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Development of “Interim Injunction” in IPR cases in China

By Xun Yang

“Interim injunction” or, more accurately, “preservation” (保全) under the PRC law is, without doubt, a robust and effective mean to protect intellectual property rights. China courts used to hesitate to grant interim injunction in commercial cases, including intellectual property infringement cases. However, with stronger protections on intellectual properties, China courts issued more and more interim injunctions in intellectual property cases and the rules for granting interim injunction have come into shape, which gave birth to the *Interpretation of Several Issues regarding Behavioral Perseveration Orders in Intellectual Property Disputes* (the “**IP Preservation Interpretation**”) which the Supreme People’s Court issued on 12 December 2018 and became effective on 1 January 2019.

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1. Cases where interim injunction is available

“Interim Injunction” is a common law concept. It refers to a “provisional measure sought during legal proceedings, before trial ... that requires a party either to do a specific act, or to refrain from doing a specific act.” It is a substantive remedy available (subject to conditions) in all civil cases. Although this term is widely used (or misused) in China-law governed cross-border contracts, it is actually not a concept under the PRC law.

PRC Civil Procedure Law has two concepts which are similar to but different from “Interim Injunction:” one is pre-enforcement (先予执行), and the other is “behavioral preservation” (行为保全). Both of them are procedural measures and not substantive remedies. In other words, the conditions to adopt them are statutory, i.e., parties are not allowed to “agree on” the scope of applications.

The measure of pre-enforcement existed since the first version of PRC Civil Procedure Law issued in 1991. It refers to an order issued by a court to require a respondent to do a specific act (usually to pay a sum of money) pending the final decision. Pre-enforcement is available in cases involving payment of maintenance and medical expenses and payment of remunerations, where failure to make the payments may result in difficulties to maintain livelihood. As such, pre-enforcement is not available in intellectual property infringement cases.

Upon the entrance into the WTO, new provisions were added into the PRC Patent Law, the PRC Copyright Law and the PRC Trademark Law, which provisions allow complainants to seek “preservation” orders in “obvious” infringement cases to prevent respondents from further infringement. These new provisions led to a significant amendment to the PRC Civil Procedure Law where a new interim measure was added, which is “behavioral preservation orders.” Such amendment suggests that behavioral preservation orders are not only available in IP infringement cases; rather they may be obtainable in all types of civil cases (subject to statutory conditions). Afterwards, a first behavioral preservation order to prevent trade secret disclosure was issued in the case between Eli Lilly and its ex-employee.

In December 2018, after five years of judicial practice, the Supreme Court issued the IP Preservation Interpretation, which summarizes the Supreme Court’s position in granting behavioral preservation orders in IP related cases. The issuance of the interpretation suggests that the rules on behavioral preservation orders will be more systematic and complainants will have more certainty as to whether such orders will be granted.

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2. Conditions for applying behavioral preservation orders

According to Art. 101 of the PRC Civil Procedure Law, behavioral preservation orders will be issued in urgent cases where failure to grant such orders may result in irreparable damages to legitimate rights. The IP Preservation Interpretation further explains the conditions for the issuance of behavioral preservation orders to be (i) urgency, (ii) stability of rights, (iii) balanced rights, and (iv) irreparable damages. In addition, collaterals are always required for applying for and maintenance of behavioral preservation orders.

(i) Urgency

The IP Preservation Interpretation lists out five scenarios which are considered “urgent.” These scenarios are: (a) trade secrets are near to be disclosed, (b) moral rights such as right to publication and privacy are to be infringed, (c) IP rights in disputes are to be disposed, (d) IP rights are infringed or are to be infringed in exhibitions or other events where time is essential, and (e) rights in hot broadcasts are infringed or are to be infringed. A typical case is Yang Jiang vs. Zhongmao Shengjia where the court issued a preservation order to prevent the respondent from put Qian Zhongshu’s scripts for public bidding as a bidding event is timely and a delay in granting the order will result in the scripts being sold to a new owner and, consequently, the final judgement against Zhongmao Shengjia becoming meaningless.

(ii) Stability of rights

The condition of stability requires that the complainant maintains a stable IP right, based on which it initiates the suit. The following factors will be considered in assessing the stability of the IP rights: (a) the nature of the IP rights, (b) whether the grant of the rights has undergone a substantive examination, (c) possibility of being declared invalid or of being cancelled, and (d) disputes on the ownership of the IP. This condition is emphasized in particular vis-à-vis utility model and exterior design patents, of which the grant does not require substantive examinations (and, as a result, the novelty and non-obviousness have not been tested). In order to prove the stability of utility model and exterior design patents, prior art searching reports and patent appraisal reports will be required.

It worth mentioning that, in trade secret infringement cases, as a pre-step to prove the stability of the trade secret in question, the complainant must identify clearly what trade secret, either a technical feature or an operational secret, is claimed to be infringed. Failure to identify trade secrets specifically at the filing of suits will likely result in applications for behavioral preservation orders being declined.

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(iii) Balanced rights

According to the IP Preservation Interpretation, courts need to balance the interest of both complainants and respondents before deciding whether to issue behavioral preservation orders. If the potential damages to the respondents should the behavioral preservation orders are granted outweigh the legitimate interest of the complainants, courts will not grant behavioral preservation orders.

Additionally, different from common laws, public interest is another factor to be considered in deciding whether behavioral preservation orders will be granted. If a behavioral preservation order will result in significant damages to public interest, such order will not be granted. As such, in the financial crisis, courts hesitate to grant behavioral preservation orders in patent infringement cases where the use of relevant patents are critical in manufacturing activities.

(iv) Irreparable Damages

According to the IP Preservation Interpretation, the following scenarios will be considered “irreparable damages:” (a) moral rights, such as goodwill, right to publication, and privacy, are being irreparably infringed, (b) the consequence of the infringement will be exacerbated, and (c) the infringement will result in reduction in market shares. As such, different from common law, PRC courts provide stronger protections on moral rights. As to economic rights in intellectual properties, the general position is that monetary damages are usually sufficient except that, in special circumstances, infringement will result in irreversible damages.

However, such position are changing --- the recent patent infringement case between Qualcomm and Apple suggested that “difficulties to calculate damages as a result of the ongoing patent infringement” and “harm to business relationship with mobile companies” are proofs to irreparable damages.

Additionally, collaterals are always required for applying for and maintaining behavioral preservation orders. If the value of the collaterals decreased or the scale of damages which may be incurred by a behavioral preservation order to respondents increase, courts have the right to request that complainants add extra collaterals.

3. Implications of IP preservation interpretation

The issuance of the IP preservation interpretation is obviously a good news for IP right owners. It indicates

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that courts are establishing a “behavioral preservation” system with clearer rules and greater certainties. The scope of cases where behavioral preservation is available are expanded to cover not only straight-forward IP infringement cases but also cases involving trade secrets and privacy infringement. The criteria for granting behavioral preservation orders are closer to the common law standards for interim injunction and IP right owners would have clearer indications as to how to prepare applications for behavioral preservation orders.

It is worth mentioning that “behavioral preservation” under the PRC law is different from “interim injunction” under common laws. As far as contract drafting is concerned, merely copy of common law contract provisions on interim injunction into PRC-law governed contracts may not satisfy the intention of the parties.

- (1) The contractual provision confirming that damages are insufficient and that both parties have the right to seek interim injunction does not work as it does under the common law because “behavioral preservation” is a procedural measure but not a substantive remedy --- as such, the parties may have no right to agree on or to exclude it.
- (2) The contractual provision agreeing that no collaterals is required for interim injunction does not work as it does under the common law because it violates the mandatory provision under the Civil Procedure Law which require that complainants provide sufficient collaterals in order to seek and maintain behavioral preservation orders.

Some other suggestions learnt from the IP Preservation Interpretation include:

- (1) To demonstrate stable IP rights, it is advisable that, for trade secrets, complainants clearly identify what exactly trade secrets are infringed, and that for copyright, complainants file their copyrighted works with the China Copyright Protection Centre to obtain copyright certificates as prima facie evidence.
- (2) With respect to exclusive licensees, it would be advisable for them to file the exclusive licenses in advance, which filings are prima facie evidence of their standing to sue and to seek behavioral preservation orders.
- (3) From a contract drafting point of view, it is worth considering having the relevant contracts to be governed by PRC laws and, for contracts written in foreign languages, having a Chinese version to avoid unnecessary burdens during the applications for behavioral preservation orders.

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