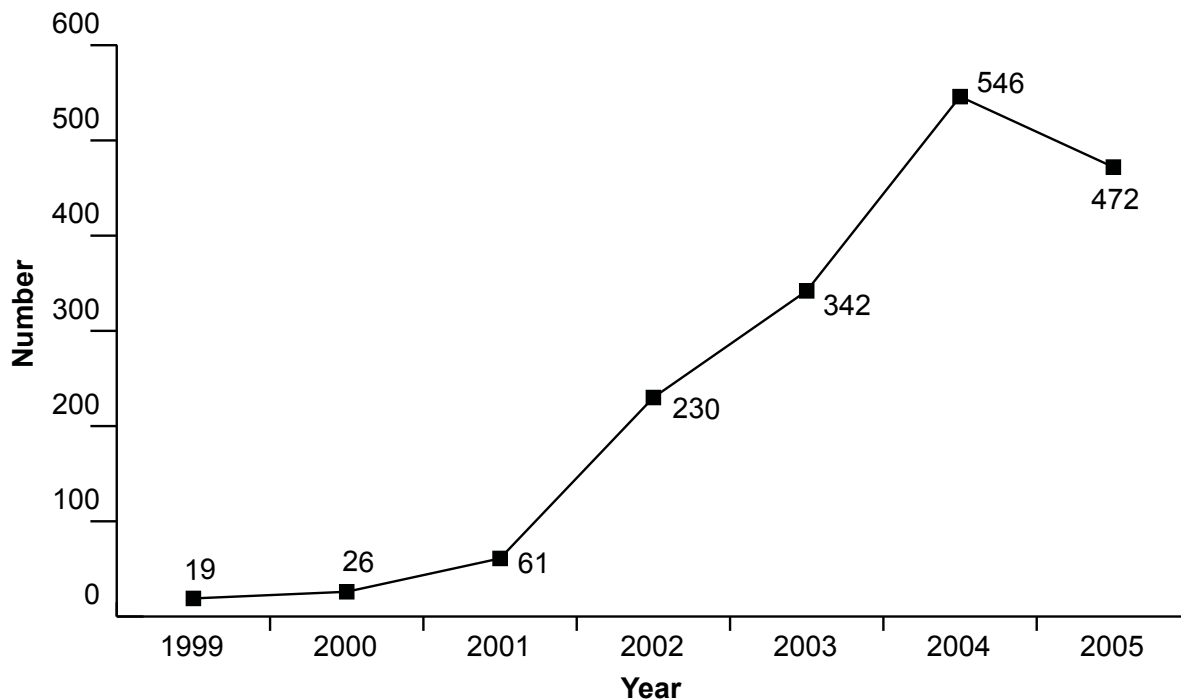
Against this backdrop, the lower than national average losing rate of the PRB should prompt readers to wonder whether the PRB may have pressured the FIPC and the HPC to uphold its decisions. It is generally recognized that officials in the central government, such as those in the PRB, due to their better qualifications and training, show more respect for the law than officials in lower-level governments.¹⁷ Those FIPC and HPC judges who handle intellectual property cases are also generally considered to be of better quality than average judges in the country.¹⁸ These two factors, together with the fact that the PRB is not part of the Beijing municipal government that controls the financial and personnel arrangements of the city's courts, suggest that the FIPC and HPC are less likely to suffer from interference.

Considering the international community's concern about the competency of Chinese judges, more discussion of the topic is necessary. In the past, many Chinese judges were military veterans who never received any legal training. But recent years have seen impressive improvements. China has approximately 300,000 judges and other court employees.¹⁹ Slightly more than 90,000 judges, representing approximately 43 percent of all 210,000-odd judges, have attained at least a bachelor's degree. Only about 4,000 judges (2 percent of all judges) have master's or doctoral degrees.²⁰

In major cities such as Shanghai, the improvement is even more obvious. Approximately 87 percent of all judges in Shanghai have attained at least a bachelor's degree, although not necessarily in the field of law. Of this group, about 8 percent have master's or doctoral degrees.²¹ The better qualifications and higher competency of Shanghai judges are linked to the city's prosperity. With adequate resources, Shanghai can offer attractive employment packages to lure top candidates from all around the country to apply for positions in its courts. The city can also organize intensive training for incumbent judges.

Complete data about the qualifications of judges who handle "judicial review of PRB decisions" cases are not available. But given that they are judges of Beijing, China's capital city, which, like Shanghai, can recruit the best candidates to serve on the bench and that these judges are assigned to handle an important type of cases, these judges are likely to be of better quality than average judges in China. Anecdotal evidence given by lawyers handling this type of case confirms this point of view.

Figure 4. Number of First- and Second-Instance Cases Accepted by the FIPC and HPC



To What Extent Do Non–Mainland Chinese Parties Use This Avenue?

Only 36 (13.6 percent) of the 265 first-instance cases and 17 (7.3 percent) of the 232 appeal cases were brought by non–Mainland Chinese parties. Figures 5 and 6 show the distribution of these cases. (The “other places” referred to in the two figures include Australia, Canada, France, Germany, Ireland, Luxembourg, Sweden, Switzerland, and the British Virgin Islands.)

Figure 5. Number and Percentage of First-Instance Cases Where Plaintiffs Are Not from Mainland China

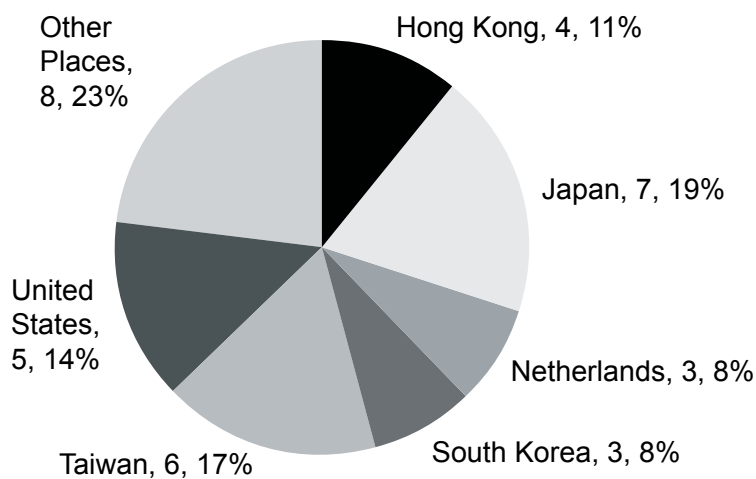


Figure 7. First-Instance Cases: Losing Rate

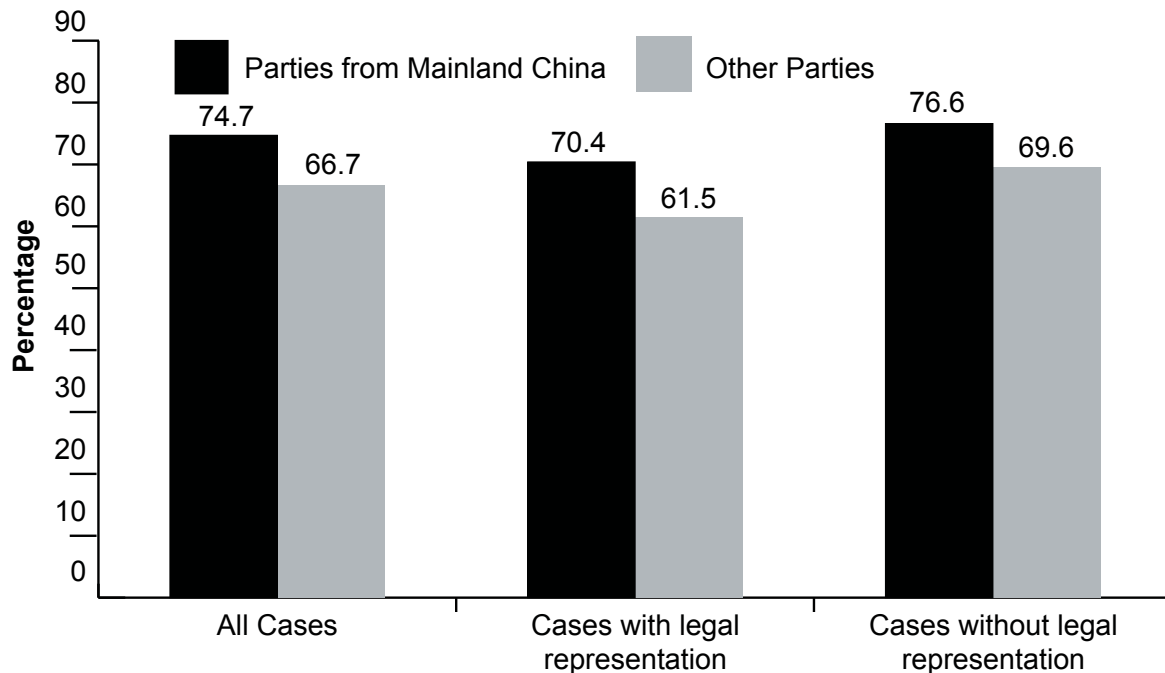


Table 4 and figure 8 summarize similar analysis of second-instance cases. Because only 17 second-instance cases were brought by non–Mainland Chinese parties (3 with legal representation and 14 without), the data generated from such a small sample are unlikely to be representative and must be read with caution. This may explain the lack of a consistent pattern in the comparison of the losing rate of Mainland Chinese parties with that of non–Mainland Chinese parties (figure 8).

Table 4. Second-Instance Cases

Parties	Cases	Cases with Lawyers' Representation	Cases without Lawyers' Representation
Parties from Mainland China	215	62	153
Other Parties	17	3	14

CONCLUDING THOUGHTS

In January 2006, President Hu Jintao vowed to turn China into an “innovative country” by 2020.⁴⁷ In the National Guideline on Medium- and Long-Term Program for Science and Technology Development (2006–2020), China’s State Council pointed out that China sets, among others, this goal: “By 2020, ... the number of patents granted to Chinese nationals and the introduction of their academic essays are expected to rank among the first five in the world.”⁴⁸

To attain this goal, China must improve the patent protection system to protect the thriving domestic business community’s inventions. But at issue is that many local companies are cautious about enhancing technological innovation because, as reported in China’s official sources, they find that the current legal system cannot fully protect their research and development achievements.⁴⁹ A bad consequence is that 99 percent of Chinese companies have never applied for patents.⁵⁰

The steps recommended above are, therefore, not only beneficial to U.S. parties but also consistent with China’s goals. These common interests would make the negotiations over patent rights improvements easier. Whenever China’s commitment to strengthening intellectual property rights is in doubt, the Chinese authorities should be reminded that one important determinant of a country’s economic development and its leading status in the world is its competency to develop advanced technologies.

NOTES

- ¹ See, e.g., Samson Yu and Ying Zhang, “Lessons from the Viagra Case,” *Managing Intellectual Property*, February 1, 2005.
- ² See “12 China Drug Makers Sue Pfizer on Viagra Patent Right,” *SinoCast*, June 21, 2006.
- ³ See, e.g., “China & Hong Kong: Recent Developments in Intellectual Property,” *Mondaq Business Briefing*, March 7, 2006.
- ⁴ For more discussion of invalidation proceedings, see, e.g., Gary Zhang and Hongxia Gu, “Patent Invalidation,” *Managing Intellectual Property*, February 1, 2005; Benjamin Bai and Helen Cheng, “Are Your Chinese Patents at Risk?” *Intellectual Property Today*, January 2005.
- ⁵ For example, *Xu Wenqing v. Patent Re-examination Board* (September 2005) is the first patent invalidation case that was heard by the Supreme People’s Court after it was handled by the First Intermediate People’s Court and the High People’s Court in Beijing. For a detailed discussion of this case, see Zha Zheng, “Patent Invalidity Visited by Supreme People’s Court,” *China Law & Practice*, February 1, 2006.
- ⁶ See, e.g., Mei Ying Gechlik, “Judicial Reform in China: Lessons from Shanghai,” 19 *Columbia Journal of Asian Law* 97 (2005); Veron Mei-Ying Hung, “China’s WTO Commitment on Independent Judicial Review: Impact on Legal and Political Reform,” 52 *American Journal of Comparative Law* 77 (2004).
- ⁷ See Zhang Xuecong, “Intellectual Property Judgments Can Be Searched on the Net,” *Zhongguo Fayuan Wang* (Chinese Court Net), November 1, 2003, available at www.chinacourt.org.
- ⁸ See State Intellectual Property Office, *Annual Report 2004* and *Annual Report 2005*, available at www.sipo.gov.cn.
- ⁹ From 2001 to 2005, the First Intermediate People’s Court and the High People’s Court in Beijing decided a total number of 1,574 first-instance and second-instance cases. See State Intellectual Property Office, *Annual Report, 2001–2005*, available at www.sipo.gov.cn.
- ¹⁰ See Wan Xingya, “Beijing’s ‘Citizens Suing Officials’ Cases Surge, 22 Ministries and Committees of the State Council Have Been Defendants,” *Zhongguo Fayuan Wang*, September 13, 2003, available at www.chinacourt.org.
- ¹¹ See, e.g., “Chinese Chief Justice Notes ‘Remarkable Progress’ in Human Rights,” *BBC Monitoring International Reports*, February 22, 2005; Zhang Guoqiang, “The Number of ‘Citizens Suing Officials’ Cases in Liaoning Is One of the Greatest in the Country,” *Fazhi Ribao* (Legal Daily), April 3, 2004.
- ¹² See Gechlik, “Judicial Reform in China,” *supra* note 6, at 109.
- ¹³ See *ibid.*; *China Law Yearbook*, 1994–2004.
- ¹⁴ See Gechlik, “Judicial Reform in China,” *supra* note 6 and Hung, “China’s WTO Commitment,” *supra* note 6.
- ¹⁵ Interviews in Beijing, Shanghai, Boston, and Washington, March 14–December 12, 2003, and November 1–10, 2004.
- ¹⁶ See Gechlik, “Judicial Reform in China,” *supra* note 6, at 100–114.
- ¹⁷ See, e.g., “China: A Consistent Commitment to the Rule of Intellectual Property and Corporate Law—Part I,” *Metropolitan Corporate Counsel*, June 2006.
- ¹⁸ *Ibid.*
- ¹⁹ See *China Law Yearbook*, 2003, 155.
- ²⁰ See “China’s Supreme People’s Court Announces Stricter Standards for Judges,” *BBC Monitoring International Reports*, October 27, 2003; *Supreme People’s Court Report*, 2003; Guo Hengzhong, “Famous Scholars Become Court Presidents: The Number of Judges with Master’s or Doctoral Degrees Is Close to 4,000,” *Fazhi Ribao*, May 25, 2005; Wang Doudou, “Qualifications of Our Country’s Judges and Prosecutors Have Greatly Improved,” *Fazhi Ribao*, July 18, 2005.
- ²¹ See *Shanghai High Court Report*, 2005. Of 5,200-odd judges and other court employees in Shanghai, 4,268 (81.4 percent) have attained at least the bachelor’s degree level. In fact, 334 of them have master’s degrees and 18 have doctorates. See “Judges Must Have at Least 60 Hours of Training Every Year,” *Shanghai Morning Post*, December 10, 2004.
- ²² See Gechlik, “Judicial Reform in China,” *supra* note 6, 129–132; and Hung, “China’s WTO Commitment,” *supra* note 6, 105–108.
- ²³ See Jiang Zhipei, “Concluding Speech Delivered at the Roundtable Meeting on Patent Adjudication in China,” *Zhongguo Fayuan Wang*, November 19, 2003, available at chinacourt.org.

