An Analysis and Comments on the First IT Intellectual Property Right Case in China

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Abstract    The Netac Technology Co., Ltd brought suit against Beijing Huaqi Information Digital Technology Co., Ltd for infringing Netac’s patent. This case was the preclude to the intellectual property rights (IPR) war of the internal enterprises. The process of this case was followed with great interest because it would influence the development of the hundreds of Mobile Storage enterprises in China. This paper is based on the brief review of the details of the case, the authors analyze the main legal issues covered by this case from the two aspects of the substantive and the procedural law, and reach the conclusions that the IPR strategy has gradually become the key to the IT enterprises in their intense market competition and that the concerned laws and regulations in China should be rectified and improved accordingly.

Key word    IT enterprises;  patent;  intellectual property rights

In September 2002, The Netac Technology Co., Ltd (called Netac in the following) sued five companies, including Beijing Huaqi Information Digital Technology Co. Ltd. (called Huaqi in the following), a Beijing-based high-tech company, for unauthorized use of its flash memory technology. This sensational IPR case reached a temporary conclusion with the lost of Huaqi in the first trial, but in fact, this dispute about patent has never come to an end. Huaqi appealed soon after the decision of the first trial was delivered. Nowadays this case is on the second trail in the Guangdong Higher People’s Court. People in the same trade thought that this case would affect the development of the hundreds of mobile storage enterprises in China; the final decision of this case would evidently greatly influence the whole Mobile Storage trade in China.

After the first decision, the reactions of the two parties of the suit were totally opposite: G. Frank Deng, the founder and president of the Netac said: “This is a big victory for the Netac on its way of developing and protecting the self-IPR, which reflects the foresight and justice of China in the domain of protecting the IPR!” While Hou Xun, the vice-president of Huaqi claimed: “Respect the law and the IPR is the basic sense of Huaqi and the most other companies of the national Mobile Storage industry. We are full of confidence of the undergoing lawsuit, we believe that the Patent Reexamination Board and the Higher Court for the second trail will finally give us a fair decision.”

Thus, was the decision of the first trail a milestone of the IPR protection in China, the gospel for the Chinese IT enterprises, or would it result a disaster for the whole Mobile Storage industry because the court affirmed the Netac for it taking the rights based on the existing technology and the public standards? By staring from the main disputing issues, this paper analyzes the legal problems in this case. The aim of our analysis is to examine the concerning laws in China and to gain enlightenment from this case.

1 Brief Introduction of the Case

In September 2002, Netac sued five companies in the Shenzhen Intermediate People’s Court, including Beijing Huaqi Information Digital Technology Co. Ltd., for infringing its patent of the flash memory technology. The plaintiff claimed that in 1999, together with Cheng Xiaohua, another Netac founder, G. Frank Deng invented the flash memory U disk, marking the beginning of a new era for computer memory. In November 1999, the Netac filed the application for a patent for the invention, and obtained the patent for flash memory on July, 24th, 2002. The patent number is ZL.99117225.6. However, this patent technology was infringed by the defendant. Soon after the Netac’s suit, Huaqi requested the Patent Reexamination Board to declare that the Netac’s patent right was invalid, while argued that the Netac’s patent of the flash memory U
disk was the “existing technology” in the court.

After the hearing, the court deemed that firstly, the Netac’s patent was not the simple overlapping of the several existing technologies but was inventive. In the decision, it was said that: “the flash memory U disk includes the key technologies such as electronic fast storage management method of the flash disk, strategy of the electricity supply system, combination relationship, physical structure, and dependability, and so on. It is far beyond the simple overlapping of the several existing technologies.” Secondly, the “three in one” argument of Huaqi could not meet the requirements of “existing technology” argument. Thus, on June,1st, 2004, the court decided that: 1) the three defendants of Beijing Huaqi Information Digital Technology Co. Ltd., Shenzhen Fuhui Electronic Co. Ltd., and Shenzhen Xingzhdiao trade Co. Ltd. should stop the infringement of the plaintiff’s patent at once; 2) the two defendants of Beijing Huaqi Information Digital Technology Co. Ltd., Shenzhen Fuhui Electronic Co. Ltd. should compensate the plaintiff 500 thousand Yuan for damages jointly within 15 days after this decision came into effect; 3) the other requirements of the plaintiff were rejected[1].

From the first trail judgment, the defendant appealed to the Guangdong High People’s Court. Nowadays this case is on the second trail.

2 The Main Legal Issues of This Case

This is a typical case of patent infringement. The defendant adopted the common arguments in this kind of case, that is, the defendant argued the plaintiff’s patent sued in the case was invalid. However, as we have seen, the first trail decision of the case was not what the defendant had expected. The arguments of the defendant were not accepted by the court either, so, the author wants to analyze the main legal issues covered by this case from the two aspects of the substantive and the procedural law.

2.1 The Patent Technology or the Existing Technology

The Netac, the plaintiff, claimed that the invention patent NO.99117225.6 was applied in November 1999, and was granted the patent right on July, 24th, 2002, the patent was legal and valid. The Netac invented the first flash memory disk in the world (the Netac called it “U disk”, “U disk” is the registered trademark of the Netac), and obtained the global basic patent for flash memory, that is the patent of “the electronic fast storage method and device for data process system” The Netac also claimed that this patent filled in the blank of Chinese computer patent for 20 years. Huaqi, the defendant, however, insisted that the so called patent of Netac was merely the simple replanting and overlapping of the existing technologies such as the USB, the flash memory, etc., and should not be patent at all, so the patent of the Netac was invalid. In fact, in the view of the defendant, the invention patent NO.99117225.6 was a typical technology formed by the simple combination of the existing technologies, the contents of it’s claim could all be cited from two papers, while the two papers (i.e. the manuals of USB system and flash memory) had been published early in 1997 in China[2]. Huaqi submitted the corresponding evidence to the court.

It could be seen that Huaqi had chosen the existing technology as its defending argument. Although this is quite a common method used by the defendants in the patent infringement cases, our courts have great differences about the application principles and ranges in the trail practice, which was an important reason for the lost of Huaqi in the first trial. Article 30 of the “Implementing Regulations of the Patent Law” gives the definition of the “existing technology” clearly, it provides that: “The existing technology mentioned in article 22, paragraph three, of the Patent Law means any technology which has been publicly disclosed in publications in the country or abroad, or has been publicly used or made known to the public by any other means in the country, before the date of filing (or the priority date where priority is claimed), that is prior art.” Besides this, there is no further provision. All the concerning laws and regulations have no definite provisions for the legal requirements for the defendant when he chooses the existing technology to defend his case.

After the comparison and analysis of the similar cases, the authors consider that once the defendant’s counterclaims are made on the basis of the prior art, the judge will face the comparisons of three pairs of relationships: the first pair of relationship is the comparison between the patent technology with the existing technology; the second pair of relationship is the comparison between the infringing technology sued with the patent technology; the third pair of relationship is the comparison between the infringing technology sued with the existing technology. As for the first group of relationship, if the defendant claims that the patent technology of the plaintiff belongs to
the existing technology, he must prove: firstly, the technology of the plaintiff is identical with or equivalent to the prior art while it is not the re-combination of several existing technologies, i.e. if the technology of the plaintiff is a combination of several existing technologies, it will belong to the prior art only when it is the obvious and simple combination of the prior art. Secondly, the documents of the prior art submitted by the defendant should not be only part of the plaintiff’s patent technology or only general description of the plaintiff’s patent technology. If the plaintiff only learns from or refers to the existing technologic documents, however, to get the technology identical with or equivalent to the plaintiff’s, it still needs repeated experiments and research, the patent of the plaintiff is evidently valid.

In fact, as some scholars think, that in China the principle of authority separation is pursued. So the Chinese court should presume that a patent is valid without flaws, i.e., the court has no authority to challenge the validity of a patent. The comparison between the patent technology and the existing technology was the special authority of the Patent Reexamination Board. The court cannot intervene in this comparison, or it would exceed its authority\[3\]. Thus, in this kind of case, the judge can only compare the last two pairs of relationships. Among those, the second pair of relationship deals with the application range of the prior art counterclaim\[4\], i.e., the counterclaim based on the prior art only applies to equivalent patent infringement or it also applies to the identical patent infringement, which is not the emphasis point in this paper. What the authors want to discuss in this paper is the third pair of relationship, i.e., in a specific patent infringement case, how to compare the infringing technology sued with the existing technology.

As has been mentioned above, there is no corresponding law in effect, but we can refer to the “Opinions of the Beijing Higher Peoples Court on Several Issues Relating to Patent Infringement Establishment (for Trail Implementation)” (October, 2001). The Beijing Higher Peoples Court accepted the most patent infringement cases every year. Article 101 of the Opinion provides: “When the counterclaim is made on the basis of the prior art, the prior art should be an independent technical feature available before the date of application for the patent, or people ordinarily skilled in the art hold that the it is a technical feature obtained through obvious and simple combination of the prior art.” But the question is what is the “obvious and simple combination”? It should be interpreted by the “people ordinarily skilled in the art”. As we can infer, although there is some concerning provisions, the judge in the case still has a lot of discretion.

Concentrate on this case, the first trial decision said: “the counterclaim of Huaqi based on the prior art existed in three independent technical documents, and it did not meet the requirements of the prior art counterclaim.” The authors deem that the judge of the first trial had only compared the first pair of relationship to draw the conclusion, which was a little arbitrary compared with the “Opinions of the Beijing Higher Peoples Court on Several Issues Relating to Patent Infringement Establishment (for Trail Implementation)”.  

### 2.2 Suspend the Trial or Make Judgment within the Time Limit

The common problem we met in lawsuit about infringement act of patent is that the defendant applies to the Patent Reexamination Board for announcing the invalidity of the plaintiff’s patent. Then, another problem concerning procedural law jumps out: When the request of defendant is accepted and heard by the Patent Reexamination Board, should the court suspend the trail until the decision of the Patent Reexamination Board is made or make judgment within the time limit without taking the reexamination of the Patent Reexamination Board into consideration? The problem appears in this case, too. On September, 25th, 2002, the Patent Reexamination Board accepted Huaqi’s request but they did not make any decision even after stalling for a long time because of “complicated situations”. However, the Shenzhen Intermediate People’s Court did not stop the trial, instead, the judge made judgment in June, 2004, before the reexamination decision. With no doubt, according to the article 136 of the Civil Procedure Law of China, the Patent Reexamination Board accepting the Huaqi’s request is not a legal condition to suspend the lawsuit. Meanwhile, the article 11 of the “Several Provisions of the Supreme People’s Court on Issues Relating to Application of Law to Adjudication of Cases of Patent Disputes” which was issued and put into effect in 2001 regulates: “where the defendant files a request for invalidation of the patent right in question in a case received by the people’s court of dispute arising from infringement of patent right for design or one from infringement of patent right for utility model or design...
in which the Patent Reexamination Board uphold, upon examination, the patent right, the people’s court may not suspend the legal proceedings.” Therefore, the decision by the Shenzhen Intermediate People’s Court was lawful.

However, such being the case, how should the court handle to guarantee maximally the legal rights of both concerned parties and be in conformity with the principle which requires the court to hear civil cases in time, confirm the relationship of civil rights and responsibilities, punish illegal civil practices and protect the legal rights of the concerned party? The moment, the court, frequently, feels difficult to advance or retreat. Article 46 of Patent Law only provides: “the Patent Reexamination Board shall examine the request for invalidation of the patent right promptly, make a decision on it and notify the person who made the request and the patentee.” which states no clear time limit; hardly can the court fix the date of resuming the trial. Maybe it will not exceed the time limit of the first trail, or it will not be within the foreseeable future. In line with the principle of the TRIPs, parties to a proceeding shall have an opportunity for review by a judicial authority of final administrative decisions. Accordingly, the Patent Law of China provides that the decision of the reexamination is not a final one but subjected to the judicial review. The concerned party can take an administrative litigation against the reexamination decision if he is not satisfied and it will be another long-drawn-out lawsuit. Here and now, if the court chooses to suspend the trail, the plaintiff would complain that his legal rights can not be effectively protected because the so-called act of tort may still continue. On the other hand, if the trial continues and the court makes their own decision ,then what if the decision is different from the one made later by the Patent Reexamination Board? So, the decision of the first trial is likely to be reversed by the second trail. Theoretically, as it should be, if the result of the reexamination hasn’t come out before the second trail, can the reexamination decision (which will be made in the ultimate) be the basis for the concerned party to lodge a re-trail? Obviously, both deeds have its disadvantage.

In this case, the Shenzhen Intermediate People’s Court adopted the second choice. What we find out now is that, apart from Huaqi, all other enterprises in China fell in counterclaiming Netac. It is said that nearly 20 national enterprises, like Lenovo, Digital China, Huaqi, Tsngtongfang, together entrusted Special Committee of Mobile Memory of China of the Electronic Chamber of Commerce to enter a complaint on invalidity of Netac’s patent to the Patent Reexamination Board of National IPR Bureau.

3 Enlightenment

3.1 IPR Strategy is Becoming a Key Factor in Market Competition of IT Enterprises

No matter how Netac’s No.99117225.6 patent is evaluated by line of business or whatever the results will be, Netac, doubtlessly, has already gained success in this period. From the beginning of this suit to the litigations against Sony and PNY, Netac has acquired great profit brought by patent right both at home and abroad. It is all attributed to Netac’s successful IPR strategy. Lu Pan ,the chief inspector of the legal affairs of the Netac Technology , summarized Netac’s IPR strategy into the following five points: For the first, IPR strategy was clearly orientated and IPR principles were carried out concretely; For the second, an effective trademark system was set up; For the third, the patent and standard were combined together to consolidate the company’s standing in the market; For the forth, group construction were strengthened and a perfect IPR management system were establish; For the last, IPR market protection was strengthened in order to crack down on those who maliciously infringed the company’s self-IPR.

The authors think that in spite of the succession of argument on whether or not the related patent system, or even the whole IPR system, is reasonable, the argument itself appears not that practically meaningful. As for enterprises, especially IT business, the pressing matter of the moment is accepting and utilizing IPR system, meanwhile formulating a proper IPR development strategy so as to be superior in the competition. The same as this suit, we may call in question whether the Netac’s patent is an existing technology or it’s only a “circle-land” patent. But Netac’s ideas of taking patent as the key strategy, combining the creation and the market developing together to form its own IPR system, and promoting the development of IPR strategy successfully are worth studying and borrowing by every domestic IT enterprise.

3.2 Related Laws in China Should Be Properly Revised and Perfected

Analysis on the two legal matters above may appear independent but they are in fact linked with
each other. They are the same matter reflecting differently on the substantive law and the procedural law, while the cause of the arising matter lies in the incompleteness of our related laws. As for this suit, the authors think that the defendant Huaqi actually put forward two different arguments: firstly, existing technology; secondly, the invalidity of the plaintiff’s the patent. They are two independent arguments and can not be lumped together. We have already had discussion over the first argument so the authors don’t say more than is needed. According to our laws and regulations, the second argument belongs to the authority of administrative investigation and Huaqi should submit its patent invalidity application to the Patent Reexamination Board because the court has no authority to judge on this matter. Only in accordance with the judgment of the Patent Reexamination Board can the court decide whether the second argument of the defendant is acceptable or not. Therefore, it is irrational for the court to keep hearing to judge before reexamination, which means the judge declares before he is able to make sure whether the argument holds water or not. Then the problem occurs again that why the court urge to decide or is it because of time limit on judgment? Yet, we could find out that it is possible to solve this problem if the deadline of reexamination is clearly stipulated in the Patent Law.

To summarize, our point of view can be concluded as the following: Related laws in China should be properly revised and perfected, namely, when the request that the party applies for invalidity of patent is immediately accepted, it should become the legal reason for the court to suspend the trial. Decision of the patent reexamination should be made within legal time.

4 Conclusions

Today, the patent, even the whole IPR system is quite a key method to win by creation for enterprises. This is mostly important for IT and other emerging technology enterprises. The case between Netac and Huaqi is just a beginning of the arriving or, more exactly, the arrived war of IPR enterprises. To the strategy viewpoint, enterprises should fully recognize the importance of IPR if they intend to be the first place in the competition. A set of IPR strategies which suits the market development must be made to win the profit brought by creation, and enterprises should be calm when IPR controversy occurs. In such a war with no smoke of gunpowder, the law of IPR in a country is doubtlessly taking decisive effect. Through analysis on this suit, we have already found out that related laws in China are far from perfect. The authors also believe that the laws of IPR in China should be appropriately adjusted and revised. To the maximum, we should try to balance the profit between IPR holder and social public. We pay close attention to the final result of this suit and expect our related laws to be adjusted and perfected day by day.

References


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