

Faux Amis: China-U.S. Patent Administrative Enforcement Comparison

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This paper is intended to address common misconceptions regarding the US patent administrative enforcement system, particularly in comparison to the administrative enforcement reform proposed in China's draft Amendment to the Patent Law².

I. Summary

The most recent public draft of the 4th Amendment to China's Patent Law seeks to expand administrative enforcement of patent rights by authorizing provincial, prefectural, and certain county - level patent administration departments³. Under the proposed Amendment, Chinese administrative patent enforcement authorities may investigate patent infringement and patent passing-off conduct, levy fines against an infringer, and/or issue an administrative order

stopping an infringer from further infringement, which order is enforceable within the jurisdiction of respective patent administrative enforcement agency. This decision is rendered by a local patent enforcement agency in a quasi-judicial proceeding. It is appealable to a court under China's administrative procedure laws, including China's Administrative Penalty Law⁴. The maximum duration of an administrative proceeding is typically limited to one month for passing off, two months for patent infringement disputes involving design patents, and three months for patent infringement disputes involving invention and utility model patents⁵. The recent case involving Apple's iPhone at the Beijing IP Office is an example of this type of enforcement and its potential for business disruption⁶.

One justification given for this expansion in authority is that the administrative enforcement of patents in the United States is said to be on the increase, but this is untrue. In the United States, the only administrative remedy available for patent infringement is through initiation of a patent infringement action at the U.S. International Trade Commission ("USITC") in one city - Washington, DC - under Section 337 of the Tariff Act of 1930, 19 U.S.C. §1337. The USITC may thereafter issue exclusion orders against infringing products enforceable nationwide by U.S. Customs and Border Protection at U.S. ports, as well as cease and desist orders directing the violating parties to cease certain actions. This is a trade related remedy only. Generally speaking, there is no fine issued for prior infringements, an exclusion order will only apply goods to be imported, and a cease and desist orders apply to already imported goods warehoused in the United States⁷. The Section 337 administrative decision is rendered in a quasi-judicial setting by an administrative law judge. Issues involving infringement may be reconsidered *de novo* by a district court. The initial determination of infringement closely follows U.S. Federal Rules of Civil Procedure ("FRCP") used by the courts, and the target date for final adjudication is about 15 months⁸.

The authors believe that the US Section 337 remedy is not comparable, either quantitatively or qualitatively, with Chinese administrative enforcement.

II. Trends-U.S. vs. China administrative enforcement of patents

A patent right is a private right⁹. As such, the U.S. main-

ly relies on civil enforcement of patent rights. There is, however, a rarely used criminal remedy related to false patent claims¹⁰. The vast majority of patent enforcement in the U.S. takes place in the district courts, which are housed in the judicial branch of the U.S. government. In contrast, a majority of Chinese patent rights enforcement is through patent administrative bodies under SIPO's supervision¹¹. These administrative agencies have the authority to impose fines against infringers and order an infringer to stop its infringing conduct.

In this context, Chinese government officials and academics have asserted that "developed countries such as the U.S. have established administrative IPR infringement relief, the trend is to strengthen such administrative protections...especially patent administrative law enforcement, plays an increasingly greater role to supplement the judicial protection of intellectual property"¹², and "U.S. '337' investigation is a frequently used administrative enforcement tool in the United States."¹³

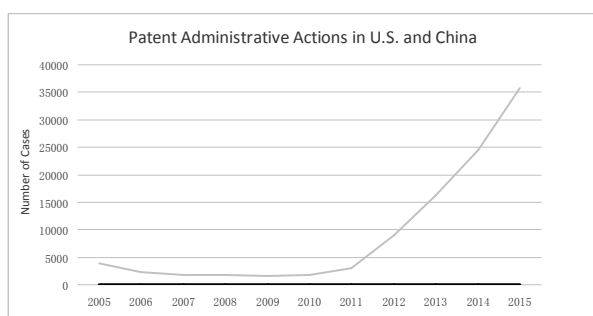
There is, in fact, no factual support for the contention that US Section 337 enforcement is playing "an increasingly greater role" or that it is a "frequently used administrative enforcement tool." On the contrary, US Section 337 actions have hovered around 40 cases a year since 2011's peak of 69 cases, which was largely driven by the particularly bruising patent battle between smartphone technologies that hit the ITC in 2010 and 2011. In 2015, USITC instituted just 36 cases; industry watchers expect the volume of cases in 2016 to return to the 40 cases per year level¹⁴. The number of patent related Section 337 cases is lower still because cases other than patent law are also often heard at the USITC.

By contrast, China's administrative patent enforcement cases have grown from a recent low of 1,541 cases in 2009 to 35,844 cases in 2015¹⁵, a twenty-three fold increase within a 6 year span. The data further shows that China's administrative system is now larger than the Chinese civil docket, the U.S. civil docket, and the U.S. administrative (USITC) docket combined. The trend is that the disparity is increasing.

China's 35,844 administrative patent enforcement actions in 2015 are about a thousand times more than the 36 cases instituted at the USITC during the same year. The difference can also be compared using the number of patents in force: the US had 2.53 million patents in force in 2014 compared to 1.2 million patents in force in China¹⁶.

Taking into account the number of patents in force, China brought approximately 2100 times more administrative cases per patent in force than the United States.

The chart below shows the rapid increase of patent administrative actions in China, particularly since the introduction of the first draft of the 4th amendment to China's patent law that includes expanded enforcement authority for SIPO, and the increased disparity to US patent administrative actions¹⁷.



- patent-related ITC 337 cases, including non-patent cases
- China's administrative patent enforcement actions

III. Agency roles, independence, and expertise

Trends in rights - holder - initiated patent enforcement can often be attributed to specific market competition requirements¹⁸. At the end of the 20th century, China's newly formed IP protection regime benefited from administrative enforcement as China increased the capacity and expertise of its court system and rights holders increased awareness of the importance of IPR protection. Today, China is the most litigious society in the world with 109386 newly filed civil IP cases in 2015, including 11607 patent cases. As China's economic environment matures, structural, procedural, and accountability differences between China and U.S. patent administrative enforcement suggests a need for China to shift focus of patent rights enforcement away from administrative enforcement in order to better encourage market-based growth and development. For the United States, the need for market based mechanisms to protect intellectual property rights has mandated that patent disputes are primarily resolved by an independent judiciary as a civil remedy. Resolution at the USITC is the exception to the rule, available only if exclusion of goods from the ports is sought. In all events in the U.S., even where patent dis-

putes are addressed in the USITC, the resolution of those disputes is completely and strictly independent of the patent rights granting agency.

Neither the U.S. Patent and Trademark Office ("USPTO") nor any of its satellite offices is in any way involved with the filing of a complaint by an IP rights owner alleging violations by one or more respondent. After a complaint is filed, the USITC's Office of Unfair Import Investigation ("OUII") - an independent third-party charged with representing the public interest in Section 337 investigations - reviews the complaint and recommends to the Commission whether to institute an investigation under Section 337. Not only does the USPTO not appear before the USITC, the USITC itself is an independent, quasi-judicial agency in the US government originally established by the Revenue Act of 1916 (39 Stat. 795). USITC's independence is enhanced with its 6 commissioners composed of 3 commissioners from each major party to ensure political independence, and it does not have voting rights in interagency committees that make trade policy¹⁹.

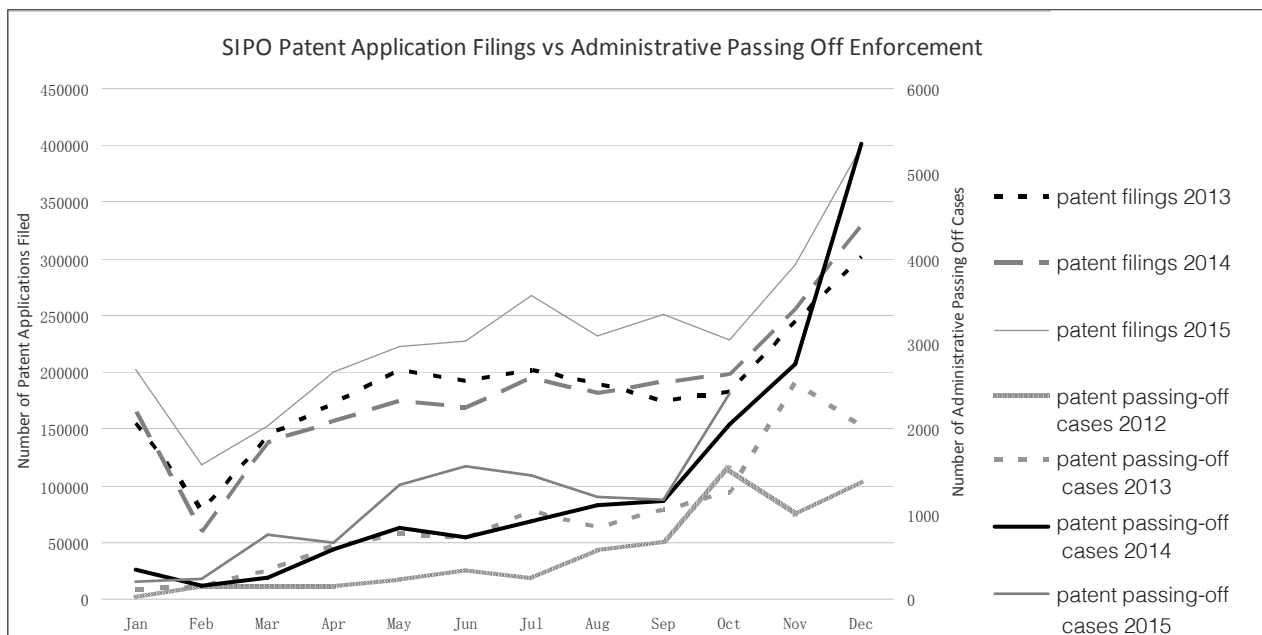
In contrast, the proposed 4th Amendment to China's Patent Law gives authority to the State Intellectual Property Office ("SIPO"), and agencies vertically reporting to it, to enforce patents on its own instance, investigate and produce evidence against alleged infringers, and adjudicate infringement. SIPO also has direct and leading IP policy making authority, including formulating China's national IP strategy. Because of the vertical relationship of local patent offices with SIPO, including various cooperative agreements supporting patent filing, provision of patent early warning systems, setting of patent-related metrics, patent subsidies etc., there is an inherent and severe vertical conflict of interest in such agencies making patent infringement determinations. In addition, local government can often exert horizontal pressure and influence on local patent offices to protect local interests. Such a system calls into question the independence and fairness of enforcement processes and could also call into question examination procedures. This conflict of interest would be unprecedented on a global scale, but worse still if there is any linkage between patent prosecution and patent enforcement, particularly when cases are initiated *ex-officio* by the patent administrative enforcement agency itself. And any outside observer would presume there is such a linkage given the obvious implications of patent enforcement on patent grant, and vice versa.

One indication of SIPO's patent administrative enforce-

ment's responsiveness to political influence, rather than independent enforcement of laws, is shown in the increased enforcement at year end. The graph below compares China's patent filings to SIPO's self-initiated patent passing-off cases. The data shows consistent increases in patent filings beginning in September through end of the year, likely due to the effect of annual patent filing quotas and corresponding subsidies which must be expended by year-end. SIPO's self-initiated patent passing-off cases shows similar artificially induced year end growth trends (see as below).

In contrast with SIPO's administrative enforcement, U.S. Section 337 investigations are conducted in accordance with procedural rules that are similar to the FRCP. These procedural rules, found in 19 C.F.R. §210, are typically supplemented by a set of Ground Rules issued by each ALJ. The procedural rules and Ground Rules provide clear and transparent instructions regarding such matters as the taking of discovery and the handling of motions. US Section 337 actions are also limited to *in rem* jurisdiction, where the court can issue an order affecting only the importation of products, not parties. "In rem" is Latin for "power against the thing". The remedies afforded by the Commissioner under Section 337 *in rem* jurisdiction are limited to the exercise of power over things rather than individuals. In the case of Section 337 cases, the relevant "things" are imported products. The preliminary and final decisions for all instituted cases are also published.

Under SIPO's proposed Patent Administrative Enforcement Rules (2015)²⁰ and Patent Administrative Enforcement Guidelines (2016)²¹, the service of process, evidentiary gathering process, and time periods are all significantly different than China's Civil Procedure Law followed by the courts. In particular, the rules place evidentiary investigation duties not on the litigants, but on the patent enforcement agencies themselves²². SIPO and local patent agencies also have significantly shorter time to complete administrative investigations and determinations compared to China's civil litigation system and U.S. Administrative litigation - 1-3 months from institution to completion depending on the type of action and patent involved²³ versus 6 months under China's civil litigation system²⁴ and 15 or more months at the USITC²⁵. While China's administrative enforcement mechanism can render administrative orders remedies that are similar to civil court injunctions, the administrative agency's scope of jurisdiction is defined by the governmental unit issuing the order; i.e., a provincial IP office only has geographical authority over the province where it sits. Chinese courts, instead, have national jurisdiction. Moreover, the enforcement mechanisms differ substantively from China's civil enforcement mechanism, and are quite different from administrative enforcement mechanisms of the type envisaged by the TRIPS Agreement which are based on civil procedures, not administrative or quasi-penal rules under China's Administrative Penalty Law.²⁶



While the expanded new powers proposed for SIPO are in no way analogous to the authority of the USITC, there actually is an analogy to USITC in China - the General Administration of Customs ("GAC"). Similar to USITC's patent administrative enforcement, China's GAC is also limited to exercising *in rem* jurisdiction over the importation of products, not parties. China's GAC also does not self-adjudicate infringement cases, and instead defers to courts for infringement determinations, which follow China's Civil Procedure Law²⁷. Like USITC, China's GAC is a nationally funded entity less accountable to local protectionism (avoiding horizontal conflict) and not having authority to grant or promote patents (avoiding vertical conflict).

We also observe the U.S. and China do share the commonality of adjudication of patent validity through administrative proceedings. The America Invents Act ("AIA") of 2012 created a Patent Trial and Appeal Board ("PTAB") at the USPTO that conducts Inter Parte Reviews ("IPR"). Similar to SIPO's Post Grant Invalidation Proceeding, IPR involves only a reexamination of patents to ensure issuance of quality patents. However, the newly created PTAB merely serves as a check on USPTO's examination practices and has no authority or jurisdiction to consider infringement or to enforce a patent. Thus, the nature of PTAB's IPR proceeding is different from SIPO's proposed expansion of administrative enforcement authority.

Finally, the USITC relies heavily on expert administrative law judges to make complex findings of law and fact. Each of the six USITC ALJs holds an active law practice license and 10-20 years of legal experience in relevant technical fields.²⁸ USITC ALJs also retain independence from agency disciplinary actions without good cause²⁹ and follow the Model Code of Judicial Conduct for Federal Administrative Law Judges³⁰. In contrast, China currently has around 300 provincial and prefecture-level cities with patent enforcement authorities, not including the counties authorized by Law and Administrative Regulations contemplated by the proposed Amendment. It is unclear what expertise is required to become an administrative patent infringement adjudicator, or the ethical requirements imposed in China. It would also be challenging to identify and recruit such a large number of experienced technically and legally trained experts to make often complex comparisons between a defendant's alleged infringing product or process and the asserted patent claims to determine whether infringement has occurred.

Arguments can be made that less complex patents, such as design patents, might be a more proper subject of patent administrative enforcement than complex invention patents. These arguments also look to the extensive administrative enforcement activities undertaken by other Chinese government agencies, such as the State Administration for Industry and Commerce ("SAIC") for trademarks and the National Copyright Administration ("NCA") for copyrighted works, which both grant or regulate rights and enforce them through the administrative process. Similarly, administrative enforcement of design patents may also be more feasible in the on-line environment, where a visual inspection may be sufficient to confirm a likelihood that infringement exists by reason of the online sale of a product. There still remain several concerns with such an approach. First, such extensive *ex officio* administrative enforcement remains fundamentally at odds with the notion that IP is a private right and arguably, as Madame Tao Kaiyuan, Vice President of the Supreme People's Court, has suggested, administrative IP enforcement is a transitional remedy that has come into increasing conflict with judicial IP protection as China becomes more market-oriented³¹. Second, administrative enforcement of design patents is particularly compromised by the lack of substantive examination in granting the right. In the case of design patents, an evaluation report may be obtained with the assertion of rights. However, such an assertion will necessarily place the examination office in a conflict of interest with the office seeking to enforce the patent, to which it vertically reports. Third, local patent offices may have granted subsidies or other benefits for granting of the design patent³², which further compromises their independence. As we note later, the courts remain best disposed as an independent body capable of providing oversight over the patent office, in determining the infringement and validity of design patents.

Our concerns about SIPO's current patent administrative enforcement practices and proposed expansion are also shared by many prominent Chinese³³.

IV. Conclusion

Faux amis, or false friends, is a linguistic term referring to words in a foreign language bearing resemblance to words in one's own language, but having different meaning. For example, the English word Gung-ho, derived from the Chinese word Gong-He (共和), means enthusiastic or over-

zealous in English, but the word means harmony or republic in Chinese. While both the U.S. and China have “administrative enforcement” of patent rights, the US Section 337 remedy is quantitatively different in scope, and qualitatively different in procedure and structure from Chinese patent administrative enforcement. In this sense the term “administrative enforcement” is a false friend in comparing two different patent enforcement mechanisms.

We observe, as well, that China has already provided a solution to the problem of patent litigation being “too costly, too time consuming and uncertain” without expanding administrative enforcement. China’s courts, especially the newly established IP courts, are best suited to resolve technologically complex patent issues. These courts function independently of China’s patent offices. Moreover, judges are technically skilled and familiar with civil law and private rights. They also employ technical assessors to assist in complex technology matters. In fact, the closer comparison to be made to a US patent enforcement mechanism is between China’s specialized IP courts and the Court of Appeals for the Federal Circuit, which is specialized with well-trained judges, engages technical law clerks to assist adjudication, develops important jurisprudence in patent matters, and enjoys a jurisdictional reach beyond the city in which it is located.

We were pleased to see Madame Tao’s recently published article on “Giving Full Play to the Leading Role of Judicial Protection of IP Rights” in the influential bimonthly *Qiushi Journal*³⁴. Madame Tao highlighted certain key benefits of judicial protection versus administrative protection, including judicial enforcement’s role to guide administrative enforcement in investigation, review of evidence, and determination of infringement. In her view, judicial enforcement has clear rules, is transparent, and can provide guidance for businesses by establishing clear standards for similar disputes. Moreover, civil enforcement comports with notions of private ownership, and the development of markets and creation of a fair competitive environment in China. Madame Tao also calls for specific policy initiatives, including greater civil damages to deter infringement, promotion of specialized national IP courts, and the unification of technical appellate cases. We agree with this approach. In fact, we are pleased that China is promoting and improving the civil judicial enforcement system by providing more resources, enhancing the independence of the judiciary, and providing specialized training for judges on technical patent is-

sues. We look forward to working with China as its IP protection system develops. ■

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¹ The opinions expressed in this article are the authors’ own and may not necessarily reflect the view of the United States Government, Cravath, Swaine & Moore’s clients, or the Rader Group’s clients.

² Proposed 4th Amendment to China’s Patent Law, <http://www.chinalaw.gov.cn/article/cazjgg/>, published 12-2-2015, accessed 12-17-2015.

³ Article 3, “The patent administrative department of local people’s government shall be in charge of patent administration within its own jurisdictions, engaged in patent administration enforcement ... [and] include patent administration departments of provincial governments and prefecture city government, as well as the county-level patent administration department which are authorized by Law and Administrative Regulations.” (Source: <http://www.chinalaw.gov.cn/article/cazjgg/>, published 12-2-2015, accessed 12-17-2015).

⁴ Law of the People’s Republic of China on Administrative Penalty, Article 54, <http://www.china.org.cn/english/government/207306.htm>.

⁵ <http://www.sipo.gov.cn/tz/gz/201501/P020150127601431436601.doc>, published on Jan 27, 2015, accessed on Feb 10, 2016.

⁶ <http://www.bloomberg.com/news/articles/2016-06-17/apple-s-iphones-found-to-have-violated-chinese-rival-s-patent>.

⁷ Section 337 Investigations - Answers to Frequently Asked Questions (2009) (USITC FAQ), Question 20, https://www.usitc.gov/intellectual_property/documents/337_faqs.pdf.

⁸ Id. at Question 18.

⁹ Agreement on Trade-Related Aspects of Intellectual Property Rights Article 28(1), 33 I.L.M. 1125 (1994) [hereinafter TRIPS].

¹⁰ 35 U.S.C. §292.

¹¹ In 2014, 24479 administrative actions vs 9648 civil actions. Data Source: <http://www.sipo.gov.cn/tjxx/jianbao/year2014/h/h1.html> (Administrative), and http://www.wipo.int/wipolex/zh/text.jsp?file_id=371329 (Civil).

¹² XIE Xiaoyong, Strengthen Patent Administrative Enforcement is the Inevitable Choice (Sept 10, 2014), http://www.sipo.gov.cn/ztzl/qtzt/jx-zlxzzf/ztwz/201409/t20140910_1007641.html.

¹³ Economic Daily, On Foreign Administrative Enforcement (July 1, 2014), http://www.cnipr.com/sfsj/zfwq/201407/t20140701_181437.htm.

¹⁴ Jacqueline Bell, ITC Patent Cases Drop As Smartphone Battles Subside (Smartphone Battles), http://service.meltwaternews.com/mnews/redirect.html?docId=6914137&userId=2982733&cId=128894&pId=11&agentId=178656&type=3&etype=USER_CREATED&t=ITC+Patent+Cases+Drop+As+Smartphone+Battles+Subside&cdt=1455109080000&sn=Law360&cc=United+States&surl=&an=Clicked+from+Archive%2C+Newsfeed%2C+or+Newsletter.

¹⁵ Data Source: <http://www.sipo.gov.cn/tjxx/jianbao/year2009/h/h1.html> (2009) and <http://www.sipo.gov.cn/twzb/2015ndzygztsj/> (2015).

¹⁶ Source: http://www.wipo.int/ipstats/en/statistics/country_profile/profile.jsp?code=US and http://www.wipo.int/ipstats/en/statistics/country_profile/profile.jsp?code=CN.

¹⁷ CHEN Fuli, Study on WTO IPR Dispute Between China and the United States, Pg. 16, “from inception to 2008, United States has instituted approximately 19 Section 337 cases a year”.

¹⁸ Jacqueline Bell, ITC Patent Cases Drop as Smartphone Battles Subside, http://www.skgf.com/uploads/1307/doc/ITC_Patent_Cases_Drop_As_Smartphone_Battles_Subside.pdf (Feb 10, 2016).

¹⁹ Executive Branch Agencies on the Trade Policy Staff Committee and the Trade Policy Review Group, <https://ustr.gov/about-us/executive-branch-agencies-trade-policy-staff-committee-and-trade-policy-review-group>.

²⁰ Public Draft of the Patent Administrative Enforcement Rules (Administrative Enforcement Rules) (Jan 27, 2015), http://www.sipo.gov.cn/tz/gz/201501/t20150127_1067672.html.

²¹ The Patent Administrative Enforcement Guidelines (Trial) (Administrative Enforcement Guidelines) (Oct 19, 2015), <http://www.sipo.gov.cn/tz/gz/201602/P020160219329740463107.pdf>.

²² Administrative Enforcement Guidelines at Chapter 2, Section 2 and Chapter 3, Section 1 and 2.

²³ Administrative Enforcement Rules at Article 21.

²⁴ Article 135, Civil Procedure Law of the People’s Republic of China, http://www.wipo.int/wipolex/en/text.jsp?file_id=181423, accessed on Feb 17, 2016.

²⁵ USITC FAQ, Question 18.

²⁶ TRIPS Agt., Art. 49: “to the extent that any civil remedy can be ordered as a result of administrative procedures on the merits of a case, such procedures shall conform to principles equivalent in substance to those set forth in this Section”.

²⁷ In the Slicer Case, SEB, a French corporation, found a Ningbo company was going to export Electric Multi-Slicer (“EMS”) involved in patent infringement and requested Ningbo Customs to detain the alleged infringing products. Ningbo Customs investigated and held in custody the EMS as requested, SEB subsequently sued Ningbo Wantong for patent infringement at Ningbo Intermediate People’s Court, the court sealed up the EMS detained in Ningbo Customs before a settlement was reached that included ceasing production and destroying all involved products. The Judgments No. Zheyongzhichuzi 64-66.

²⁸ Source: http://www.usitc.gov/press_room/bios/alj_photos.htm.

²⁹ 5 U.S.C. § 5372 (2008).

³⁰ Model Code of Judicial Conduct For Federal Administrative Law Judges (1989).

³¹ Madame TAO Kaiyuan, Giving Full Play to the Leading Role of Judicial Protection of IP Rights, 1 QiuShi Magazine 48-50 (2016).

³² SUN Min, Survey of China Patent Subsidy Policies (Beijing, Shanghai, Shenzhen, Suzhou), <https://www.douban.com/note/356158379/>.

³³ Scholars LI Mingde, Intellectual Property Administrative Enforcement and Administrative Procedure (2009), <http://www.ipkey.org/zh/activities/upcoming-activities/download/1946/2739/23>; LI Yuxiang, Reflection on Improvement on Patent Administrative Enforcement (2013), <http://www.fengxiaqingip.com/ipluntan/lwxd-zl/20150201/9992.html>.

³⁴ TAO, supra note 31, at 48-50.