An Overview of the Draft Amendment to the Patent Law

On 27 December 2006, the State Intellectual Property Office (SIPPO) submitted the Draft Amendment to the Patent Law of People's Republic of China (the Draft Amendment) to the State Council for review, which indicates that the work on the third amendment to the Patent Law has entered the stage of the State Council review. The whole legislative process for the third amendment to the Patent Law is expected to be finalised in 2008.

The Patent Law is amended mainly out of the consideration of keeping a balance between the interests of the patentees and those of the public at large, preventing abuse of the patent right, and harmonising with the international rules and the other relevant laws.

Following is an overview of the highlights of the Draft Amendment to the Patent Law.

Ownership and administration of rights

1. Ownership of rights in invention-creations made in research projects funded by the State

Article 14 of the Patent Law now in force provides for the administration and spread of the invention-creations made in research projects funded by the State. The over-emphasis of the State ownership of these invention-creations results in lack of clear division of responsibilities, rights and interest of the entities undertaking the projects, which not only dampens these entities’ enthusiasm to sponsor innovation, but also affects their initiative to seek intellectual property protection, and to commercialise or industrially utilise, their research achievements. To address the issue, the Ministry of Science and Technology and the Ministry of Finance jointly formulated, in April 2002, the Several Provisions on the Administration of Intellectual Property Rights in Research Achievements of the State Research Projects to adjust the police with respect to the intellectual property rights of the State research projects. It is provided therein that except the achievements of research projects related to the national security, national interest or important public interest, the entity undertaking research projects may independently enjoy the intellectual property rights in their research achievements, decide, under the law, on the matters of exploitation, licensing, assignment and conversion of their intellectual property, into share (in joint venture), of their research achievements, and receive benefits therefrom.

The core of this provision, incorporated in Article 14 of the Patent Law in force, has become that of Article 9 of the Draft Amendment.

It is admitted in the official explanation of said Article 9 that the amendment has been made by drawing on the US Bayh-Dole Act, which mainly shows that research achievement of, and intellectual property right in, a research project funded by the government is owned by the research institute that has made it. The cooperation between non-profit institutions and industry is encouraged to convert these research
achievements, and the researchers involved may share the benefits. Also, as the fund provider, the government reserves the “right of intervention”. If these institutions fail to commercialise an invention in the form of patent licensing, the government will have the power to decide who will go on commercialising the invention.

2. Examination and approval of applications filed for foreign patent for invention-creations made in China

Article 20, paragraph one of the Patent Law in force provides that “where any Chinese entity or individual intends to file an application in a foreign country for a patent for invention-creation made in China, it or he shall file first an application for patent with the Patent Administration Department under the State Council”. Companies solely invested by foreign investors, their joint ventures or research institutes set up under law in China are all “Chinese entities”. Accordingly, they should abide by the provision if they apply for foreign patents for invention-creations they have made in China, that is, they should first apply for patent in China. However, in practice, some foreign sub-companies conclude contracts that, under Article 8 of the Patent Law, the right to apply for patent for their invention-creations to be made by them in China belong to their parent companies in the name or under the disguise of cooperation or entrustment out of the concern of their own interests, so that they could first apply for patent in foreign countries directly in the name of their parent companies to circumvent the regulatory provisions of Article 10 of the Patent Law on assignment of right to foreigners and that of Article 20 on first filing application for patent in China. To address the issue and rectify the inadequacy of Article 20, paragraph one of the Patent Law in force, Article 4, paragraph two of the Draft Amendment provides that where any entity or individual intends to file an application in a foreign country for a patent for invention-creation made in China, it or he shall get approval from the Patent Administration Department under the State Council.

Besides, with the provisions on penalty set forth in Article 76 of the Draft Amendment that “any entity or individual that applies for foreign patent for its or his invention-creation made in China without approval of the Patent Administration Department under the State Council shall not be granted the patent right for its or his application for patent for said invention-creation in China; any entity or individual that divulges the State secret shall be held legally liable”.

For the regulatory procedure, it is officially proposed to draw on the US practice. That is, an applicant who is not going to file an application for patent in China may request to file an application for patent in a foreign country alone; an applicant who first files a patent application in China is deemed to have requested filing application for patent in a foreign country. Under the two circumstances, an official decision should be made within six months after the request for filing an application for patent in a foreign country. The detailed provisions will be set forth in the Implementing Regulations of the Patent Law.

Standards for patent grant
Removal of territorial restraints on prior art and prior design

Articles 22 and 23 of the Patent Law now in force lay down the mixed novelty standards in the provisions on novelty, say, by way of prescribing different territorial scope for different classes of prior art and prior design: the scope for those disclosed in open publications is global; that for those disclosed in use or otherwise is limited to mainland China. With the global economic integration and developments of science and technology, people’s communication is getting increasingly frequent, and, in particular, the network technology is under rapid change, which has rendered the line of demarcation between publication and non-publication fuzzy and the mixed novelty standards gradually devoid of its practical significance. Besides, allowing technologies made known to the public in such ways as disclosure by sale in a foreign country is detrimental to the protection of real invention-creations and, as well, to the lawful interest of the Chinese public. To harmonise with the mainstream international patent system, the Draft Amendment for review has removed the territorial restraints on prior art and prior design, and accepted the internationally prevalent absolute novelty standards, and added to Articles 22 and 23 thereof the definition of the prior art and prior design using the absolute novelty standards.

Design Patent System
1. Duly limiting the patentable subject matter of design

Each year, China leads the world in the number of applications filed for the patent for design. A considerable part of these applications relate only to indicative bottle labels and two-dimensional package devices, which is not encouraging for innovation of design of products, and would result in the increased overlap between the design patent right and the exclusive right to use trademarks. For that reason, Article 25, paragraph one (6) of the Draft Amendment provides that no patent right shall be granted for “the mainly indicative design
of device, colour or their combination of two-dimensional printing matter”.

2. More demanding requirements for grant of the patent right for design

In China, some applications filed for the patent for design and some design patents relate to designs of low-level creativity generated by imitating existing designs or simplistic piecing together features of existing designs. To change this situation, Article 23, paragraph one of the Draft Amendment sets forth additional provisions on conflicting design applications and the requirements of “inventiveness” somewhat similar to that for patenting inventions and utility model as follows:

“A design for which the patent right should be granted shall not be an existing design, nor shall be an identical one in respect of which another person has filed an application with the Patent Administration Department under the State Council before the date of filing and which has been described in any patent documents published after the date of filing, and it shall be one obviously different, to a designer in the art, from any existing design or combination of existing designs”.

3. Allowing filing one application for associated designs

In practice, a designer often develops several designs (associated designs) from a new parent design, and hopes to file one application in respect of the parent design and the series of similar designs to seek the patent protection for them all. This practice is not workable for being contrary to the provision on unity of Article 31 of the Patent Law in force. If an applicant files separate applications in respect of several similar designs, these applications would be rejected for being contrary to the provision that “only one patent right shall be granted for the identical invention-creations”. To address the issue, Article 31, paragraph two of the Draft Amendment allows an applicant to file one application in respect of several associated designs as follows:

One design patent application shall be limited to one design incorporated in one product. One application may be filed relating to two or more similar designs incorporated in one product or relating to two or more designs incorporated in products of the identical class and sold or used in set.

4. Instituting a design patent search report system

Applications for patent for design are only preliminarily examined, but not examined as to substance under the Patent Law in force. For that matter, the granted patent right is of poor certainty, and the public interest is likely to be prejudiced. With the rapid increase in the number of the design patent applications filed and patents for design granted, these problems stand out. The SIPO has improved its design database for search, and is now technically capable of preparing search reports. It is high time to institute a design patent search report system with reference to the utility model patent system. To this end, the Draft Amendment provides that presenting a search report is required for a design patentee to bring an infringement action in the people’s court or to request the Patent Administration Department for handling a matter related to a design patent.

5. Brief explanation of a design may be used to construe the claims

Article 56, paragraph two of the Patent Law in force provides that the extent of protection of the patent right for design shall be determined by the product incorporating the patented design as shown in the drawings or photographs. In practice, determination of the extent of protection of a design patent is often more difficult than that for an invention or utility model patent because the drawing or photographs of a design, though showing the details of the design, do not make clear the subject matter as claimed in the claims of an invention or utility model patent, thus making it harder to determine the extent of protection of a design patent.

In this regard, Article 58 of the Draft Amendment provides that “the extent of protection of the patent right for design shall be determined by the product incorporating the patented design as shown in the drawings or photographs, and the brief explanation may be used to construe the drawings or photographs”. On account of this amendment to said Article 27 of the Draft Amendment also provides that the brief explanation of design be incorporated in the documents as required in the application filed by an applicant for a patent for design.

Patent right protection

1. Offering for sale of product incorporating a patented design as act of infringement

For lack of related requirements in the TRIPS Agreement, the Patent Law in force does not provide that acts of offering for sale are infringement of the design patent right. This makes the protection different for the three categories of the patent rights. Article 12, paragraph two of the Draft Amendment provides that any product of design patent shall not be offered for sale without authorisation.

2. Improving administrative enforcement of patent

The Patent Law as of 1984 provided for the measures of
administrative enforcement of the patent rights, which played an important role in the early years immediately after the institution of the patent system in China. The provisions, characteristic of China, have been kept intact in the Patent Law as of 1992 and 2000.

To enhance the administrative enforcement of patent, the provision has been added to Article 64 of the Draft Amendment that a maximum amount of RMB 100,000 yuan shall be imposed as administrative penalty on acts of willful patent infringement, namely “the Patent Administration Department under the State Council handling a patent infringement dispute considers that an infringement is established and that the infringement is a willful infringement by the infringer may impose a fine of no more than RMB 100,000 yuan, in addition to ordering the infringer to immediately cease and desist from the infringement”.

Additionally, given that acts of passing off the patent of another person as his own and acts of passing off non-patent as patent are all acts of adulteration and deception of the public, with considerable harm to the public interest, in the Draft Amendment, the provision of the Patent Law in force on the administrative penalty to impose fine on acts of passing off non-patent as patent has been changed into imposition of the same administrative penalty on acts of passing off the patent of another person as one’s own.

Also, the Draft Amendment draws on Article 55 of the Trademark Law by setting forth the necessary means to make discovery in its Article 67 in order to make the means available to the Patent Administration Department under the State Council the necessary to make discovery in handling patent infringement and acts of passing off the patent of another person as one’s own and acts of passing off non-patent as patent.1

3. Provisions on the amount of damages for infringement

The provisions related to the statutory damages of the remedies against patent infringement are found in Article 21 of the Supreme People’s Court’s (SPC) Several Provisions on Issues Relating to Application of Law to Adjudication of Cases of Patent Disputes “where the injury is difficult to be determined, the amount of damages one to three times that of the patent licensing fee or not less than RMB 5000 yuan to not more than RMB 300,000 yuan, but not exceeding RMB 500,000 yuan at most shall be determined according to the facts of the case”. The SPC’s above judicial interpretation was made after the Patent Law was amended in 2000. The provision on “statutory damages” has been incorporated in Article 68, paragraph three of the Draft Amendment, which reads “where it is difficult to determine the injury to the rightholder, benefits of the infringer and the patent licensing fee or royalties, the people’s court may determine the amount of damages not less than RMB 5,000 yuan and not more than RMB 1,000,000 yuan according to such factors as the class of the patent right in suit, and nature and circumstances of the act of infringement”.

Besides, Article 68, paragraph two of the Draft Amendment also provides that “the amount of damages for an infringement of the patent right shall also include the reasonable expenses the rightholder has paid to cease the act of infringement”.

The amendment along the line will harmonise the Patent Law with the Copyright Law and the Trademark Law now in force.

4. Additional provisions on pre-trial evidence preservation

In the measures of temporary remedies against infringement of the patent right the Patent Law in force only provides for the pre-trial cessation of acts of infringement and “pre-trial property preservation”. The SPC added the “measure of evidence preservation” in the Several Provisions on Issues Relating to Application of Law to Pre-trial Cessation of Acts of Patent Right Infringement.

So the provision on the measure of evidence preservation is added to Article 70, paragraph one of the Draft Amendment.

This amendment will also harmonise the Patent Law with the Copyright Law and the Trademark Law now in force.

Safeguarding legitimate rights and interests of the public and prohibiting patent right abuse

1. Provisions improving the compulsory license

Compulsory license, taking up an very important position in the national patent system in various countries, is obviously of practical significance in preventing patentees from unduly exercising their patent right, in safeguarding the national and public interest, and in promoting social welfare. To this end, following amendments have been made in the Draft Amendment:

1) Grounds for compulsory license

Article 48 of the Draft Amendment provides “under any one of the following circumstances, the Patent Administration Department under the State Council may, at the application by an entity having the condition to exploit a patent, grant a
compulsory license for it to exploit an invention or utility model patent:

(1) where the patentee fails to exploit, or fails to fully exploit, his patent without justification after the expiry of the three years from the date of grant of the patent right; or

(2) where the patentee’s act of exercising his patent right has been established in the judicial or administrative procedure as an act of eliminating or restraining competition’.

The amendment to the provision of Article 48 (1) has been made under the relevant provision of the Paris Convention for the Protection of Industrial Property, and the provision of Article 48 (2) is set forth to harmonise with the Antitrust Law now under formulation.

2) Granting compulsory license when issues of public health arise

Article 49 of the Draft Amendment provides that “where a national emergency or any extraordinary state of affairs occurs, or where the public interests so require, the Patent Administration Department under the State Council may, as suggested by the relevant competent department under the State Council, grant a compulsory license for an entity designated by the department to exploit a patent for invention or utility model for the purpose of preventing, treating or controlling an epidemic”.

The amendment of above second paragraph has been made to prevent public health crises under the Declaration on Implementation of the TRIPS Agreement and Public Health.

3) Granting compulsory license for addressing public health issues confronting the developing countries that are incapable or not sufficiently capable of making pharmaceutical products or the least developed countries

Article 50 of the Draft Amendment provides that “where a pharmaceutical product for treating an epidemic is patented in China and where another developing country that is incapable or not sufficiently capable of making the pharmaceutical product or a least developed country hopes to import said product from China, the Patent Administration Department under the State Council may grant an entity having the condition to exploit the patent a compulsory license to make the pharmaceutical product and export it to said country”.

The provision of this Article is consistent with the relevant part of the Protocol on the Amendment to the TRIPS Agreement passed at the WTO General Council Meeting held in December 2005. In the Protocol, it is recommended to add to the TRIPS Agreement the provision of “allowing members to grant compulsory license to address the public health issues confronting another member that is incapable or not sufficiently capable of making the pharmaceutical products.

4) Procedural requirements for the grant of compulsory license

According to Article 31 of the TRIPS Agreement, Article 53 of the Draft Amendment provides for the procedural requirements for the grant of compulsory license, namely “an entity or individual person applying for a compulsory license under Article 48 or 51 of this Patent Law shall provide certification showing that it or he tries to conclude with the patentee a licensing contract on reasonable terms and conditions for the exploitation of his patent, but has failed in securing the license within a reasonably long time”.

Since the act to grant a compulsory license under Articles 49 and 50 of the Draft Amendment is an act embodying the will of a nation, Article 53 of the Draft Amendment expressly provides that the request for the grant of a compulsory license under Articles 49 and 50 does not require provision of the above-mentioned certification.

2. Additional provisions related to prior art (design) defence and litigation in bad faith.

1) Provisions related to prior art (design) defence

Article 62 of the Draft Amendment provides 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 act of exploitation is not an infringement of the patent right in suit.”

The prior art (design) defence has been widely practiced in the patent related judicial practice in the U.S., Japan and Europe. Some courts and the Patent Administration Department under the State Council in China also allows the prior art (design) defence to be practiced in the course of hearing or handling a patent infringement disputes. The SPC’s attitude toward the prior art (design) defence is positive in its judicial interpretations and replies. Article 62 of the Draft Amendment has clearly incorporated in the Patent Law the doctrine of the prior art (design) defence widely accept-
ed in the current judicial practice.

2) Provisions related to litigation in bad faith

For the first time, provisions for stopping litigation in bad faith has been set forth in the Draft Amendment. Article 63 thereof provides that “if a patentee, who clearly knows that his patented technology or design is a prior art or design, accuses another person of infringing his patent right, the accused infringer may petition the people's court to order the patentee to compensate for the damage caused because of the accusation”.

This provision has been set forth in direction to the fact that now some people who clearly know that their technologies or designs are prior technologies or designs and they should not have applied for patent to protect them take advantage of the system within which applications for patent for utility model and design are not examined as to substance, and, as well, accuse others of infringing their patent right to disrupt their normal business activities. The same things would happen to the invention patent right granted after the substantive examination is performed. Article 48 of the TRIPS Agreement has also provided for the system of indemnification against rightholders’ abuse of the patent right. Institution of the indemnification system against litigation in bad faith obviously has a legal deterrent force against abuse of the patent right.

3. Additional provisions for statute of limitation and unenforceability of the patent right.

Article 72 of the Draft Amendment provides that “any patentee or interested party, when instituting legal proceedings or request the Patent Administration Department for treatment at the expiration of the statute of limitations, is retroactively entitled to the compensation for the damage caused by an act of infringement which took place within two years from the date of instituting the proceedings or requesting treatment. If, without justified reasons, the patentee or interested party institutes proceedings in the people’s court or requests patent administrative department for treatment three years after the expiration of the statute of limitations, it or he has no right to claim damages for the act of infringement that took place before the date when he institutes proceedings or requests treatment. Under the above circumstances, where an infringing act continues when litigation is instituted or treatment requested, the patentee or an interested party may request the people’s court or the Patent Administration Department to order the infringer to cease the infringing act immediately.”

To Article 73 of the Draft Amendment has been added the provision on the unenforceability of the patent right caused because of inaction in exercising the right that “where a relevant act, expression of his will or silence of the patentee or an interested party makes the entity or person that exploits the patent at issue have the reason to believe that the patentee or the interested party will not claim his rights against the exploitation, but the patentee or the interested party later institutes proceedings in the people’s court or requests the Patent Administration Department for treatment, and his claim is obviously contrary to the doctrine of good faith, he is not entitled to be compensated for the exploitation before the date on which the litigation is instituted or treatment requested, nor is he entitled to request the people’s court or Patent Administration Department to order said entity or person to cease its or his exploitation.”

The preceding two Articles have been added to urge patentees to exercise their patent right as early as possible and to prevent patent right abuse.

4. Acts not deemed to be infringement of the patent right.

1) Acts of parallel importation (Article 74 (1) of the Draft Amendment)

Acts of parallel importation are all permitted to make it possible for China to import when necessary patented drugs China is now not capable or is not capable enough to make to address public health issues in China.

2) “Bolar exception” (Article 74 (5) of the Draft Amendment)

Given that the national patent laws of the countries, such as the U.S., Canada, Japan and Australia, have expressly provided for the “Bolar exception” and that this system has been determined by the WTO dispute resolution agency in the relevant decisions or rulings as compliant with the TRIPA Agreement. China, as a country with a large population where the public health is a big issue, is justified to incorporate the provision on the “Bolar exception” in its Patent Law to make it possible for the public to get medicine and medical apparatus or instruments in a timely manner and in a cost-effective way after the patents for these medicine and medical apparatus or instrument expire.

By Editorial Department

1 Article 67 of the Draft Amendment has been made by coping Article 55 of the Trademark Law of the People’s Republic of China.