New Draft Fourth Amendment to the Chinese Patent Law

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On April 1, 2015, the State Intellectual Property Office (SIPO) published a new draft of the fourth amendment to the Chinese patent law, for solicitation of public comments. Compared with the last draft which was sent to the State Council for review in January 2013, this version includes some additional changes which appeared for the very first time.

Patentable Subject Matter

Current Article 25 of the Chinese patent law excludes methods for the diagnosis or for the treatment of disease from being granted patent rights. This applies to methods of diagnosis and methods of treatment for both human beings and animals. However, Chinese aquaculture, livestock and poultry farming has undergone significant changes in the past 30 years and there has been an increasing demand for patent protection of innovations in this field. The new draft proposes to allow methods for the diagnosis or for the treatment of disease for farmed animals as patentable subject matter. This proposal reflects the development of Chinese domestic industry and the recognition of the need to amend the patent law to serve the interest of the Chinese domestic industry.

Design Patents

The new draft also includes significant changes related to the prosecution of design patent applications. According to the proposed new Article 2 of the Chinese patent law, “design” means any new design of the shape or pattern, or their combination or the combination of the color with shape or pattern, of a product as a whole or a portion thereof, which design creates an aesthetic feeling and is fit for industrial application. This change allows partial designs, i.e. design for a portion of a product which has not been possible so far. Currently, applicants must limit the scope of protection of a design patent to a specific complete product. For example, even if a design is only for a handle of a cup and the handle could be used for cup bodies of any shape, an applicant has to incorporate the design of the handle into a specific cup body or a limited number of cup bodies in a design application or design patent, as a design patent in China only protects a complete product but not a portion of a product that cannot be sold or used independently. The allowance of partial design protection is definitely a step forward to curb the acts of copying the design of a portion of a product or combining designs of portions of various products and getting away with infringement on any design patent of the complete product(s).

In addition, China is preparing to join the Hague Agreement, and hence the term of protection for design patents is proposed to extend to 15 years in order to meet the relevant requirements in the agreement. Moreover, domestic priority is also provided for design patent applications, which means a design application may claim priority from a previously first-filed Chinese design application within six months from the priority date. This has been absent in Chinese patent law. For design applications, the current Chinese patent law allows only foreign priority, which means claim of priority from a previously first-filed foreign application, whereas both foreign priority and domestic priority are allowed for invention or utility model applications.

License of Right

The concept of *license of right* was introduced in the new draft, which draws on the German and UK practice. According to the explanations to the proposed amendment published by the State Intellectual Property Office (SIPO), by the end of 2013 only 14.6% of the valid patents owned by Chinese universities and 39.7% of those owned by research institutes were being exploited. This system of license of right aims to create a platform to improve technology transfer and commercialization.

The new draft allows patentees to express in writing to SIPO their willingness to license their patents to anyone and specify relevant royalties. In such cases, SIPO will announce the patentees' statements. Patentees may also withdraw their statements in writing, which will also be announced by SIPO. Where the statement of license of right is withdrawn, the interests of the licensees that previously acquired the license should not be affected. The licensee of the license of right should inform the patentee in writing and pay associated royalties. Patentees of utility model patents or design patents should provide patent right evaluation reports when they offer the license of right. Over the term of the license of right, a patentee is not allowed to grant any sole license or exclusive license or request for preliminary injunction. The new draft further mandates that where the relevant parties have a dispute over the license of right, SIPO has the authority to make a decision. If any of the relevant parties are not satisfied with the decision of SIPO, the party may institute legal proceedings within 15 days from receiving the decision.

Standards and Licenses

The new draft also includes provisions related to standards and licenses. Specifically, it mandates that if a patentee that is involved in the making of national standards fails to disclose the patents it owns that are essential to the national standards in the course of making the national standards, it is deemed that the patentee permits the user of the national standards to use the relevant patented technology. In this case, the patentee has no rights to sue the user of the national standards for infringing its relevant patents. It is to be noted that the user of the national standards may still have to pay royalties to the patentee. The amount of royalties can be decided through negotiation. If the relevant parties cannot reach an agreement on the royalties, local IP offices, the administrative authorities responsible for enforcing patent rights as an alternative to courts and other patent related services, have the authority to make a decision. If any of the relevant parties is not satisfied with the decision of the local IP offices, it may institute legal proceedings within three months from receiving the decision.

Patent Enforcement

The new draft includes many changes to the enforcement of patent rights, in favour of the rightsholders. The new draft keeps the concept of wilful infringement which was introduced in the previous drafts. Repeated infringement or mass infringement, i.e. infringement conducted by a good number of parties, is regarded as wilful infringement which disrupts market order. If wilful infringement is found, the court may double or triple the calculated damages or statutory damage determined by the court. Currently, the upper limit of statutory damage is Rmb1 million (US$161,000). In the case of wilful infringement, this may be as high as Rmb3 million (US$483,000). Of course, if damages can be calculated using the loss of the patentee, the illegal gain of the infringer or by making reference to royalties, it may be much higher.

Moreover, to reduce the difficulty of providing evidence for calculating damages, it was proposed that if infringement is found by the court but evidence is in the possession of the infringer, the court can request the infringer to produce evidence. If the infringer is not cooperative, damages may be determined with reference to the plaintiff's claim and evidence.

Under current Chinese practice, if an alleged infringer is sued for infringement, it could file an invalidation request at the Patent Re-examination Board (PRB) and, under some circumstances, request the court handing the infringement case to suspend the infringement proceeding. The PRB's decision on validity may be appealed to the Beijing Intellectual Property Court and subsequently to the Beijing High People's Court. This could effectively delay the conclusion of the infringement case. The new draft proposes that if an infringement case is suspended because the defendant has requested invalidation of the relevant patents, the courts or local IP offices should resume the relevant proceedings once the PRB makes a decision in the invalidation procedure and the decision is announced. This could hopefully speed up the infringement proceedings.

It was proposed that local IP offices would to be given powerful measures against patent infringement. Currently, local IP offices only have relatively powerful measures against patent passing-off. Specifically, when investigating suspected acts of passing off of a patent, the local IP offices may, based on the evidence obtained, query the parties concerned, and investigate the relevant circumstances of the suspected illegal act; carry out an onsite inspection of the site where the party's suspected illegal acts take place; review and reproduce the contracts, invoices, account books and other relevant materials related to the suspected illegal act; and examine the products relevant to the suspected illegal act and may seal up or withhold the product proved to be passing off the patented product. The new draft amendment proposed to give the same power to local IP offices in handling patent infringement cases. In addition, if the local IP offices find infringement, they may confiscate or destroy the infringing products and equipment used for making such products. If they find wilful infringement which disrupts market order, in addition to the above measures, they could impose a fine up to five times the illegal amount of sales. This draws on the administrative enforcement of trademark rights.

In addition to the above proposals which strengthen the enforcement of patent rights, the new draft also includes provisions that specifically deal with e-commerce-related infringement. The new draft proposes that if an internet service provider (ISP) knows or should have known that its user infringes patent rights using its internet service, but the ISP does not take necessary measures to curb it such as deleting, blocking or breaking the links of the infringing products, the ISP shall bear joint liability. The patentee or interested party may notify the ISP if it finds infringement. If the ISP does not take necessary measures after receiving valid notification from the patentee or interested party, the ISP shall bear joint liability for the enlarged damages. Local IP offices may also ask the ISPs to take necessary measures if they find infringement. If the ISP does not do so, it shall also bear joint liability for the enlarged damages.

Service Inventions

According to the current Article 6 of the Chinese patent law, service invention-creation includes an invention-creation made by a person in execution of the tasks of the entity to which he belongs or made by him mainly by using the material and technical means of the entity. For a service invention-creation, the right to apply for a patent belongs to the entity and after the application is approved, the entity is the patentee. The new draft redefines "service invention-creation" by limiting it to those made by a person in execution of the tasks of the entity to which he belongs.

The new draft further proposes that in respect of an invention-creation made by a person using the material and technical means of an entity to which he belongs, where the entity and the inventor or creator have a contract in which the right to apply for and own a patent is provided for, such provisions shall apply and in absence of such a contract, the right to apply for a patent belongs to the inventor or creator. Moreover, the new draft further proposes that under this circumstance, if the contract provides that the right to apply for a patent belongs to the entity, the entity must award the inventor or creator a

reward after the patent right is granted, and in addition pay the inventor or creator remuneration upon exploitation of the patent.

All in all, the new draft amendment to the Chinese patent law reflects the changing IP landscape in China and the demand from mainly the Chinese users of the patent system. It is reasonable to believe the proposed amendment will bring positive changes to the Chinese patent system.

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