



What you need to know about China's new Regulations on interim injunctions in IP cases

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I. What has happened?

China's Supreme People's Court ("SPC") recently passed its new "*Regulations on Certain Issues on the Application of Law for Conduct Preservation in Trials of Intellectual Property Disputes*" ("最高人民法院关于审查知识产权纠纷行为保全案件适用法律若干问题的规定", "Regulations"). The Regulations came into effect on 1 January 2019.

The Regulations apply to applications for interim injunctions (which includes both preliminary and interlocutory injunctions, in Chinese "诉前禁令" and "诉中禁令") in intellectual property cases¹.

Interim injunctions are court orders that are in principle temporary, and that are meant to provisionally deal with an urgent unlawful situation (such as an infringement), to restore justice while the case on the merits is being heard. In IP cases, the benefits of interim injunctions are most obvious in patent, trade secret and online infringement cases, where a brief infringement, or even a mere disclosure is likely to cause irreparable harm.

The Regulations further clarify the existing procedure and standards, and provide typical cases illustrating them. The Regulations contain two major changes:

- interim injunctions can be applied for before or during parallel arbitration procedures; and
- A new concept of wrongful application for preliminary application is adopted and clarified, including a range of circumstances illustrating when an application may be wrongful.

II. What does it mean?

The highlights of the Regulations are:

1) A Licensee's standing to apply for an interim injunction clarified.

A distinction is drawn between licensees depending on the nature of the license agreement. Licensees granted an exclusive license can independently apply for an interim injunction. Those that are granted a sole license (i.e. a license under which the licensed IP rights can be used by both the licensee and the licensor concurrently) can also apply for an interim injunction, provided that the licensor does not apply. Finally, a non-exclusive licensee can only apply if it is expressly authorized to do so by the licensor.

2) Territorial jurisdiction

- For preliminary injunctions, i.e. before the start of a court or arbitration case on merits, an applicant should apply to the competent court at the place where the defendant is located.
- For interlocutory injunctions, i.e. after a court or arbitration case on merits has commenced, the court hearing the merits will have jurisdiction over an application for interlocutory injunctions.

In practice, it is important to file, and to time the filing of applications for interim injunctions strategically, e.g. so that a court with a proven track record in issuing interim injunctions can handle the case, to increase the likelihood of obtaining an injunction.

3) Injunctions during arbitration procedures [New]

The Regulations clarify that, in principle, litigants have the right to apply for interim injunctions with the Chinese courts, regardless of whether an arbitration agreement was signed.

This indirectly suggests that the Chinese courts may accept to issue an interim injunction while a dispute is being arbitrated, or before the arbitration is initiated, even if the specific rules

¹ The Regulations also apply to antitrust cases, but the scope of this article is limited to IP cases.

of the arbitration institute provide for their own arbitration interim relief, or if the arbitration agreement or clause remains silent on the possibility of simultaneous arbitration proceedings and interim relief procedures with the courts.

However, the Regulations are brief on this point, and arguably, a lot will depend on the specific facts of each case, as the courts retain discretion over whether they shall accept such cases or not.

4) Prior hearing

The Regulations codify the pre-existing practice of the Chinese courts regarding prior hearings: in principle, the court must hold a hearing, to which both parties are summoned, before it grants an interim injunction.

However, importantly, exceptions are made for very urgent cases, or cases where a prior hearing with both parties present could adversely impact on the implementation of the interim injunction (e.g. trade secret divulgation cases etc., where the 'surprise element' is crucial). This is the first time that the SPC formalizes this aspect, even though it is already very common in practice, to safeguard the rights of defence, as interim injunctions can be very disruptive.

5) The urgency requirement

The Regulations list the following situations as urgent, i.e., where the absence of an immediate interim injunction will significantly impact on the interests of the IP owner:

- A trade secret of the applicant is about to be illegally disclosed (*typical case: Eli Lilly v Huang*);
- The applicant's personality rights, such as the right to publication, or the right to privacy is facing imminent infringement (*typical case: Yang Jiang v Zhong Mao Sheng Jia Company*, in which the wife of a the deceased author applied for an interim injunction

enjoining the defendant from auctioning the writer's hand-written letters);

- The disputed IP rights are about to be disposed of illegally;
- Infringement or threat of infringement in time-sensitive environments, such as at trade fairs etc.;
- Infringement or threat of infringement of time-sensitive popular TV programs or movies (*typical case: Shanghai Ying Mai Culture Dissemination Co., Ltd. v Ti Yu (Beijing) Culture Media Corporation*, in which the claimant applied for an interim injunction to enjoin the defendant from publishing photographs of the Chinese Football Association Super League online);
- Other situations in which an immediate interim injunction is required.

This list is non-limitative, and the courts are free to accept any circumstance compelling an applicant to apply for an immediate interim injunction as fulfilling the urgency requirement.

However, it is essential for the applicant to apply for interim injunctions as early as possible, given that the requirement is interpreted strictly. Any unnecessary or unjustified delay by the applicant in applying for an injunction can be a cause for a court to reject an interim injunction. Moreover, in cases where the applicant is (partially) responsible for the urgent situation, e.g. by neglecting a duty of care, the court may reject the application for an interim injunction for lack of urgency.

6) Balance of interests of applicant and defendant

Under the Regulations, courts must consider the following factors when balancing the parties' interests in granting or rejecting an interim injunction:

- The factual and legal basis of the application, including whether the validity of the applicant's underlying IP rights are stable. Particularly, the following factors should be used to assess the validity of the IP rights:
 - The type of IP rights;
 - Whether the IP rights have undergone substantial examination before grant;
 - Whether the IP rights are challenged (e.g. invalidations pending) and the likelihood of invalidity of the IP right;
 - Dispute over the ownership of the IP rights;
 - Other factors that make the validity of the IP rights unstable;
- Whether the absence of an interim injunction will cause irreparable harm to the legitimate interests and rights of the applicant, or impede the implementation of a court decision in the underlying IP litigation;
- Whether the harm to the applicant due to the absence of an interim injunction is more significant than the harm to the defendant arising from the interim injunction;
- Whether the implementation of the interim injunction will cause damage to the public interests, etc.

7) Special requirement for utility models and design patents

Given that utility model and design patents are patents granted without substantive examination (i.e. "rubber stamp patents"), the Regulations require that in a dispute involving utility models or design patents, the applicant must submit either (i) a search report or patent appraisal report issued by the National

Intellectual Property Administration or (ii) a decision from the Patent Review Board upholding the validity of the disputed patent. If the applicant fails to submit said report or decision without reasonable grounds, the court must reject the application for the interim injunction.

8) The requirement of irreparable harm

According to the Regulations, the requirement of irreparable harm shall be met in the following circumstances:

- The defendant's conduct infringes on the personality rights of the applicant, such as the right of goodwill, the right to publication or the right to privacy, etc. and cause irreparable harm;
- The defending party's conduct will cause 'uncontrollable infringements' and is liable to significantly increase the damage to the applicant;
- The defendant's conduct will result in a significant decrease of the applicant's market share in the relevant market

This list is not exhaustive, and any other irreparable harm to the applicant may be taken into account by the courts.

9) The bond

The applicant must post a bond that is equal to the damages that the defendant could suffer due to the implementation of the interim injunction, including the sales proceeds of the involved products and the expenses for storage of the products, or other reasonable expenses. This means that bonds may be set at significant amounts.

The applicant can provide different types of assets to qualify as a bond, such as cash, real estate and guarantee letters from insurance

companies or from approved qualified guarantee companies.

It is often much more practical and commercially viable for applicants to provide a non-cash bond (e.g. insurance guarantee letters). While the courts used to be reluctant to accept non-cash bonds in the past, recently, in our experience, some courts have become more willing to accept these types of bonds (which again highlights the importance of strategical venue selection).

Furthermore, if the losses suffered by the defendant turn out to be higher than the bond paid by the applicant, the court may order the applicant to post an increased bond, or limit the injunction.

Unless the claimant agrees, the provision of a counter-bond by the defendant for damages caused by its infringements does not cause the interim injunction to be lifted.

It is difficult to anticipate the specific amount of the bond to be requested by the court. In practice, the court may simply refer to the amount of damages claimed by the plaintiff. While this is not an unreasonable approach in most cases (as the damage claim usually might be close to the illegal gains of the defendant or the loss of the plaintiff), the court has a great amount of discretion on this issue.

10) Term of the interim injunction

The court must set a reasonable term for its interim injunction, based on the application of the applicant and the specific circumstances of the case. Most often, the interim injunction shall remain in effect until the judgment on the merits is issued.

11) Review of the decision on the interim injunction

If any party is dissatisfied with the court decision on the interim injunction, it can file an

application for review with the same court handling the interim injunction procedure within 5 days from the date of receipt of the court decision. The court will then reconsider its judgment and issue its decision within 10 days after receiving the application for review.

12) Wrongful application for interim injunction [New]

One of the main novelties of the Regulations is the introduction and clarification of the concept "wrongful application for an interim injunction". The following circumstances may lead to a finding of a wrongful application for an interim injunction:

- The applicant fails to file a civil lawsuit (or arbitration) on the merits within 30 days after the implementation of the interim injunction;
- The injunction is deemed wrongful from the beginning if the involved IP rights turn out to be invalid;
- The court finds that the defendant's conduct doesn't constitute infringement or unfair competition; or
- Other wrongful applications (i.e. a 'catch-all' clause).

If a wrongful application was filed, the defendant can file a lawsuit to claim compensation. As to jurisdiction over such compensation lawsuits, if the applicant did file a case on the merits, then it will be the court handling the case on the merits that will also hear the compensation lawsuit. However, if the applicant did not file a lawsuit on the merits, then the competent court will be the court that granted the interim injunction.

Such compensation lawsuits have been extremely rare in practice before these new Regulations, likely because interim injunctions were almost exclusively granted in clear-cut cases. The formalization of this concept of wrongful applications is probably inserted as an

element that might encourage the courts to take a less restrictive approach in the assessment of these applications, by unequivocally shifting the liability for wrongful applications to the applicant.

III. What happens now?

Historically, China has had a comparatively low amount of interim injunctions in IP cases, especially when compared to the numbers of similar cases in the US or EU.

These low numbers are perceived to be partially due to the fact that China's courts have taken a conservative and sometimes even over-cautious approach, by interpreting the requirements for such injunctions very strictly. However, since the establishments of the specialised IP Courts and Tribunals, the Chinese courts are perceived to be increasingly willing to issue such injunctions.

It is hoped that these new Regulations, along with the related typical cases issued by China's highest courts will help to convince the courts to take a more liberal stance on interim injunctions.

Nevertheless, certain elements in the procedure, such as the high amounts of bonds required from applicants, the liability for the applicant in case of invalidity of the underlying IP right and the newly introduced concept of wrongful applications for interim injunctions mean that these applications do entail considerable risks and liability for the applicants.

These procedures are therefore mainly advisable in the framework of a carefully crafted IP litigation strategy. We at Hogan Lovells have deep experience in obtaining and enforcing interim injunctions in China, having obtained, for example, the very first interim injunction ever to be issued by the Guangzhou IP Court.

IV. Next steps

We will keep a close eye on the implementation of the Regulations and the development of the legislation and keep you updated.

Should you have any questions, please do not hesitate to get in touch with our contacts below.

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