

Introduction to the Fourth Revision of Chinese Patent Law

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On 1 April 2015, the State Intellectual Property Office (SIPO) published the Draft Revision of the Chinese Patent Law (Draft for Comments) (hereinafter referred to as the Draft), marking the entry of the fourth revision of the Chinese Patent Law into a substantive phase. The Draft involves amendments to 18 provisions, addition of 11 provisions, and deletion of one provision of the current Chinese Patent Law, with the other two amended and adjusted accordingly in words. The revised contents are mainly related to the following five aspects as to enhancing the existing patent protection, protection of legal rights of patent owners; promoting exploitation and application of patents to realize the values thereof; legalizing roles of patent administration departments for establishing a service-oriented government; perfecting a patent examination system to increase patent quality; and improving legal patent agency systems and guaranteeing the healthy development of the IP service industry¹.

Chen Zhu, a vice chairman of the standing committee of the National People's Congress, indicated in the "Report of the Law Enforcement Inspection Team of the Standing Committee of the National People's Congress (hereinafter referred to as "NPC") on Inspecting the Implementation of the Chinese Patent Law" that there are some major issues occurring in the implementation of the Chinese Patent Law, i.e., the overall quality of patents is still at a relatively low level, which fails to meet the requirements of economic and social development; infringement often occurs, and there is still a big gap between the actual patent protection effect and the expectation of innovation subjects; patents are not sufficiently utilized such that the market values thereof are not fully realized; and patents play a weak role in public and social services, which is far from the rapidly growing social needs. In consideration of the issues presented in the above report, pertinent amendments were made and corresponding measures are provided in the Draft.

Noteworthy among the changes is the creation of a

Chapter 8 on exploitation and application of patents, which includes the following content: specify exploitation and application of patents as responsibilities of patent administrative departments at various levels; grant a service inventor the right to enter into agreement with the entity he serves on exploitation of the patent for his service invention-creation; provide for commitment license; provide for implied licensing of standard essential patents; and establish the legal status of patent pledges by registration, and increase protection of obligatory rights. In respect of patent protection, another focus of the draft revision, Chapter 7, contains the following changes: establish the legal effect of mediation agreements; entitle the patent administration departments to the right of compulsory execution of confiscating and destroying infringing products; extend administrative penalties to willful infringing acts of group infringement and repetitive infringement; specify the procedures subsequent to the publication of an examination decision on the request for invalidation; specify patent evaluation reports as mandatory evidence for adjudication and disposition of patent infringement disputes; introduce rules on proof of evidence to facilitate determination of the amount of damages; increase the penalties of patent passing off, and apply punitive compensation to patent infringement. In addition, reform the design patent system, provide for the protection of partial designs, allow for claims of priority to prior domestic design applications, and extend the protection term of design patents in China to 15 years from the date of filing. The following is the introduction to and comments on revised contents in Chapters 7 and 8 focusing on exploitation and protection of patent rights of the Draft, as well as the suggestions of this writer.

Exploitation and Application of Patents

1. Commitment license

To solve the information asymmetry between patent li-

cense providers and demanders, Articles 79 to 81 are added to the Draft for the purpose of introduction of commitment license:

Article 79

Where a patentee declares in writing to the patent administration department under the State Council that he/it is willing to permit any person to implement his/its patent, and specify the license fees, it shall be announced by the patent administration department under the State Council to execute commitment license.

Where commitment license is proposed for utility model or design patents, the party shall provide a patent evaluation report.

The patent owner shall declare to the patent administration department under the State Council in writing that he/it is prepared to withdraw the declaration of commitment license and wait for the patent administration department under the State Council to make an announcement in this regard. The rights and benefits of the earlier licensee will not be affected by the withdrawal of the declaration of commitment license.

Article 80

Any party who wishes to implement the commitment license shall notify the patent owner in writing and pay license fees.

During the period of licensing of the commitment license, the patent owner shall not grant exclusive or sole license or file a request for a pre-trial provisional injunction.

Article 81

Where disputes arise between the parties with regard to the commitment license, the patent administration department under the State Council shall adjudicate. The party who is dissatisfied with the ruling may bring a lawsuit with the people's court within fifteen days from the date of receipt of the notice.

Reference is made to the commitment license provided in the patent laws of German, England, Poland, Russia, Brazil, Thailand, Malaysia, etc. in preparation for the Draft. The Draft does not provide for stimulating measures, which is different from the laws of a majority of countries which have the commitment license². It is suggested to add provisions which allow for incentive measures and awards to the patent owners declaring the commitment license into the revised Implementing Regulations of the Patent Law for the sake of speeding up patent exploitation and conversion. For instance, reference can be made to Article 23.1 of the German

Patent Act, which reads "if the applicant for a patent or the person recorded as patentee in the Register (Section 30(1)) declares to the Patent Office in writing that he is prepared to allow anyone to use the invention in return for reasonable compensation, the annual fees falling due after receipt of the declaration shall be reduced to one half of the amount prescribed in the schedule of fees."

This writer opines that a thing worthy of discussion is the nature of the patent owner's conduct "to declare in writing to the patent administration department under the State Council that he/it is willing to permit any person to implement its patent, and specify the license fees" as mentioned in Article 79.1 of the Draft. According to Article 15 of the Contract Law that "an invitation for offer is an intent indication showing the desire to receive offers from others", the patent owner's conduct "to declare in writing to the patent administration department under the State Council that he/it is willing to permit any person to implement its patent" pertains to an invitation for offer, i.e., an intent indication showing the desire to conclude a licensing contract with a patentee from others. The nature of "specify [ing] the license fees" depends on the certainty of the license fees. A patent licensing contract usually includes the following elements: patented technology and the way to exploit the patent, the type of the patent licensing contract, the term of validity and territorial scope of the patent licensing contract, technical instruction and technical service terms, warranty against patent defects and warranty clauses, patent license fees and payment, liabilities and penalties for breach of contract, or calculation of losses. If the conduct of specifying the license fees meets necessary clauses of a licensing contract, then it possesses the features of an offer; and if the conduct of specifying the license fees only involves simple agreements on fees without clarifying the time, location, and obligations and liabilities of the licensor and licensee, it would be considered to be an invitation for offer. It is suggested to expressly specify the content of the declaration of the commitment license by the patent administration department under the State Council in the revised Implementing Regulations of the Patent Law, to facilitate conversion of patented technologies.

2. Implied licensing of standard essential patents

The Draft is added with Article 82 stipulating the implied licensing of standard essential patents, so as to balance the interests between the patent owners, standard implementers and consumers.

Article 82

Patent owner who does not disclose his/its standard essential patents during his/its participation in the national standard-setting process is deemed to permit the user who implements the standard to use the patented technology. License fees shall be negotiated by the parties, if the parties are not able to reach an agreement, the patent administration department of the local people's government shall adjudicate. If the party is dissatisfied with the ruling, the party may appeal to the people's court within three months from the date of receipt of the notice.

According to the above provision, patent owner who does not disclose his/its standard essential patents during his/its participation in the national standard-setting process is deemed to permit the user who implements the standard to use the patented technology. Under these circumstances, the patent owner has no right to appeal the standard implementer for infringing his/its standard essential patents. Although implied licensing is not equal to free licensing, the patent owner is still entitled to the right to ask the standard implementer to pay reasonable fees. However, the patent owner does not disclose his/its standard essential patent at the time of fee negotiation, so the patent owner is unable to appeal against infringement and therefore out of a dominant position. Then, the license fee negotiation exists in name only.

Due to standardization of standards, various standard organizations often require that the owner of a standard essential patent is obliged to license the patent to standard implementers and potential implementers on FRAND (fair, reasonable, and non-discriminatory) terms. The existing Chinese Patent Law does not rule out the implied licensing system. It was in the dispute over patent infringement between *Ji Qiang, Liu Hui v. Chaoyang Xingnuo Construction Engineering Co., Ltd.* that implied patent license is first affirmed in judicial practice³. Meanwhile, since standard essential patents are irreplaceable in the standards, the owner of the standard essential patent is unavoidably in a dominant position in a relevant market. Thus, a dispute over royalties for a standard essential patent often goes hand in hand with a lawsuit against monopoly caused by abuse of the patent owner's dominant position in a market. Huawei Technologies Co., Ltd. sued InterDigital Technology Corporation for a dispute over royalties of a standard essential patent, which serves as the very first case involving a dispute over royalties of a standard essential patent, and for infringement resulting from monopoly, which serves as the very first case involving

a dispute over monopoly of standard essential patents⁴. Both cases are instructive and of utmost significance.

The Draft explicitly stipulates the national implied license system of standard essential patents without indicating whether the system is applicable to local standards or industry standards, the latter of which is suggested to be added in the revised Implementing Regulations of the Patent Law.

As to the provisions that "license fees shall be negotiated by the parties, and if the parties are not able to reach an agreement, the patent administration department of the local people's government shall adjudicate", this writer holds a view that it is worthy of discussion as to whether royalties of national standard essential patents shall be determined by the patent administration department of the local people's government. Article 3.2 of the Draft provides that "the patent administrative departments of local people's governments at or above the county level, shall take charge of the management of patents within its own jurisdiction, engage in patent administrative enforcements, investigate and penalize patent infringement and counterfeit conduct, and provide patent public services." It is presumable therefrom that the patent administrative departments of local people's governments in the Draft include those of people's courts at the county, municipal and provincial levels. The specific level of the patent administrative departments of local people's governments is not clearly stipulated in Article 82 of the Draft, thereby rendering it impossible to know the level of the court to which a lawsuit is filed due to dissatisfaction with the judgment.

If it is the patent administrative department of the people's government at the county level that decides the license fees, the lawsuit instituted due to dissatisfaction with the administrative conduct of the administrative department of the county-level people's government shall be filed to the basic people's court of the county, and the lawsuit instituted due to dissatisfaction with the first-instance judgment shall be appealed to the intermediate people's court at the municipal level which has jurisdiction over the county. It is very likely that the second-instance trial is still conducted within the same city. Local protectionism may occur if one party of the licensing contract is not from the same geographical area as the other.

The Draft provides that the mechanism for resolving a dispute over license fees is that the patent administrative departments of the local people's courts make a decision first. This writer suggests resolving disputes through other routes, like mediation, arbitration or filing a civil lawsuit. For

instance, reference can be made to Article 60.1 of the Draft regarding the route of resolving infringement disputes, i.e., “the patent administrative department that settles the dispute may, upon request of the parties, hold a mediation regarding the compensation amount for infringement upon the patent right. If no agreement is reached through mediation, either party may bring a lawsuit with the people’s court in accordance with the ‘Civil Procedure Law of the People’s Republic of China’. If one party refuses to fulfil or fails to fully fulfil the agreement reached by the parties through mediation that is validated by the people’s court, the other party may apply to the people’s court to enforce the agreement.”

3. Patent Pledge

Article 83 is newly added into the Draft for standardizing patent pledge conducts and avoiding the pledgee’s loss of interests resulting from subsequent disputes and default.

Article 83

For pledged patent, the pledgor and the pledgee shall jointly apply for patent pledge registration with the patent administrative department under the State Council, the effective date of the pledge starts with the date of registration.

During the pledge period, if the value of the patent is significantly decreased, the pledgee may request the pledgor to provide separate or increased guarantee; where the pledgor does not provide separate guarantee, the pledgee may dispose of the pledged patents.

Patent pledge is an important form of patent exploitation. Patent pledge allows for exploitation of the patent right to the maximum extent, realizes the collateralized debt and capital financing thereof, and plays an active role in effective solution of deficiency in financing mortgages in enterprises, especially small and medium-sized enterprises, expansion of financing channels, and improvement on innovative environment of small and medium-sized enterprises. The official website of the SIPO discloses that the national patent right pledge financing amounts up to 33 billion RMB from January to September in 2014, which is increased by 82% compared with the same period last year. The SIPO indicates in the Opinions on Further Promotion of IP-related Financial Services released on 30 March 2015 that “in 2020, efforts will have been made to render the national patent pledge financing amount up to 100 billion RMB, significantly increase recognition and satisfaction of patent insurance in the society, and expand the business scope of patent pledge to 50 major cities and areas. IP-related financial services at major cities in eastern areas, western and central areas of China

are becoming popularized, normalized and scaled up.”

Generally speaking, it is more likely that IP rights as an intangible asset has floating values as compared with a tangible asset. This writer opines that there exist difficulties in implementing the provision that “if the value of the patent is significantly decreased, where the pledgor does not provide separate guarantee, the pledgee may dispose of the pledged patents”. The circumstances where the value of the patent is significantly decreased might result from partial invalidation of patent rights. Even though the pledgee disposes of the pledged patents, he/it is unable to exploit the original value of the patents before invalidation. In this case, if the pledgor does not provide separate guarantee, the pledgee’s debt can hardly be guaranteed. It is suggested that the circumstances where the value of the patent is significantly decreased and the solutions thereto should be specified in the Implementing Regulations of the Patent Law.

Protection of IP rights

1. To increase penalties and damages

(1) Penalties on group and repetitive infringement

Article 60.3 newly added to the Draft reads:

For conduct of wilful infringement on patent right which allegedly disrupts market order, such as group infringement and repetitive infringement, the patent administration department shall investigate and penalize according to law; where the patent administration department finds that the willful infringement is established and the conduct disrupts the market order, it may order the infringer to immediately stop the infringement, confiscate or destroy the infringing products, or the parts, tools, modules or equipments that are used to manufacture the infringing products or implement the infringing methods. For illegal business turnover of more than 50,000 RMB, the patent administrative department shall impose a fine of more than one time and less than five times of the amount of illegal business turnover; for zero illegal business turnover or illegal business turnover of 50,000 RMB or less, the patent administrative department shall impose a fine of 250,000 RMB or less.

The provision is intended to strengthen law enforcement and increase the punishment on patent infringement conducts which severely violate the law, i.e., increase the administrative punishment on the conducts, such as group infringement and repetitive infringement. The ways of administrative punishment include ordering the infringer to immedi-

ately stop the infringement, confiscating or destroying the infringing products, or the parts, tools, modules or equipments that are used to manufacture the infringing products or implement the infringing methods, and fine, which are certainly advantageous to protection of patentees' civil rights and interests, maintenance of a normal market order, creation of a good innovative environment and safeguarding of the public interests, and conducive to solving issues, such as "long duration, difficulty in proof, high cost and low compensation", in current patent right safeguarding.

(2) Punitive damages

Article 65.4 newly added to the Draft reads:

For wilful patent infringement conduct, based on factors including circumstances, scale, consequences of damages, the people's court shall raise the amount of compensation determined in the two preceding paragraphs to two to three times.

Punitive damages, also known as exemplary damages or retaliatory damages, refer to damages exceeding the actually incurred damages ordered by the court. Article 49 of the Law on Protection of Consumer Rights and Interests is a well-known clause regarding punitive damages in the existing Chinese legal system. Article 63 of the Trademark Law also establishes a punitive damage system in trademark infringement lawsuits, providing that "for the bad faith infringement of the exclusive right to use a registered trademark where the circumstances are serious, the measure of damages may be determined at not less than one times and not more than three times the figure determined using the method set forth above." Since the objects of intellectual property are intangible, and some practical issues, such as difficulty in proof and lack of a perfect social trust system, the application of "exalting principle" only is not sufficient to compensate for the patentee's loss and law enforcement costs, thereby rendering the circumstance that "the winner of the lawsuit still loses money" prevailing. Provisions regarding punitive damages are introduced in the Draft, wherein the factors taken into account when using punitive damages are circumstances, scale and consequences of the infringing conducts. According to the Draft, the amount of statutory damages may reach up to 3 million RMB if the provision regarding punitive damages is applied.

(3) Increase in the amount of administrative penalties

Article 63 of the existing Chinese Patent Law reads:

Where any person passes off a patent, he/it shall, in addition to bearing his/its civil liabilities according to law, be

ordered by the administrative authority for patent affairs to correct his/its conduct, and the order shall be announced. His/its illegal business turnover shall be confiscated and, in addition, he/it may be imposed a fine of not more than four times his illegal business turnover and, if there is no illegal business turnover, a fine of not more than 200,000 RMB. Where the infringement constitutes a crime, he/it shall be prosecuted for his criminal liabilities.

Article 63 of the revised Draft reads:

Where any person passes off a patent, he/it shall, in addition to bearing his/its civil liabilities according to law, be ordered by the patent administrative department to correct his/its conduct, and the order shall be announced. For illegal business turnover of more than 50,000 RMB, the patent administrative department shall impose a fine of more than one times and less than five times the amount of illegal business turnover; for zero illegal business turnover or illegal business turnover of 50,000 RMB or less, the patent administrative department shall impose a fine of 250,000 RMB or less. If any crime is constituted, he/it shall be subject to criminal liabilities according to law.

Through comparison, it is found that Article 63 of the Draft increases the times of the fine, and raises the highest amount of fine in the event of zero illegal business turnover.

2. Network infringement

Article 71 is newly added to the Draft for clarifying the legal liabilities of network service providers in ever-increasing network patent infringement disputes:

Article 71

Where the network service provider knows or should have known that the network user infringes a patent right by utilizing the network services provided, but failed to adopt necessary measures to stop the infringing conduct, such as deleting, blocking or disconnecting the link to the infringing products, the network provider shall be jointly and severally liable with the network users.

Where the patent owner or the interested party has evidence to prove that the network user utilized the network service to infringe his/its patent rights, he/it may inform the network service provider to take necessary measures as described in the preceding paragraph to stop the infringement. Where the network service provider fails to take necessary measures upon receipt of a valid and effective notice, it shall be jointly and severally liable for any additional harm with the network user.

Where the patent administrative department determines

the fact that the network user utilized the network service for patent infringement, it shall inform the network service provider to take necessary measures to stop the infringement. Where the network service provider fails to take necessary measures, it shall be jointly and severally liable with the network users for the expanded portion of damages.

Pursuant to Article 36.2 of the Tort Liability Law, “where a network user commits infringement through the network services, the victim of the infringement shall be entitled to notify the network service provider to take such necessary measures as deleting, blocking or disconnecting the link to the infringing products. If, after being notified, the network service provider fails to take necessary measures in a timely manner, it shall be jointly and severally liable for any additional harm with the network user.” The network service provider is obliged to “delete the link to infringing products upon receipt of the notice”. Article 71.2 of the Draft has similar provisions that “where the network service provider fails to take necessary measures upon receipt of a valid and effective notice, it shall be jointly and severally liable for any additional harm with the network user”. However, the network service provider has neither capability nor obligation to judge whether an infringement conduct exists. It is still difficult for the network service provider to make a judgment on authenticity and stability of patents upon receipt of the notice from the so-called patent owner. For this reason, it is suggested to expressly define the “valid and effective notice” provided by the network service provider in the Implementing Regulations of the Patent Law.

3. Allocation of burden of proof

Article 61.3 newly added to the Draft reads:

Once the people's court concluded that an infringing conduct has been established, in order to determine the amount for compensation, under the circumstances in which the right holder has made its best efforts to produce evidence, and the related account books or materials are mainly under the control of the accused infringer, the court may order the accused infringer to provide account books and materials relating to the infringing conduct; if the accused infringer does not provide account books or materials or provides false account books or materials, the people's court may refer to the right holder's claims and evidence to rule on the amount of compensation.

According to Article 112 of the Interpretation of the Supreme People's Court of Several Issues Concerning the Application of the Civil Procedure Law of the People's Re-

public of China taken into effect on 4 February 2015, under the circumstances that the evidence in writing is under the control of the opposite party, the party bearing the burden of proof may file a written application to respectfully request the people's court to order the opposite party to file the evidence in writing before the time limit for producing evidence expires. If the grounds for application are acceptable, the people's court shall order the opposite party to file the evidence in writing. The applicant is liable to pay all the costs incurred by filing of the evidence in writing. If the opposite party refuses the filing without justifiable grounds, the people's court can accordingly determine that the content of the evidence in writing as asserted by the applicant is true. The new Interpretation of Civil Procedure Law makes reference to the system regarding the order for the production of documents adopted in civil law countries and regions, which is the embodiment of the theory of the spoliation inference in the field of the evidence in writing.⁵

Both the Draft and Article 63.2 of the existing Chinese Trademark Law make reference to the order for the production of documents, and are restrictively applicable to determination of the evidence regarding the amount of damages in the patent and trademark infringement lawsuits. “The difficulty in the burden of proof” is one of the prominent issues in patent and trademark right enforcement. Where the patent owner has tried every means to produce evidence and the evidence in writing, such as the account books and materials, for proving the infringing conduct is mainly in the hands of the infringer, the people's court can determine that the party which claims the rights is not liable for producing the evidence in writing, and order the infringer to provide the account books and materials in relation to the infringing conduct. An arbitrary limitative term “may”, instead of a compulsory limitative term “should”, is used in the provisions as follows: “order the accused infringer to provide account books and materials relating to the infringing conduct” and “refer to the right holder's claims and evidence to rule on the amount of compensation”. The people's court is entitled to judge at its discretion whether the order for the production of documents shall be made and whether the presumption mechanism shall be adopted. Meanwhile, the provision that “the right holder has made its best efforts to produce evidence, and the related account books or materials are mainly under the control of the accused infringer” is just a sufficient condition for the order for the production of documents, and considerations taken into account when making a deci-

sion include the efficacy of the evidence provided by the right holder, whether the failure of the infringer to provide account books and materials relating to the infringing product renders the truth hard to be found, whether the party concerned has legal grounds for his/its failure in filing the relevant materials or objective reasons to exclude himself/itself from blaming. Moreover, deeper research needs to be made in the legal practice and relevant provisions shall be set forth in the future legal documents as to how to delimit “the right holder has made its best efforts to produce evidence”, and what evidence is required to prove its best efforts.

The Draft is embracing bold reform in the field of patent right exploitation and protection, in particular in new system establishment and old system improvement. The SIPO will submit the Draft of the Chinese Patent Law revised on the basis of the wide opinions from the society to the legislative affairs office under the State Council, and the Draft will be put on the agenda of the standing committee of the NPC for discussion after passing through a series of procedures for examining legal cases submitted to the NPC by the State Council as stipulated in the Legislative Law. The fourth revision of the Chinese Patent Law is expected to be determined in 2016 through several rounds of discussion, reviewing,

commenting and revision. ■

Deepest gratitude shall be given to my colleagues in the legal department of CPA who gave a lot of supports during the writing of this article.

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¹ See the SIPO's explanation on “the Draft Revision of the Chinese Patent Law (Draft for Comments)”, April 2015.

² See Article 23 of the German Patent Act, and Article 46 of the British Patent Law.

³ Li Jiang, Wang Jinjing, Xiong Yanfeng et al. (2014). Study on Implied Patent License in China. *China Patents & Trademarks*, 4. See the Liaoning province Higher People's Court's Judgment No. Minliaoosizhizi 126/2007.

⁴ See the Judgments No. Yuegaofaminsanzhongzi 305/2013 and No. Yuegaofaminsanzhongzi 306/2013; and Kong Xiangjun and Wang Lantao (editors in chief) (2015, January). *Analysis on Model IP Cases* (pp. 3-12). The Intellectual Property Press.

⁵ Shen Deyong (editor in chief) (2015, March). *Understanding and Application of the Supreme People's Court's Judicial Interpretation of Civil Procedure Law* (pp.369–373). The People's Court Press.