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Idea

The First Series of Patent Invalidation Hearings Held in Taiwan



▲ Chairperson dictates the hearing rules and procedure

On July 27, 2018, TIPO held the first oral hearing for invalidation proceedings under the new invalidation mechanism. As of the end of November 2018, eleven (11) hearings have been held. The period ending in November was a trial period which TIPO designed to test the mechanism and solicit feedback so as to finalize a complete invalidation hearing framework. According to the Administrative Procedural Act, a hearing is an official proceeding that enables a competent authority to collect information and unveil the details of a given case. Through cross examination and both parties' statements, a hearing will assist a TIPO examiner to come to a conclusion more efficiently. As a policy goal, TIPO introduced the hearing mechanism in the hopes that it would minimize unwanted flaws in the course of its decision-making. Standing out from other competing firms, *Tsai, Lee & Chen* participated in one of the eleven cases.

A hearing is a procedural alternative to administrative appeals. A party wishing to challenge TIPO's decision on an invalidation dispute is not required to file an administrative appeal. If, upon the rendering of a decision after a hearing, either party is not satisfied with TIPO's decision, then either party may directly file a lawsuit to the IP Court as the next remedy. A hearing is overseen by a panel of three examiners, one of whom presides over the proceeding. The other participants in hearings are the disputing parties, solicitors (attorney-at-law, patent attorneys, or patent agents), as well as any lay witnesses and expert witnesses. The payment of fees is not required for a hearing to be held.

A review of the cases heard during the trial period shows that both the parties requesting invalidation and the patentees were by and large active participants in the hearings. Out of the eleven (11) cases, in four (4) cases the requesting parties refused to attend the hearing whereas in only one (1) case the patentee refused. Eventually, in ten (10) out of the eleven (11) cases, the requesting parties were present whereas the number of cases in which the patentees were present was nine (9).



▲ Invalidating party presents evidence and argument

TIPO selected cases for hearings based on several factors. Whether there were “disputes over facts” and “co-pendency of civil litigation” were two major factors of the merit that TIPO gave greater consideration to when choosing a case. Of the eleven (11) cases heard during the trial period, seven (7) involved disputes of facts and four (4) involved co-pendency of civil litigation (mostly patent infringement). Other factors TIPO believe merited a case to be heard included the importance to industrial development, co-pendency of parallel invalidation actions, interpretation of the law, and that the case was a re-examination of a revoked and remanded invalidity decision. On the other hand, TIPO indicated that it would refuse to hear cases which were dropped by the patentee or if there was a court order requiring TIPO to make a specific decision.

After the conclusion of the trial period, one of two conditions had to be met in order for a hearing to proceed, one of which was already in place during the trial period. The one already in place is that TIPO requires a hearing to take place in order to clarify pending issues. The other condition is that both the party requesting invalidation and the patentee mutually agree to a hearing. But in the latter scenario, TIPO reserves the right to reject the request if the case is without merit or the facts are already clear.

Tsai, Lee & Chen's efforts were met with success in their first hearing as their client won by revoking patentee's all ten (10) claims in their case. The claims were deemed invalid due to lack of inventiveness, a view which was supported by a large body of evidence. The outcome of this hearing is not only an achievement for the firm, but also of historical significance as these hearings make an important milestone in Taiwan's IP law development.



New Steps Determining Unity of Invention

The Taiwan Intellectual Property Office (“TIPO”) recently revised Volume II, Chapter IV of the Patent Examination Guidelines, which cover unity of invention, releasing the revisions at the end of 2018. New standards on the requirement for unity of invention went into effect on January 1 of 2019. With more than 70% of the paragraphs being revised, a conspicuous change is seen in the new Chapter Four regarding examples explaining the standards in determining unity of invention.

According to the Guidelines, a plurality of claimed inventions can be included in one patent application at filing if they fall under a general inventive concept, and that the claimed invention shall include one or more “identical or corresponding” “special technical feature.” A special technical feature is one that enables the claimed invention as a whole novel and non-obvious over the prior art.

When a patent has at least two independent claims, prior to performing a search, examiners are required to review whether or not the independent claims are *prima facie* lacking unity. If they are not, the examiners will then look into the searched prior art and identify a “specific technical feature.” The new steps detailed as follows in the Guidelines are important because they are how the examiners come to a conclusion when determining unity.

Step 1. Whether the independent claims are prima facie lacking unity.

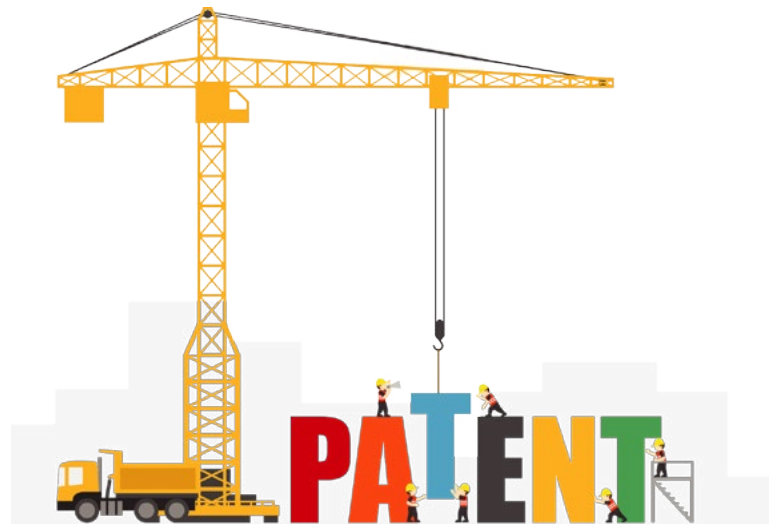
If the claimed inventions do not have “identical or corresponding” special technical feature(s), or the technical feature(s) is merely common knowledge based on the disclosure, the independent claims are *prima facie* lacking unity.

Step 2. Prior art search for specific technical feature(s).

For independent claims that are not *prima facie* lacking unity, the examiner will perform a prior art search. Starting from Claim 1, which presumably is the claim that would have largest protective scope, the examiner will look for any special technical features. In absence of special technical features, independent claims will be deemed to not have unity.

Step 3. Whether a Special Technical Feature is found in other independent claims.

Even if a novel and inventive special technical feature is present, the examiner is required to look for an “identical or corresponding” special technical feature in other independent claim(s). If this is the case, those independent claims have unity and are eligible for inclusion in the same patent application.



Based on the revised Guidelines, however, the examiner is obligated to begin searching for another independent claim other than Claim 1 when one of the following situations occurs:

1. Claim 1 is either directed to an indefinite invention, a non-patentable subject matter, not meeting the definition of an invention, or not industrially applicable; or
2. Claim 1 is not the “most representative” claim in the invention (For instance if there are four independent claims respectively for a compound, a composition having said compound, a method of manufacturing said compound, and a use of said compound, the examiner shall begin the search for the compound. Or if there is no apparatus claim, the search begins from an independent method claim).

Notably, in TIPO’s search practice, if an independent claim is not considered novel or inventive, the examiner will not continue to search other groups of independent claims and their dependent claims because allegedly there is no unity. According to the revised Guidelines, the examiner is obliged to specify which claims were left unsearched due to the perceived lack of unity.

Full Search in One Payment

From the viewpoint of an applicant, a full payment for the examination fee is presumably to cover TIPO’s search service over the entire claim set in the application. But, in instances in which an examiner suspends a search owing to the perceived lack of unity of prior claims, such suspension regrettably falls short of the applicant’s expectations of the examiner to further identify the patentability of those unsearched claims.

Step 2 in the revised Guidelines shines some light to avoid an examiner’s suspension in conducting searches. Step 2 requires an examiner to begin searches literally from “Claim 1,” instead of the one having “largest protective scope.” In light of this, the applicant may try to place the “small” independent claim as Claim 1 and then re-arrange other independent claims in an ascending order. In this way, the examiner will be compelled to search against all independent claims from the first to the last.

Anti-Trust Violation: Qualcomm Commits to Direct Investments in Lieu of Fines

Qualcomm's anti-trust violation

case in Taiwan took a sharp turn in August 2018. About one year ago, Taiwan's Fair Trade Commission (TFTC) issued administrative order FairAction-No.106094, imposing a record fine of NTD 23.4 billion, in an approximate equivalence of USD 780 million, after being found to leverage market power over communication standard technology. As the case developed, Qualcomm filed for administrative litigation, seeking the cancellation of TFTC's order and a preliminary injunction to halt the same. The court mediated between the two parties. On August 10, 2018, Qualcomm reached a settlement agreement with the agency in which Qualcomm agreed to pay a reduced fine of NTD 2.73 billion and to fulfil several commitments for fairer future transactions. In exchange, Qualcomm has promised to invest in Taiwan for 5G technology in a five-year term. The settlement agreement is widely deemed to be an extraordinary compromise for TFTC.

As TFTC reasoned earlier in its order, Qualcomm possessed monopoly dominance over mobile "system on a chip (SoC)" of CDMA, WCDMA, and LTE modem standards and had strong market power by vertical integration in the entire industrial chain. However, Qualcomm refused to license standard patents to chip competitors. That Qualcomm's patent rights did not exhaust among chip competitors resulted in royalty payments being incurred downstream and being calculated based on

the sale price of a complete piece of cellphone device. Qualcomm also compelled cellphone manufacturers to agree to restrictive terms of patent licenses before obtaining modem chips. Qualcomm further offered discounts in royalty payment to buyers who agreed to exclusively transact with Qualcomm, thereby causing lost or decreased business opportunities for competitors. Therefore, in addition to fine, TFTC further ordered Qualcomm to renounce all restrictive and unfair terms and conditions in contracting with chip competitors or cellphone manufacturers.

According to the settlement deal, Qualcomm will renegotiate license terms which the licensee previously had disputed but was forced to accept. Renegotiation may involve the participation of an independent dispute resolution mechanism such as the court or an arbitration facility, if necessary. Supply of the chips shall continue as is so that the supply will not be a bargaining counter during renegotiation with cellphone manufacturers. Also, Qualcomm promised that in licensing its mobile communication SEP, it would not discriminate against cellphone manufacturers with similar business conditions by offering different licensing packages. Furthermore, Qualcomm made a FRAND commitment that it would not sue against any potential licensee if that licensee fails to offer a fair, reasonable, and non-discriminatory license for its SEPs to Taiwanese chip suppliers. As one of the emphases, Qualcomm promised to abolish any terms requiring that its chip clients exclusively use Qualcomm's modem chip products or that if a



chip clients' volume of procurement reaches a specific threshold, before obtaining a royalty discount or allowance. In order to truthfully carry out the above commitments, Qualcomm promised to report, for every six months, to the TFTC information regarding the implementation of the same and to report any new license agreement within 30 days of it being made.

Qualcomm's new technology investment is by all means another important factor in the furtherance of the settlement deal. In addition to the reduced NTD 2.73 billion fine, which had been paid fully, Qualcomm will invest in a cooperative program with Taiwanese innovative firms and universities for the pioneering 5G technology and market expansion. With intensive aid from the TFTC, the Ministry of Economy Affairs and the Ministry of Science and Technology, Qualcomm aims to establish an engineering center for the operation and manufacture of its products.

TFTC believes that such a settlement will eventually benefit all parties involved. Qualcomm's investment is expected to enhance Taiwan's technological development in semiconductor and 5G mobile communication. With Qualcomm's promise to cease unfair competitive practices, prospectively the settlement would remove abuse of monopoly power and restore a competitive order. It will create a robust and vigorous competitive environment which will lead to an overall improvement of economic and public interests.

Nevertheless, it must be noted that TFTC's decision to quickly settle with Qualcomm also drew criticism. After the decision was made, two commissioners resigned in protest, accusing TFTC of overstepping its legal authority. TFTC is an independent agency whose mission it is to maintain market competitiveness. The goal of "promoting industrial and economic development" is not within TFTC's purview and thus is not a justifiable reason to settle. As the commissioners emphasized, the court system should be the arbiter in instances in which administrative actions are not inappropriate. Besides, from the viewpoints of Qualcomm's competitors, the settlement will fail to protect the market. Taiwan-headquartered OEM giant MediaTek argued that in the settlement, TFTC did not demand Qualcomm to license the SEP of component "elements" in a chip that a competitor truly needs. Furthermore, the royalty calculation being based on the sale of a complete device is believed by many to be exorbitant (notably in China, the authorities ordered that the basis was to be reduced to 65% of the device sale).

Those who support TFTC's decision, on the other hand, claimed that resolving the dispute now would move the industry forward. Firstly, an administrative litigation can take years to complete. If the court revoked TFTC's order, an appeal would be inevitable and that could cost more in time and resources in investigations, not to mention that the previous order lacked compelling arguments and solid evidence. Moreover, enforcing the order could

irreversibly harm Taiwan's semiconductor makers and the networking and communication industry.

Different comments emerged from the settlement. Taking reference to the US law, some legal academics suggest that the role of a court should be emphasized during the settlement. The US Department of Justice in antitrust cases is required by law to report to the court regarding how a negotiation is proceeding and what the effect on competition would be expected before finalizing an antitrust settlement. Under Taiwanese administrative procedure, statutorily the court is also vested with authority to review whether an anti-competitive settlement harms the public interest. Having the court in place may render the settlement more accurate and credible. Secondly, in the US the interested parties of an antitrust settlement negotiation may be partially involved in the proceeding. This has

been put in place because the interested party who is directly affected by the result of settlement has more incentive and drive to present evidence and information than it otherwise would have. So long as information is sufficient and the sources thereof are diverse, settlements can be protected against criticism and negative impacts.

It is perhaps too early to predict whether or not this unprecedented antitrust settlement will lead to a good or bad outcome. But at least this case may serve as an opportunity to review Taiwan competition law system. Topics including TFTC's proactive role in specific industrial development, the study of legal-economic evaluation, and the involvement of the court and competitors are all very valuable which can serve to improve the present antitrust settlement mechanism.



Ningbo IP Tribunal Granting Preliminary Injunction in Design Patent Case

In July, 2018, the Ningbo IP Tribunal granted a preliminary injunction in the adjudication over a design infringement dispute pursuant to the Civil Procedure Law of the P.R.C. The tribunal's ruling marked the first preliminary injunction grant with regard to design patent infringement lawsuits in the People's Republic of China.

Instituted within the Ningbo Intermediate People's Court, the Ningbo IP Tribunal was inaugurated in September of 2017 as one of the second-phase piloting Intellectual Property Tribunals nationwide. The tribunal has been granted the authority to exercise subject-matter jurisdiction for the first instance trials over IP cases covering matters such as patents, computer software and plant varieties from five major prefecture-level municipalities (Ningbo, Wenzhou, Shaoxing, Taizhou, and Zhoushan) in Zhejiang Province, a province known for its high concentration of high-tech firms. Notably, before the Ningbo IP Tribunal was established, the Zhejiang court system handled more than 50 percent of IP matters docketed in the courts of the Yangtze River delta region. Establishing an IP tribunal in Zhejiang province was reportedly part of an effort to enhance the overall adjudication quality for lawsuits involving technology in the region.

Article 100 of the Civil Procedure Law empowers a court to order a property preservation injunction upon request or at its own discretion if the execution of the future judgement is predictably not possible or if one party is likely to suffer harm. In the aforementioned case, the requesting party, Yueqing Hengda Artware Factory ("Hengda"), filed a design patent suit against Guangzhou Topmax Enterprise ("Topmax"). Hengda accused Topmax of infringing design patent No. ZL201230341351.0 ("351

patent") and alleged that if Topmax did not cease its infringement in a timely manner, that Hengda would suffer from irreparable harm as its legitimate interests would be compromised. Hengda presented the necessary bond to guarantee its request.

The Tribunal carried out an intensive review over the injunction request. In China, an application for a design patent is not substantively examined. By fulfilling formality requirements, a design patent will be registered automatically. However, conducting a formality check without a prior art search can mean that a patent could not withstand an invalidity challenge. Furthermore, in IP lawsuits, the courts require a higher threshold for an injunction. For example, they consider matters such as the ownership and the stability of an IP right, the level of the necessity to grant an injunctive relief and the likelihood of success for the right holder to win in the lawsuit. As such, granting a preliminary injunction in a design patent infringement case is rather rare. Once Hengda's design was deemed inherently not valid for a patent, its injunction request would have been dismissed.

The tribunal ruled in favor of Henda due to several factors. Henda submitted a Patent Evaluation Report for search and analysis of '351 patent along with the hard copies of two decisions from the Patent Reexamination Board concluding the validity of '351 patent. These documents served as very compelling evidence to endorse '351 patent's validity during a pending civil litigation. Considering the requesting party's interest and the imminent harm for that party, including the deadline for the Customs to release the seized cargo at issue, the tribunal eventually granted a preliminary injunction.



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