



Major changes in the third revision to the PRC Patent Law

The PRC Patent Law has been amended three times since 1984. The second round of amendments in 2000 was aimed at aligning the Patent Law with TRIPS. The most recent revisions promulgated on 27 December 2008 were passed to create further consistency with international standards and other PRC regulations and will come into effect on 1 October 2009.

The recent revisions to the Patent Law are also a part of a national strategy to assist Chinese companies move towards greater innovation and to strengthen China's legislative and enforcement framework for the protection of intellectual property rights. They bring about several significant changes in law, which are outlined in this briefing.

Background

China has been making notable strides recently to improve its legislative and enforcement framework for the protection of intellectual property rights (IPR) in keeping with the national strategic plan for IPR issued in 2008. An amendment to the PRC's Civil Procedure Law in October 2007 has, for example, given higher level courts greater supervisory powers over lower courts in an attempt to ensure greater consistency in the enforcement of laws and stamp out local protectionist practices. The recent revisions to the Patent Law are also a part of a national strategy to assist Chinese companies move towards greater innovation.

The size of patent awards is also trending appreciably upwards. Recent substantial damages awards in the patent arena include the RMB20m awarded on 21 January 2009 to the German bus and coach manufacturer Neoplan by the Beijing No. 1 Intermediate People's Court against three infringing PRC companies (under a design patent) and the RMB50m awarded against Samsung to a company in east China's Zhejiang province for infringement of its dual-mode cell phone patent. Ying Xinlong, deputy director of the Shanghai Higher People's Court, was quoted in *China Daily* on 27 November 2008 as saying, 'We are hoping that harsher penalties will prevent more intellectual property infringements in the future.'

The third revision to the Patent Law comes into effect on 1 October 2009. In China, the Patent Law also governs registered designs and utility models. The major changes are described in this briefing.

Inventions made in China (article 20)

Under the 2000 Patent Law, patent applications for inventions made in China were required to be filed first in China before any filings were made abroad. The revision partially relaxes this requirement and provides a mechanism for the State Council to grant approval for patent applications for inventions made in China to be filed abroad first. The patentee is required to file a report with the State Council for a confidential examination to obtain such approval. Failure to submit such a report to the State Council will prevent the patenting of a subsequent application filed in the PRC for the same invention.

This development will raise some concerns for applicants because the procedures for the confidential examination have not been specified in the new Law rendering uncertain the process and grounds for the withholding of permission. Furthermore, the uncertainties in the existing Law remain regarding what it means for an invention to have been 'made in China' if input has been received from R&D units in both domestic and overseas locations.

The provision is intended to promote China as an R&D hub for multinationals and has been broadly welcomed by domestic and foreign companies alike. Foreign entities are however likely to wait and see how the changed procedure is administered in practice before unwinding the offshoring arrangements that have widely been put in place to work around the restrictions in the existing Law.

Patentable subject matter (article 2)

The amended article 2 introduces statutory definitions of patentable inventions, utility models and designs. The amendment is relatively unusual in that it lays down a definition of an invention per se as distinct from delineations of patentable and non-patentable subject matter¹. Nevertheless, the definitions are broadly consistent with the international positions. In the case of designs, registration is limited to designs that are both aesthetic and applicable for industrial purposes. Purely functional features of designs may on the other hand be registrable as utility models.

Enhancement of the novelty requirement (articles 22 and 23)

Invention patents and utility models

The novelty requirement in the 2000 Patent Law provided that an invention must not have been disclosed in publications anywhere in the world or used in China prior to the application date. This two-pronged novelty test is similar to that under US patent law.

The revised Law has clarified and enhanced this novelty requirement by eliminating the territorial restriction on use. In other words, China will now operate an 'absolute standard' and a truly global test of novelty for both invention and utility model patents in line with the position under the European Patent Convention. This means that any act that makes an invention available to the public before the international filing date, no matter where in the world, will be novelty-destroying and will bar the invention from being patented in China. An invention will satisfy the novelty requirement if it has not been disclosed in publications, has not been used or is not otherwise known to the public, anywhere in the world.

On the other hand, it is not likely that any substantive change was intended by the amendment of the scope of prior art to comprise 'technology' in contrast to the arguably narrower 'inventions or utility models' of the current Law.

Under the revised Law, the test of novelty (but not distinctiveness) for designs has also been expanded

to include the content of prior applications that are unpublished at the filing date in line with the position for invention patents.

Design patents

In the case of design patents, a design will be deemed novel if it is not known to the public anywhere in the world at the international filing date. The wording of the previous requirement was similar to that for invention patents and utility models.

Although the wording now adopted, 'known to the public', is identical to that applied in respect of invention patents and utility models, the question arises whether it will be interpreted in the same strict manner. In particular, how the standard will be interpreted as regards designs disclosed in obscure publications outside the expected circle of the relevant design sector remains to be seen. An explicit saving for designs first made available to the public in a highly obscure publication or other source is contained in EU design law, for example. It remains to be seen whether the courts will apply the new wording of the Chinese Law to imply a similar saving, or alternatively to deem designs to be known to the public no matter how obscure is the source of the disclosure.

Specific savings do already exist in relation to all types of patents in connection with a first publication at certain exhibitions, academic meetings or without the applicant's consent.

Broadening of protection of design patents (article 11)

Under the Trade-Related Aspects of Intellectual Property Rights Agreement (TRIPS), an offer for sale is not an infringing act with respect to a design patent. However, the PRC Patent Law has added the act of offer to sell to the scope of exclusive rights enjoyed by design patentees. Holders of design patents are therefore protected from another making, offering to sell, selling or importing a product incorporating their patented design for production or business purposes.

Assignment of patents (article 10)

In the 2000 version of the Patent Law, any assignment of either the right to apply for a patent, or of the patent right

¹ An 'invention' means a new technical solution made for a product, method or the improvement thereof.

itself, by a Chinese entity or individual to a foreigner was subject to the approval of the competent department of the State Council. Despite this requirement, no competent department had been ever designated to grant such approval. The current Patent Law removes the approval requirement. Instead, it specifies that any assignment of either the right to apply for a patent, or of the patent right itself, by a Chinese entity or individual to a foreigner will need to follow the procedures specified in the provisions of any relevant laws and administrative regulations. This is principally a reference to the requirements set out in the Technology Import and Export Regulation, which must be followed. This regulation requires that all assignments of a patent, patent application or the right to apply for a patent, must be registered with the Ministry of Commerce (MOFCOM) within 60 days of the assignment agreement entering into force.² However, separate approval for the transfer is required only if the subject patent contains technology that falls into the category of restricted technology.

Co-ownership of patent rights (article 15)

In the absence of express provisions dealing with co-ownership of patent rights under the 2000 Patent Law, a provision under the former Technology Contract Law was often taken as a reference point when dealing with this issue, despite it having been abolished by the PRC Contract Law in 1999. The new Patent Law introduces an explicit provision regulating the rights of co-owners.

Lacking an applicable agreement between the co-owners, each co-owner is entitled to work the patent itself or to license third parties to work the patent. If the co-owners have agreed on the ways in which their patent rights may be exploited, the revised Law upholds the primacy of that contract. Except for these situations, all other exercise of a jointly owned patent, for example, by the grant of an assignment of or creation of an encumbrance over a patent will require the consent of each of the co-owners.

These rules apply to the right to apply for a patent as well as to the registered right itself.

It is less clear whether the exception for licensing will extend to cross-licensing, or to exclusive or sole grants because the status of the grant as against the

non-licensing co-owner(s) will be uncertain in the absence of any clarification in the statute. The revised position also has no bearing on rights in related design and other documents protected by copyright. Clients would be well advised, as always, to ensure that the ownership and exploitation of all intellectual property rights arising from co-development work involving China is governed by a clear contract between the parties.

Where another party is licensed to exploit the patent, the royalty received must be distributed among the co-owners. The legislation does not specify how royalties are to be distributed but this will presumably be in proportion to the parties' respective ownership interests, or otherwise equally.

Compulsory licences (articles 48 and 50)

The new Law details the conditions under which a party is entitled to apply for the grant of a compulsory licence to exploit a patent right. Under the new Law, compulsory licences will be available in the following two circumstances related to the exploitation by the patentee:

- if the patentee fails to exercise its patent or has not sufficiently exercised its patent, without proper reason, within three years of the date of grant of the patent and four years of the filing date; or
- if the patentee's exploitation of the patent is determined in accordance with Law to be anti-competitive and the compulsory license is intended to eliminate or reduce the adverse effect on competition.

Although the amendment removes the previous explicit requirement that a compulsory licence would only be available if the patent owner had refused to license the patent on reasonable terms (consistent with article 31(b) of TRIPS), applicants will be required to provide with the application evidence that they have been unable to obtain such a voluntary licence.

Additionally, in compliance with the *Doha Declaration on the TRIPS Agreement and Public Health*, the Law specifies that compulsory licenses may be issued to manufacture and export medicines to certain countries in accordance with China's international obligations. Compulsory licences may also be granted where required in the event of a national emergency or another extraordinary state of affairs, or in the public interest. Lastly, a compulsory

² The time limit applies from 1 March 2009.

licence is available to a patentee to unblock the use of his later right to more advanced technology of unusual economic significance where that right is non-severable from an earlier patent.

Exemptions to infringement (articles 62 and 69(5))

Parallel imports

China has dramatically reversed its position on parallel imports. Whereas the first importation of a patented product or a product obtained directly by operation of a patented process was previously the exclusive right of a patentee in all circumstances, the new Law allows international exhaustion. Third parties will now be permitted to import into China and sell patented products, etc that have been sold in an overseas market by the patentee or with his authorisation. The move is intended to open up the domestic market to increased price competition for imported goods.

'Clinical trials' exemption

The new Patent Law provides an exemption from infringement for the acts of manufacturing, using or importing patented medicines or medical apparatus for the purpose of obtaining regulatory approval for drugs and medical devices. This measure is likewise intended to encourage R&D activities in China but will also be of assistance to generic pharmaceutical companies looking to get a head start in obtaining authorisation to market end-of-term drugs.

Statutory 'squeeze' defence

The new Law introduces a statutory 'squeeze' defence to infringement. Infringement will not be made out where the defendant can demonstrate that the technology or design he is using is comprised within the prior art. The defence is available to the alleged infringer without his having to seek invalidation of the patent-in-suit for lack of novelty. The wording of the article does not make it clear whether the defence will also extend to the use of obvious developments over the prior art, although policy considerations would suggest that it should.

Increased damages for patent infringement (article 65)

The new Patent Law provides that courts may determine statutory damages in an amount of between RMB10,000 and RMB1,000,000. Such an amount is well above the maximum statutory damages for copyright and trade mark infringement, which is currently set at RMB500,000.

The revised Law appears to set up a compensation waterfall with options available for the court to assess compensation awards if more favoured alternatives are difficult to assess: firstly, compensatory damages; second, an account of the products obtained by the infringement; third, an (unspecified) multiple over a reasonable royalty fee; and lastly, if all of the above are difficult to assess, an award of statutory damages.

Such a development is a clear statement by the government that it wishes to focus on strengthening patent protection. What remains to be seen is how readily lower courts in particular will favour an award of statutory damages over the other bases for assessment.

If a person passes off a patent as belonging to himself, a fine may be imposed of up to four times the illegal income obtained from the infringement or of up to RMB200,000 in the absence of evidence of any illegally obtained income.

Protection of genetic resources (articles 5 and 26)

The revised Patent Law included two provisions aimed at protecting China's genetic resources. Under article 5, an invention that relies on the use of genetic material that has been obtained or used in violation of any law or regulation will be denied patentability. Furthermore, in compliance with the principles of *Decision VI/24 of the Conference of Parties to the Convention on Biological Diversity*, the new Law requires that a patent application for an invention made in reliance on genetic material specifies the source of that material. An explanation must be given wherever the applicant is unable to state the original source of any such genetic material.

Administrative enforcement (article 64)

The new law strengthens the administrative enforcement of patents by giving further powers to administrative authorities to investigate claims of patent infringement.

Patent administrative authorities may:

- conduct on-the-spot investigations at the premises where a suspected patent infringement has occurred;
- have access to and reproduce contracts, invoices, books and other relevant materials related to the suspected infringement; and
- inspect the relevant products and seize any counterfeited items.

While this type of administrative enforcement is generally difficult to secure in respect of invention patents because of the technical difficulty of ascertaining infringement, the amendments are to be particularly welcomed in the case of design patents and some utility models.

For further information please contact

Connie Carnabuci
Partner
T +852 2846 3300
E connie.carnabuci@freshfields.com

Richard Bird
Senior associate
T +852 2913 2660
E richard.bird@freshfields.com

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