

Recommendations on the Draft Amendment to the Patent Law

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Under the guiding principles of the third amendment to the Patent Law, we, in the process of revising the Law, should “fully summarise the experience we have accumulated in the enforcement of the patent system in China, look closely again into the provisions thereof, and better adapt the Patent Law to the needs of the present practical situations in China in order to find a more convenient and expedite approach to the enforcement of the patent right, and to more effectively protect the patent right”. This writer will be making some recommendations, along the line, on the amendment to the Patent Law from the perspective of protection of the patent right for the reference of our colleagues in general and the law makers in particular.

I. On the utility model patent search report

The search report has lost its original meaning

When the Patent Law was being amended for the second time in 2000, the provision on the utility model patent search report was added to Article 57. We should admit that the addition is well intended, but it has failed to play its intended role in practice; hence we should look closely at it again.

First, the provision had a poor effect and the search reports are of poor quality.

Search reports are prepared by the Chinese Patent Office solely on the basis of the Chinese patent information, but not made on the basis of all the publications and products used under the Patent Law to assess the inventiveness, novelty and practical applicability of the utility model patent. Search reports prepared this way are of a poor quality, and do not produce an ideal result in proving the certainty of the relevant utility model patent. In practice, the cases abound where a search report determines that a patent possesses the inventiveness, novelty and practical applicability, but it is

invalidated in the later invalidation proceedings.

Second, a search report may present a erroneous determination, and mislead the rightholder concerned.

According to some relevant legislative organs and judicial interpretations, a search report, in nature, “is the preliminary evidence of the validity of a utility model patent right”. This seems to show that the patent right for utility model cannot be proved valid without such a search report. This is a conception contrary to the Patent Law. When a patentee is issued a search report, he naturally believes in the certainty of his patent right. But, in effect, this patent right remains invalidatable. Once the patent right is invalidated, the patentee would become quite confused and dissatisfied.

Third, such search report charges a lot of money. As long as one is willing to pay, he can get what conclusion he wants.

It costs a patentee RMB 1,000 yuan to get a search report, which is more expensive than filing an application for a utility model patent. With such economic motivation, it is even more difficult to ensure the quality of the search report. When dissatisfied with a search report, a patentee can even go so far as to request to do the search again. Under the law, an accused infringer is not in a position to apply for a search report in respect of another person’s patent, but in practice, some are found to have taken their search reports when making their defence before court. There are even cases in which both parties produce before court several search reports with conflicting conclusions, and all the search reports are rejected by the court.

Forth, the nature of the search report is hard to determine.

What responsibility should the search report authority bear when it makes an obviously erroneous search report? No provisions regarding this can be found in the law, and controversy is always there in practice. In the past, some patentee brought administrative lawsuit in the court, taking a

search report as an administrative decision. Although the court treated the case by refusing to put it on docket for lack of law basis, the issue remains unsolved, and seems worthy looking into again. Some relevant entity charges fees from an applicant, and prepares a formal report with its official seal affixed on. The relevant patentee is happy to have got a search report, and the judges often treat it as a very important document. Very often, a search report can decide an interested party's fate. If something is wrong with a search report, no one would take the responsibility for it, as is indicated in the search report that it is not an administrative decision, so one should not bring an administrative litigation. This is obviously unfair.

On the issue of whether a search report “may” or “shall” be submitted

Under this provision, where a case of patent infringement dispute involves a utility model patent or a design patent, a search report should be presented. The word “involve” here does not clearly show whether a rightholder should submit a search report when he brings an action in the court or after the court puts the case on docket for trial of a case of patent dispute. It is justifiable if it means the latter; if it means the former, a close study is needed.

For one thing, it does not comply with the provisions of the Civil Procedure Law. Article 108 of the Chinese Civil Procedure Law provides for the requirement for bringing an action. Under this provision, the threshold for bringing a civil action is rather low mainly for the purpose to protect a party's right to sue. The additional requirement on presenting the evidence of “search report” in bringing an action involving a utility model or design patent is contrary to the legislative aim of the Civil Procedure Law.

Next, it does not comply with the judicial interpretation. Article 8 of the Several Provisions of the Supreme People's Court on Issues Relating to Application of Law to Adjudication of Cases of Patent Disputes issued by the Supreme People's Court (SPC) on 22 June 2001 provides that “any plaintiff takes action against an infringement of patent right for utility model shall produce a search report prepared by the Patent Administrative Department under the State Council when instituting the lawsuit.” But later on 13 November of the same year, the SPC clearly pointed out in its Reply to the Report for Instruction on Whether Presenting a Search Report Is Required for Bringing an Action against Infringement of Utility Model Patent that “presenting a search report was not required for bringing an action against infringement of a

utility model patent. Use of the word 'shall' in the judicial interpretation is to emphasize the stringent enforcement of this system and to prevent it from becoming meaningless due to less stringent enforcement. The people's court should accept a case meeting the requirement for bringing an action as set forth in Article 108 of the Civil Procedure Law”. We should understand the SPC's judicial interpretation in a comprehensive manner, and should not emphasize one part while disregarding the other part of the provisions, so as to achieve an accurate understanding of it.

On the matter of design search report

After the Patent Law was amended for the second time in 2000, people questioned the issue that a search report was not to be directed to a design. Then some legislative organ explained that the requirement of search report should originally have been applicable to design. Since it was conditionally difficult to conduct the design search, corresponding provisions were not made in relation to the patent right for design.”¹ “This requirement should have been also applicable to design, but provision to this effect has not been made due to operational difficulties”.²

This matter was raised again in the draft of the third Amendment to the Patent Law, explaining that “to date, China leads the world in the number of applications filed for design patent. In China, more applications have been filed for design patent than those for utility model patent. It would help improve the patent system in China to provide for the corresponding measures in relation to design patent in order to address the issues which is under heated public debate in China. Therefore, it is recommended that the search report system be extended to the design patent.”

Then, when the Patent Law is being amended for the third time, are these conditions ready now for making the design search report? Have the practical difficulties been solved (or can they be solved)? Can the issues now under heated public debate in China be addressed by instituting a design search report system in way of improving the certainty of design patent or reducing the number design patent infringement lawsuits)? These questions are not touched upon in the explanation.

II. Prior art defence in patent infringement

To the Patent Law of the People's Republic of China (Draft Amendment submitted to the State Council for review)

is added Article 62 that “where in the course of hearing or handling a patent infringement dispute, the accused infringer has evidence to prove that the technology or design he has exploited is a prior art or design, the people’s court or the Patent Administration Department under the State Council shall decide that the exploitation is not an infringement of the patent right in suit.”

Attention should be paid to the drawbacks of such amendment.

First, it will create inconsistent enforcement standards. To date, there are altogether 90 courts having the jurisdiction over cases of patent dispute, of which 59 have the jurisdiction over first-instance cases of patent dispute and 31 over second-instance cases. Besides, there are dozens of administrative agencies empowered to handle patent disputes. All these courts and administrative agencies have the power to determine the prior art in cases of the kind, which would inevitably render the standards inconsistent. If the prior art matter is to be handled by the Patent Reexamination Board (PRB) in the invalidation proceedings, the standards would be relatively harmonised.

Second, it has great impact on the patent system, and makes the patent right less trustworthy. Under the circumstances where a number of patents remain valid, but the accused act infringing some of the patents is determined as non-infringing, if the determination is correct, it obviously shows that some prior arts have been granted the patent right. In this case, the public would surely question the patent grant system. If a patent right is duly granted, it shows that the courts’ standards with regard to the prior art are inconsistent with those for patent grant, and people would have neither trust nor confidence in the patent right granted. This would have adverse impact on the patent system which has been instituted only quite recently.

Third, it is likely to become another weapon of the local protectionism, which is a phenomenon relatively noticeable in the course of patent right protection. In practice, cases are not few that show the addition of the prior art defence to the Patent Law would become another weapon of the local protectionism.

Forth, it would cause new procedural problem.

Suppose in a case of infringement of a utility model patent, the patentee has obtained the patent right in the patent application proceedings. A search report is made which shows that the patent right possesses its novelty and inventiveness upon the search conducted before the lawsuit

is brought. In the infringement procedure, the defendant makes a prior art defence without resorting to the patent invalidation proceedings. How would the judge decide the case?

Decision 1: the judge determines that what the defendant has used is the prior art, and decides to reject the patentee’s litigant claims. The patentee would certainly question the search report.

Decision 2: the judge determines that what the defendant has used is not prior art, and establishes that he has committed the infringement, and should cease the infringement. He would then request to invalidate the patent right in suit. Once the patent right is invalidated. The patentee would question the search report, and, as well, protest the infringement decision made by the court.

Decision 3: the judge would find it impossible to determine whether or not what the defendant has used is prior art with the evidence available, and the defendant would not counterclaim that the patent right in suit is invalid. The judge can do nothing but decides that the defendant has not used, or does use, the prior art, and his decision would deal a fatal blow on either party.

The above issues would not arise if such cases are dealt with in the patent invalidation proceedings. It may only take a longer time to handle the cases of the kind though.

III. The nature of the patent invalidation proceedings should be closely looked into again

The plaintiff in the patent invalidation procedure is a patentee or an invalidation requester. In form, it is litigation instituted out of dissatisfaction with an invalidation decision made by the PRB, but, in essence, it is a procedure arising from the opposition to the validity of a patent right. To date, the patent invalidation procedure is regarded as a type of administrative lawsuit, and the courts hear them under the relevant provisions of the Administrative Procedure Law. However, a case of patent invalidation has the characteristics of a civil procedure, but it is in the disguise of the administrative procedure. Likewise, the patent invalidation procedure has the characteristics of a civil procedure, in the disguise of the administrative procedure. The patent right is a private right closely related to the economic interest of the interested parties, who often resort to the judicial protection.

In this case, while an administrative agency, the PRB, takes an administrative action on behalf of the State. But in the patent invalidation procedure, its position is rather weak, and the patent invalidation procedure involves a dispute between the interested parties over the validity of the patent right in suit. The parties are more obviously and intensively divided on an invalidation examination decision. Under the conventional standards of division between the administrative and judicial power, the civil dispute between the interested parties in the patent invalidation procedure should have been dealt with by the court under the Civil Procedure Law, since the invalidation examination decision made by the PRB is indeed different from the decision on administrative sanction made by an administrative agency in its capacity. In nature, an invalidation case is not one of an administrative dispute. The third amendment to the Patent Law should specify the civil procedure nature of the patent right invalidation procedure, and make it clear that a patent right invalidation case should be heard under the relevant provisions of the Civil Procedure Law.

Indeed, amendment of the nature does not only specify the nature of a dispute. More importantly, it will speed up the process for stabilising the patent right, reduce a party's litigant cost, save on the administrative and judicial resources, so conducive to the protection of the patent right. Naturally, an amendment made in this way will affect the interests of some agencies. Here, we should weigh upon the merits and demerits, and should not give up this amendment due to different opinions.

IV. Provisions on indirect patent right infringement should be incorporated in the Patent Law

By the act of indirect infringement is meant that the actor himself does not directly perform an act of patent infringement, but has the intent to induce another person to do so or abet him in doing so, and objectively makes the necessary conditions ready for the direct infringement to take place. In practice, there have arisen many cases of indirect infringement, but the Chinese Patent Law does not set forth any provision on such infringement. With the development of economy and heightening of the citizens' legal awareness, there are fewer circumstances of exactly direct imitation of patented products. Besides, the "full-coverage" doctrine for

circumventing patent infringement establishment has been causing practical harm to rightholders in more and more cases involving mere marketing of raw material or apparatus necessary for exploiting a patented process, or making of the components or parts needed for a patented product. After buying these raw material, apparatus or components, a third person then combines or uses them with other parts, and finally directly infringes the patent by making a patented product or using the patented process without authorisation from the patentee. Holding such an indirect infringer liable for the infringement, so as to extend the patent right protection to the parts that may constitute a patent, but yet to be protected as such, would make it possible to fully and effectively punish the patent right infringers for their infringing acts. To prevent those from circumventing the legal liabilities for infringement by performing indirect infringement, it is necessary to amend the current Patent Law by addition of provisions on acts of indirect infringement for the purpose of protecting the patentees' interests and serving the purpose of the Patent Law.

A foreign colleague of mine once asked me: "your Chinese judges always say you hear cases under the law. In a ruling, the Beijing Higher People's Court decides that the defendant's action constitutes an indirect infringement, but provisions on indirect infringement cannot be found in the Chinese law. How could this be called hearing a case under the law?" It is justifiable to raise doubts of the kind.

Some believe that an indirect infringement may be dealt with as a joint infringement under the SPC's judicial interpretation on the general principles of the civil law. Article 148, paragraph one of the SPC's Opinions on Several Issues Relating to Implementation of the General Principles of the Civil Law (Tentative) provides that "a person who abets or assists another person in performing an infringing act is a joint infringer, and shall jointly and severally bear the civil liability". Also, the SPC's Notice on Issue of Territorial Jurisdiction over Cases of Patent Infringement (issued on 29 June 1987) provides that "where one licenses another person to exploit, or entrusts another person with the exploitation of a patent without the patentee's authorisation, if the licensee or trustee has exploited the patent, then both parties constitute joint infringement." Some believe that here lie the provisions on indirect infringement. In fact, indirect infringement and joint infringement are entirely different.

There is still another view that with few cases of dispute over indirect infringement in the judicial practice in China,

provisions in this regard may not be set forth in the Patent Law. This view is not justifiable. Along this line of reasoning, is it all right not to set forth the provisions on compulsory licenses in the Patent Law since there has never been any case of dispute over such a matter? In recent years, there is an obvious increase in the number of disputes over indirect infringement in the various regions. To enable judges to act by the law, provisions on indirect infringement should be set forth in the Patent Law.

V. “Ruling” in Article 47 of the Patent Law should be deleted

Article 47 of the Patent Law provides: “any patent right which has been declared invalid shall be deemed to be non-existent from the beginning. The decision declaring the patent right invalid shall have no retroactive effect on any judgement or ruling of patent infringement which has been pronounced and enforced by the people’s court, on any decision concerning the handling of a dispute over patent infringement which has been complied with or compulsorily executed, or on any contract of patent license or of assignment of patent right which has been performed prior to the declaration of the patent right invalid”. “Having no retroactive effect” means that the declaration has no effect on a judgement, ruling or decision, or contract executed. There is no turning round as if the patent right in suit had not been declared invalid.

Understanding and application of “ruling” in Article 47 of the Patent Law

Let’s first look at a case.

In 1999, the Shenyang Pinghe Company sued an industrial company in the court for infringement of its patent right. The industrial company responded by immediately requesting the PRB to invalidate the plaintiff’s patent right. From August 2001 to May 2001, the PRB made, one after another, the decisions on the “invalidation” of Pinghe’s one utility model patent and five design patents, and Pinghe did not sue in the court. In August 2001, the court decided to have rejected the Pinghe’s litigant claims against the industrial company.

However, Pinghe applied for property preservation when suing in the court, and the court detained more than 20 sets of moulds the industrial company used for its production. The detainment seriously affected the industrial company’s normal production and caused economic injury thereto.

Therefore, the industrial company sued Pinghe in September 2001, requesting compensation of the economic damage it had suffered because of the erroneous property preservation in the above case of patent dispute.

But the two courts hearing the case both believed that under Article 47, paragraph two of the Patent Law, (the decision declaring the patent right invalid) had no retroactive effect on any judgement or ruling of patent infringement which had been pronounced and enforced by the people’s court, on any decision concerning the handling of a dispute over patent infringement which had been complied with or compulsorily executed prior to the declaration of the patent right invalid. It was not improper for Pinghe to request the court to detain the industrial company’s infringing products before the patent rights in suit were invalidated, and the ruling had been enforced, and Pinghe did not act in bad faith; hence the plaintiff’s claim for damages was legally baseless, so not supported by the court.³

It is worth noting that courts holding the view are not few. A leading person of the SPC once clearly pointed out that the “ruling” here should include those on pre-trial cessation of patent right infringement, property and evidence preservation.⁴

Article 13 of the SPC’s Several Provisions of the Supreme People’s Court on the Application of Law to Stopping Infringement of Patent Right before Instituting Legal Proceedings provides: “Where an applicant does not institute legal proceedings or there is an error in the application, causing losses to the party against whom an application is filed, the party against whom an application is filed may institute legal proceedings in the people’s court having the jurisdiction, requesting the applicant to compensate for the losses; or file a request for damages during the patent infringement litigation instituted by the patentee or an interested party. The people’s court may simultaneously handle the requests.” Obviously, this provision has not been followed in practice.

Here has been raised a question, that is, how should “ruling” in Article 47 of the Patent Law be understood? Do the “rulings” include pre-trial cessation of infringement and property preservation after the Patent Law is amended for the second time?

We know that provision on “retroactive effect” was not set forth in the Patent Law as of 1984. It was only provided that a “patent right that has been invalidated is deemed to be non-existent from the beginning”, and to the Patent Law

amended in 1992 was added the provision that the decision on invalidation of a patent right has no retroactive effect.

Legislative aim of the addition of the provision

Clear records have not been found on why the “ruling” was added when the Patent Law was being amended for the first time in 1992. But we may make an analysis based on many published works on the interpretation of the Patent Law.

It is pointed out in the A Detailed Explanation of the New Patent Law written by the Legal Affairs Department of the State Intellectual Property Office (SIPO) that the people’s court and patent administrative authorities hear and handle patent infringement disputes and hold defendants liable for infringement on the condition that the patents in suit are valid, and on the basis of the facts and evidence available. Since a request for invalidation of a patent right may be filed any time after the grant of the patent right, and even after the patent right expires, it is possible for a patent right to be invalidated long after the enforcement of a judgement or a decision on an infringement dispute. If it is provided that a decision on the invalidation of a patent right has a retroactive effect on a judgement or a decision on an infringement dispute, the defendant needs to sue to revoke the former judgement or decision on the constitution of the infringement and to request the former patentee to return the payment of the damages he/it has obtained for the infringement, which would not only increase the burden of lawsuit on the two parties concerned, but also make things more difficult for the people’s court and patent administrative authorities, and affect the stability of the economic order. For that matter, Article 47, paragraph two of the Patent Law clearly provides that the decision declaring the patent right invalid shall have no retroactive effect on any judgement or ruling of patent infringement which has been pronounced and enforced by the people’s court, or any decision by the patent administrative authorities concerning the handling of a dispute over patent infringement. This writer excludes “rulings” from the provision in a more clear manner.

Yi Honghua points out in the book entitled Interpretation of the New Patent Law and Questions and Answers on Its Application that under Article 47, paragraph two of the Patent Law, decisions on patent right invalidation have no retroactive effect in the following circumstances of

- 1) judgement or rulings made and enforced by the people’s court before invalidation of the patent right in suit;
- 2) decision on handling a patent infringement dispute

implemented or compulsorily enforced; and

3) executed patent licensing contract and patent right assignment contract.

By “having no retroactive effect” here is meant that compensation of damages for infringement, and payment of royalties for patent exploitation in execution of a contract or patent right assignment fees or fees paid after provision of technical data, service, follow-up improvement do not need to be returned to the other party. While the word “ruling” is mentioned, the writer soon deletes the information about ruling in the later statement, and dwells on the information of judgement.

Besides, it is clearly pointed out in the Interpretation of the Patent Law edited by Gao Lulin that the provisions on invalidation of the patent right in the Chinese Patent Law are consistent with the current practice in some nations. For example, the Spanish Patent Law provides that declaration of a patent invalid means that the patent has never been valid. Except compensating damages caused by the patentee’s act in bad faith, the invalidation should not have the retroactive effect on:

- 1) infringement cases in which judgement has been made and enforced before the invalidation; and
- 2) contracts concluded and executed before the invalidation.

This view shows that when the provision on the retroactive effect of a decision declaring a patent right invalid is modified in the Patent Law, division is not made between effective court judgement and ruling so that they could be incorporated in the Patent Law. In their understanding of this provision, most people believe that the power to decide on the invalidation of the patent right refers to the retroactive effect on the enforced judgements, not on rulings that have taken effect and enforced.

Meaning of “judgement” and “ruling”

The civil judgement is a legally binding decision made by the people’s court, on the basis of facts discovered and under the laws after closing the hearing of a civil case directed to the relations of the civil rights and obligations in dispute between interested parties or at the request of an interested party. The civil judgement made by the people’s court must be based on facts, under the law and in the prescribed format. Once the people’s court’s civil judgement is made, it is legally binding, and should not be changed or revoked outside the statutory procedure. In general, directed to a case only one judgement is made mainly regarding the substantial

issues of the case.

The civil ruling is a decision the people's court makes directed to some relevant procedural matters in hearing a civil case to ensure the smooth progress of the procedure. In one case, more rulings may be made. Besides, a ruling may be applicable to several matters, say non-acceptance, opposition to jurisdiction, litigation rejection, property preservation, allowance or disallowance of withdrawal, suspension or termination of lawsuit, and errors correction in the judgements. Under the Patent Law, included are also such matters as pre-trial cessation of an infringing act and pre-trial evidence preservation.

As these scholars' interpretation of the provisions of the Patent Law shows, the provision that the decisions on patent right invalidation has no retroactive effect precludes "rulings". It is mainly directed to judgements as it is meaningful only to make the provision on judgement in the patent infringement procedure in that it addresses the issue of retroactive effect in a substantial, fundamental manner.

As the definition and content of civil judgement and civil ruling and the scope of their application show, the provision on judgement made in Article 47 of the Patent Law is meaningful, but making the provision on ruling is not the legislative aim. If "judgement" and "ruling" are construed as equivalent in meaning, it would cause many problems in practice, and create chance, room and lawful basis for the abuse of the patent right. It is unfair to the public.

How to apply the retroactive effect of "ruling"

The word "ruling" should be deleted when the Patent Law is to be amended in the future according to the legislative aim and the practical situation.

In the above-discussed case, the patentee applied for property preservation before or at the time of bringing the action, and placed surety. During the court procedure, the patent right which the patent procedure involved was invalidated. Since the invalidation of the patent right meant the non-existence of the patent right in suit from the very beginning, the patentee's litigant claims would be rejected by the court because the patent infringement was not well based. But since the plaintiff applied for, and the court ruled to grant, the property preservation before, the resultant damage to the accused infringer should be compensated by the plaintiff. In effect, one of the purposes for the court to require, before accepting the plaintiff's application for property preservation, it to place surety is to use it to compensate the damage that would be done to the other party as a result of

the ruling made directed to the application therefor, otherwise, why must the plaintiff place surety?

Of course, this practice is based on specific law, that is, on the provision of Article 96 of the Civil Procedure Law that "if an application for property preservation is wrongfully made, the applicant shall compensate the person against whom the application is filed for any loss incurred from the property preservation." Besides, Article 13 of the SPC's Several Provisions of the Supreme People's Court for the Application of Law to Stopping Infringement of Patent Right before Instituting Legal Proceedings provides that where an applicant does not institute legal proceedings or there is an error in the application, causing losses to the party against whom an application is filed, the party against whom an application is filed may institute legal proceedings in the people's court having the jurisdiction, requesting the applicant to compensate for the losses; or file a request for damages during the patent infringement litigation instituted by the patentee or interested party. The people's court may simultaneously handle the requests." ■

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¹ A Detailed Explanation of the New Patent Law written by the Legal Affairs Department of the State Intellectual Property Office, Pp. 325-326.

² Xu Yulin, Interpretation of the Patent Law of the People's Republic of China, P.259.

³ Li Li, Explication of "Ruling" in Article 47 of the Patent Law carried in the Legal Daily on 14 December 2003.

⁴ Beijing Higher People's Court, the Intellectual Property Trial Research, 2003, issue 6.