SPC Guiding Case No. 217: Cixi Bo [X] Plastic Products Co., Ltd. v. Yongkang Lian [X] Industry & Trade Co., Ltd., Zhejiang Tian [X] Network Co., Ltd., et al. (Utility Model Patent Infringement Dispute)

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Unofficial English translation prepared for reference only. The official Chinese text prevails.

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Keywords

Civil litigation / infringement of a utility model patent right / reverse conduct preservation / amount of security / fixed security deposit / dynamic security deposit

Holding

1. In an intellectual property infringement dispute involving an e-commerce platform, where the alleged infringer applies to the people's court for conduct preservation and requests an order that the e-commerce platform operator restore the link or service, the people's court shall examine the application.

2. Where, after measures such as disconnecting a link or suspending a service have been taken against the alleged infringer on suspicion of patent infringement, and during the period in which the patent right in issue has been declared invalid but the relevant administrative litigation on patent confirmation has not yet concluded, the alleged infringer applies for conduct preservation measures to restore the link or service, and it makes a preliminary showing or provides a reasonable explanation that failure to restore will cause it irreparable harm such as serious loss of its market competitive advantage and business opportunities, and that the possible harm to the right holder from taking the conduct preservation measure of restoring the link or service will not exceed the harm to the alleged infringer from not taking such a measure, and that the public interest will not be harmed, the people's court may grant the application by ruling.

3. When the people's court takes the above conduct preservation measure, it may order the alleged infringer not to withdraw, before the judgment in this case takes effect, a certain amount of funds from its collection account for sales of the alleged infringing products through the e-commerce platform as security. The amount of security to be provided shall be reasonably determined by comprehensively considering the amount of the right holder's compensation claim, the losses that may be caused to the right holder if the preservation measure is erroneous, and the interests obtainable by the alleged infringer after the preservation measure is taken. The security deposit may take the form of a fixed security deposit plus a dynamic security deposit.

Basic Facts

Cixi Bo [X] Plastic Products Co., Ltd. ("Bo [X] Company") was the patentee of the utility model patent for a "flat mop cleaning tool with a new bucket structure" ("the Patent in Issue") and the utility model patent for a "mop bucket used for squeezing and washing flat mops" ("the 180.2 Patent"). Bo [X] Company considered that the mop artifacts sold by Yongkang Lian [X] Industry and Trade Co., Ltd. ("Lian [X] Company") on the "Tian [X] Network" operated by Zhejiang Tian [X] Network Co., Ltd. ("Tian [X] Company") constituted infringement of the above two patent rights, and therefore brought two lawsuits, including this case and the separate case numbered (2019) Zhe 02 Zhi Min Chu No. 368 ("Case No. 368"), before the Ningbo Intermediate People's Court of Zhejiang Province ("the Ningbo Intermediate Court"). Pursuant to Bo [X] Company's property preservation application, the Ningbo Intermediate Court froze Lian [X] Company's

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Alipay account balance of RMB 3.16 million in each of the two cases. Because Bo [X] Company filed a complaint with Tian [X] Company, Lian [X] Company appealed to Tian [X] Company and issued an Intellectual Property Security Deposit Commitment Letter, agreeing to deposit RMB 1 million as security into its Alipay account, and agreeing that Alipay and Tian [X] Company freeze all sales revenue of its online store from 22:00 on November 10, 2019.

The Ningbo Intermediate Court found at first instance that the infringement in this case was established, and ordered Lian [X] Company and others to cease the infringement and jointly and severally compensate for losses, and Tian [X] Company to immediately delete and disconnect the sales link for the alleged infringing products. On the same day, Bo [X] Company again filed a complaint with Tian [X] Company concerning the alleged infringing products. Subsequently, Tian [X] Company deleted the sales link for the alleged infringing products on the "Tian [X] Network."

Lian [X] Company and others appealed to the Supreme People's Court. During the second instance, the patent right in issue was declared entirely invalid by the National Intellectual Property Administration, and Bo [X] Company indicated that it would file an administrative lawsuit in this regard. On November 5, 2020, Lian [X] Company filed a reverse conduct preservation application with the Supreme People's Court, requesting the court to order Tian [X] Company to immediately restore the applicant's product sales link on the "Tian [X] Network." It also claimed that the alleged infringing products were its "best-selling products," that the "Double Eleven" shopping festival was approaching, and that failure to restore the link would cause it irreparable losses. As of the date the conduct preservation application was filed, Case No. 368 was still under first-instance trial, and the 180.2 Patent involved therein was still valid; Lian [X] Company's Alipay account balance had been frozen in a total amount of RMB 15.6 million, of which RMB 8.28 million was all the sales revenue of its online store from 22:00 on November 10, 2019, which Lian [X] Company had agreed to freeze.

Judgment

On November 6, 2020, the Supreme People's Court rendered Civil Ruling (2020) Zui Gao Fa Zhi Min Zhong No. 993: (1) Tian [X] Company shall immediately restore the sales link for the alleged infringing products of Lian [X] Company on the "Tian [X] Network" shopping platform; (2) Lian [X] Company's Alipay account balance of RMB 6.32 million shall be frozen, until the date on which the judgment in this case takes effect; and (3) from the date of restoration of the sales link for the alleged infringing products until the date on which the judgment in this case takes effect, if 50% of the total sales amount of the alleged infringing products after the link restoration exceeds RMB 6.32 million, 50% of the sales amount in excess shall be retained in Lian [X] Company's Alipay account and may not be withdrawn.

Reasoning

The Supreme People's Court held:

I. On whether Lian [X] Company, as the alleged infringer, had standing to file the conduct preservation application

An e-commerce platform operator, upon receiving a notice from an intellectual property right holder containing preliminary evidence of infringement, has the statutory obligation to take necessary measures such as deletion, blocking, disconnecting links, and terminating transactions and services. As for under what circumstances an e-commerce platform operator may, upon application by an operator on the platform, take measures such as restoring links, China's law has no relevant provisions. The applicant of conduct preservation measures under Article 100 of the Civil Procedure Law is not limited to the plaintiff. In intellectual property infringement disputes involving e-commerce platforms, allowing an alleged infringing operator on the platform to apply for conduct preservation, and to require the e-commerce platform operator to take conduct preservation measures such as restoring links, when the conditions of Article 100 of the Civil Procedure Law are met, is of great significance for reasonably balancing the legitimate interests of the intellectual property right holder, the e-commerce platform operator and the operators on the platform, and

for promoting the healthy development of the e-commerce market.

Since rights such as patent rights, which are acquired through administrative grant, may be rendered uncertain during civil infringement litigation due to procedures such as declaration of invalidity and administrative litigation, and the operating conditions of operators on the platform may also undergo major changes during litigation, in such circumstances, where an operator on the platform applies to the people's court for conduct preservation because the situation is urgent and failure to restore the link will cause irreparable harm to its legitimate interests, requesting the e-commerce platform operator to take conduct preservation measures such as restoring the link, the people's court shall accept the application and examine it in accordance with Article 100 of the Civil Procedure Law and relevant judicial interpretations. In this case, the patent in issue was declared invalid by the National Intellectual Property Administration during the second instance, and its validity was uncertain because the right holder was about to file an administrative lawsuit. Lian [X] Company, as the party whose product link was deleted, had standing to file the application for conduct preservation to restore the link.

II. On whether the conduct preservation measure of restoring the link should be taken in this case

When determining whether to take the conduct preservation measure of restoring the link upon the alleged infringer's application, the following factors should mainly be considered: whether the applicant's request has a factual basis and legal basis; whether failure to restore the link will cause irreparable harm to the applicant; whether the possible harm to the patentee from restoring the link will exceed the harm to the alleged infringer from not restoring the link; whether restoring the link will harm the public interest; and whether there are other circumstances rendering restoration of the link inappropriate. Specifically in this case:

(1) Whether Lian [X] Company's request had a factual basis and legal basis. This case was a dispute over infringement of a utility model patent right. The grant of utility model patents in China does not undergo substantive examination, and their right stability is relatively weak. In order to balance the interests of the patentee with those of competitors in the same industry and the public, and to maintain a normal and orderly online business environment, when a patentee requires an e-commerce platform operator to delete a product sales link suspected of infringing a utility model patent right, it shall submit a patent evaluation report issued by the patent administrative authority. Where the patentee fails to submit it without justifiable reason, the e-commerce platform operator may refuse to delete the link, except where the court finds infringement after trial. In this case, Tian [X] Company deleted the sales link for the alleged infringing products in a timely manner after the original court found infringement established, but during the second instance the patent right in issue had been declared entirely invalid by the National Intellectual Property Administration for lack of novelty, and Bo [X] Company was about to file an administrative lawsuit, so the validity of the patent was in an uncertain state. As of November 5, 2020, Lian [X] Company's Alipay account balance had been frozen in a total amount of RMB 15.6 million due to this case and Case No. 368, and its normal production and operation were seriously affected. Under these circumstances, Lian [X] Company's request that Tian [X] Company restore the product link had a factual and legal basis.

(2) Whether failure to restore the link would cause irreparable harm to the applicant. In intellectual property infringement disputes involving e-commerce platforms, deleting, blocking or disconnecting a product sales link will not only make the product unable to be sold on the e-commerce platform, but will also affect the product's previously accumulated traffic, search ranking and account rating, thereby reducing the market competitive advantage of the operator on the platform. Therefore, when determining "irreparable harm," consideration shall be given to whether any of the following circumstances exists: 1. whether failure to take conduct preservation measures will cause irreparable harm to the applicant's personal rights such as goodwill; 2. whether failure to take conduct preservation measures will cause the applicant to seriously lose its market competitive advantage or business opportunities, resulting in losses that are very large or very complex such that their amount cannot be accurately calculated, even though monetary compensation may be requested for erroneous link deletion and the like.

In this case, the alleged infringing products were mainly sold through Lian [X] Company's online store on the "Tian [X] Network," and according to the facts ascertained at the original trial, the cumulative sales of the alleged infringing products were 283,693 units as of November 13, 2019; 352,996 units as of December 4, 2019, when the original court organized evidence exchange among the parties; and 594,347 units as of January 13, 2020, at the original trial hearing. This showed, on the one hand, that the sales volume of the alleged infringing products was large, and on the other hand, that their accumulated traffic and search ranking were relatively high, so that disconnecting the sales link had a relatively large impact on its online sales interests. In particular, at specific sales opportunities such as "Double Eleven," whether the link is restored will have a huge impact on the business interests of the alleged infringer. Under the circumstances in which the validity of the patent right in issue was uncertain, enabling the operator on the platform to operate normally online at specific sales opportunities such as "Double Eleven" through the conduct preservation measure of restoring the link could avoid irreparable harm to its interests.

(3) Whether the possible harm to the patentee from restoring the link would exceed the harm to the alleged infringer from not restoring the link. Although the alleged infringing products and the patented products in issue were products of the same kind, there were many similar products on the market, and restoring the link would not cause Bo [X] Company's patented products to be completely replaced. Moreover, the court had already taken into account the losses that might be caused to Bo [X] Company by restoring the link, and would freeze the corresponding amount of Lian [X] Company's Alipay account and part of the interests obtainable from continued sales after the link restoration, and Lian [X] Company had also expressly agreed. Under these circumstances, compared with the impact on Lian [X] Company's normal operation of not restoring the link, the possible harm to Bo [X] Company from restoring the link was relatively small.

(4) Whether restoring the link would harm the public interest. In patent infringement disputes, the public interest generally considered is public health, environmental protection and other major social interests. The alleged infringing products in this case were mop buckets used in daily family life, and the important factor considered when restoring the link was whether it would affect public health and environmental protection, and in particular whether it would cause undue harm to consumers' personal and property safety; there was no evidence in this case showing that the alleged infringing products had any such circumstances that might harm the public interest.

(5) Whether there were other circumstances rendering restoration of the link inappropriate. In addition to being suspected of infringing the Patent in Issue, the alleged infringing products in this case were also suspected of infringing Bo [X] Company's 180.2 Patent in Case No. 368, and the 180.2 Patent was still valid. But first, Case No. 368 was still under first-instance trial, and whether the alleged infringing products were infringing and whether the prior-art defense was established were still uncertain. Second, in Case No. 368, Bo [X] Company's claim for compensation had already been secured through the property preservation measure of freezing RMB 3.16 million of Lian [X] Company's Alipay account balance. Third, when determining the amount of security for the conduct preservation in this case, the circumstances of Case No. 368 had already been taken into account, and Lian [X] Company's security amount was appropriately increased, and part of the interests obtainable from Lian [X] Company's continued sales after link restoration would be frozen. Because this conduct preservation measure was directed at this case's litigation, the security amount would be frozen until the date on which the judgment in this case takes effect; at that time, if Case No. 368 was still under trial, Bo [X] Company could protect its legitimate rights and interests in that case by applying for conduct preservation and other measures, with the court deciding whether to take conduct preservation measures based on the circumstances of that case. Therefore, there was no circumstance in which Bo [X] Company's rights under the 180.2 Patent could not be secured. The fact that the alleged infringing products were also involved in litigation for suspected infringement of the 180.2 Patent right did not affect the taking of the conduct preservation measures in this case.

III. On the determination of the amount of security

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The determination of the amount of security for conduct preservation shall be both reasonable and effective. It shall consider both the possible harm to the respondent after the conduct preservation measure is taken, and prevent an excessively high security amount from unreasonably affecting the applicant's production and operation. In patent infringement disputes involving e-commerce platforms, the determination of the security amount for the conduct preservation measure of restoring a link shall, on the one hand, consider the harm that may be caused to the right holder after the link is restored, and ensure that the right holder's right to separately claim compensation for such harm is fully secured; on the other hand, it shall also reasonably determine the interests obtainable by the applicant after the link is restored, and avoid unreasonably affecting its capital recovery and subsequent operation by freezing excessive sales revenue. In this case, Bo [X] Company required the alleged infringer to compensate economic losses of RMB 3.16 million in both this case and Case No. 368, and the original court had already taken property preservation measures in both cases. However, considering that the alleged infringing products had a relatively large sales volume before the link was deleted, and that restoring the link would likely cause an expansion of Bo [X] Company's losses, in order to protect the interests of the patentee to the greatest extent, the security amount would be determined as appropriate by comprehensively considering Bo [X] Company's compensation claims in the two cases and the interests obtainable by Lian [X] Company after the link was restored. Given that Lian [X] Company's obtainable interests would increase continuously with product sales, in addition to the fixed security deposit, a dynamic security deposit would be added in this case. Since Lian [X] Company's sales revenue also contained costs and management expenses, in order to prevent an excessively high security amount from unreasonably affecting Lian [X] Company's production and operation, and considering the contribution rate of the patents involved in this case and Case No. 368, the dynamic security deposit was determined as appropriate at 50% of Lian [X] Company's sales amount.

Relevant Legal Provisions

Article 103 of the Civil Procedure Law of the People's Republic of China (2023 Amendment) (this case applied Article 100 of the Civil Procedure Law of the People's Republic of China, 2017 Amendment).

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