Newsletter

China Patent Agent (H.K.) Ltd.
Intellectual Property Attorneys

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WHAT'S NEW?

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- Introduction of the Third Revision of Chinese Patent Law

Commissioner of SIPO Visits CPA

Mr. Tian Lipu, commissioner of the State Intellectual Property Office (SIPO) of China, paid a special visit to our firm on the afternoon of December 11, 2008, during his brief stay in Hong Kong for an official visit to Hong Kong Intellectual Property Department (HKIPD).

At the beginning of the meeting, Mr. Wu Dajian, General Manager of CPA, warmly welcomed Mr. Tian's visit to CPA despite his tight schedule, and briefed the latest development of our firm. During the meeting, Mr. Wu, Ms. Jenny Wang, Deputy General Manager, Ms. Tina Tai, Assistant General Manager, and other participants had a fruitful exchange with Mr. Tian. Mr. Tian introduced the national intellectual property strategy, and addressed to the questions brought up by CPA participants, such as the proceeding of the revision of the Chinese Patent Law, the roles of Chinese IP agencies in the progresses of implementing the national IP strategy and the development of SIPO as well as other patent practice matters. Concrete communications are as follows:

1. On the proceeding of the revision of the Chinese Patent Law

Optimistically, the revision of the Patent Law would be adopted within this month (which turned out to be true at present), which is, again, approximately in accordance with the historic phenomenon that the Patent Law is revised every eight years.

2. On the roles of Chinese IP agencies in the progress of implementing the national IP

strategy

(1) Mr. Tian pointed out that intellectual property has been adopted as a political tool all over the world. When reacting to international challenges, Chinese enterprises and IP agencies are still not strong enough, therefore IP agencies familiar with international rules like CPA are in great need. With the implementation of the national IP strategy, Chinese IP agencies should develop more actively in this respect.

(2) In view of the worsened global financial situation, Chinese IP agencies might consider further exploring the inland market and therefore enlarging the domestic needs.

On the one hand, with the implementation of the national IP strategy, IP progress is listed as an index assessing the performance of state-owned enterprises. It is thus foreseeable that in the near future there will be a great increase of intellectual property rights in state-owned enterprises. Therefore Chinese IP agencies may proactively step in and cooperate with these enterprises.

On the other hand, the middle and western regions of China demand more experienced domestic agents. CPA is advised to establish connections with IP offices in those regions, set up local subdivisions, or send professionals to handle local cases non-periodically.

3. On the development of SIPO

(1) The function of SIPO is greatly enlarged due to the implementation of national IP strategy. On November 24, 2008, Vice Premier Wang Qishan hosted the first ministerial level joint meeting of the State Council relating to the implementation of the IP strategy, in which meeting it is determined that SIPO shall be responsible for overall planning and coordination of the work between various departments.

(2) SIPO currently has over 7000 staff members, ranking the 2nd amongst all intellectual property offices in the world in term of personnel scale, the 3rd in terms of the number of national patent applications, and the 7th in terms of the number of PCT patent applications. SIPO is now amongst the most important intellectual property offices in the world. In recent years, SIPO has taken multiple measures to improve the examination quality. Further, it is expected that SIPO will move into the new office building located in Xuan Wu District of Beijing in 2011.

(3) In the aspect of informatization, firstly, SIPO developed a new platform for search service, providing information service to domestic and foreign clients; secondly, SIPO is going to adopt a new electronic filing system, and will further realize a paperless office environment internally, connecting with the electronic filing system. The electronic filing system will be put into trial run in 2009 and relevant trainings will be carried out. It is expected that this system can be put into operation in one to two years, and will cover over 50% of the filing.

(4) Following the revision of the Patent Law, SIPO has sought for public advice on the draft of the Implementing Regulations. SIPO will solicit for further advice after the revision of the Patent Law is promulgated, and will submit such advice to the State Council.

4. On post-granting amendment of a patent

During the meeting CPA asked Mr. Tian about the legal procedure for amendment to the specification after granting of a patent right. CPA indicated that there has been an absence of

post-granting procedure for correction in Chinese patent practice, while there are similar procedures in Europe, Japan and the United States. There is no breaking through in this aspect in this revision of the Patent Law. It is thus hoped that relevant provisions in the Examination Guidelines might be loosened up, so that patentees may be given legal pathways to make amendment to the specification after a patent is granted.

This meeting greatly enhances the mutual understanding between CPA and SIPO. Commissioner Tian Lipu's introduction of new trends of IPR protection in China and his suggestions on Chinese IP agencies will definitely be of great help to the future development of our firm.

Introduction of the Third Revision of Chinese Patent Law

China Patent Agent (H.K.) Ltd.

On December 27, 2008, the Standing Committee of China's National People's Congress voted to pass "The Decision of the Standing Committee of China's National People's Congress on Revising Patent Law of the People's Republic of China". The new Patent Law will come into effect on October 1, 2009.

This revision mainly focuses on measures to improve patent quality and patent enforcement. In the following, we will comment on some of the key changes.

1. Abolishing "first filing"

The new Patent Law abolishes "first filing" rule, which required that when an invention was completed in China, the patent application had to be filed in China before it is filed abroad. Under the new law, only a security examination by the State Intellectual Property Office (SIPO) is necessary before the patent application is filed abroad. The SIPO will regulate the specific procedures and timeline for the security examination.

Specifically, two points should be noted:

1) The language "any Chinese entity or individual" has been amended into "any entity or individual," thus, multinational enterprises must now comply with the procedure.

2) The results of not complying with the new procedure can result in the loss of the right to get a patent in China, as the new security procedure is designed to protect China's national security and other national interest.

The new law does not clearly define "completed in China" but the phrase may be clarified during the upcoming revision of the Implementing Regulations of the Chinese Patent Law.

Last but not least, as to punishment, Article 20(4) is added into the new Patent Law: "any entity or individual who violates Article 20(1) by skipping the security examination, shall not be granted a Chinese patent for the same invention or a utility mode". One question is, whether the violation of the provision constitutes a ground for invalidation. It needs to be answered during the revision of the Implementing Regulations.

2. "Relative novelty" to "absolute novelty"

In Article 22(5) of the new Patent Law, "relative novelty" is changed into "absolute novelty". Specifically, ANY FORM of disclosure from ANYWHERE in the world may affect the novelty of a patent application in China. Under "absolute novelty", foreign enterprises should bear in mind that even public use outside China may affect the novelty of the Chinese application.

3. Protection of Genetic Resources

In order to stop the serious loss of genetic resources in China, Article 5(2) of the new Patent Law prescribes that: "no patent right shall be granted to an invention-creation of which the completion depends on genetic resources, the acquisition or exploitation of said genetic resource violating the relevant laws and administrative regulations of the State."

According to "Convention on Biological Diversity (1992)", genetic resources include genetic material of actual or potential value, including any material of plant, animal, microbial or other origin containing functional units of heredity. This definition will be embodied in the revisions to the Implementing Regulations of the Patent Law in 2009.

Corresponding to the requirement on enabling disclosure prescribed under Article 26(3) of the Patent Law, the duty of disclosure of the genetic resources is prescribed in Article 26(5): "for an invention-creation the completion of which depends on genetic resources, the applicant shall indicate in the patent application documents the direct source and the original source of the genetic resources; or the applicant shall state the reasons why the original source cannot be indicated."

It is unknown when the "laws and administrative regulations" as prescribed in Article 5(2) will be issued. Additionally, the phrase "the applicant shall state the reasons" as prescribed in Article 26(5), is unclear. The new Patent Law doesn't clarify what kind of reasons are justifiable or how much detail is required. We will be following the developments in these issues.

4. Co-owned Patent

New Article 15 prescribes the implementation of a co-owned patent: "where the co-owners of a patent have reached an agreement stating how each co-owner may use the patent, such agreement shall be followed; in case of licensing others to implement the patent, the

exploitation fee received shall be allocated among the co-owners; otherwise, any of the co-owners may practice or non-exclusively license the patent without the consent of any other co-owners."

In light of Article 15, it is advisable to reach such an agreement before the patent is granted, otherwise, after the grant of the patent, there will be no way to stop other patentees from granting a non-exclusive license at a low royalty or to an undesirable party.

5. Restrictions to the patentee in infringement litigation

5.1 Prior-art defense

A prior-art defense is added in Article 62, which states "in patent infringement disputes, where an alleged infringer proves that the accused technology or design is in the prior art or prior design, the use of such does not constitute an infringement."

Before the revision, there were some discrepancies in the understanding of prior-art defense. In one discrepancy, the Beijing's Higher Court has limited the prior-art defense to equivalent infringement only[1], which is similar to the US practice[2]. However, the Supreme Court has established that the prior-art defense can be used in both equivalent and literal infringement in many of its official documents. After the revision, the Supreme Court's opinion is adopted. Namely, the prior-art defense can be used in both equivalent infringement and literal infringement. Then, in literal infringement, the defendant not only can request invalidation before the Patent Reexamination Board, but also can assert prior-art defense during litigation. However, whether a ruling that supports the prior-art defense would affect other infringement suits involving the same patent, or impact said patent's status in patent offices remains unanswered.

Furthermore, there were discrepancies as to the procedures of comparing the alleged infringing technology with the patent and with the prior art. One opinion is: "in the so-called prior-art defense, the key is to determine whether the alleged technology is closer to the patent claim or to the prior art"[3]. Another is to first compare the alleged infringing technology with the patent, and when it is confirmed that the alleged infringing technology infringes that patent, the alleged infringing technology will then be compared with the prior art to see if they match. If so, a prior-art defense is established[4].

To sum up, Chinese courts' experience on the prior-art defense is still limited and more judicial interpretations and cases are needed to clarify.

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[1] *the Beijing Municipal Higher People's Court's Opinions on Several Issues Relating to Patent Infringement Adjudication for Trial Implementation (2001)*, see also *Li Guang v. Shougang*, Beijing Higher Court Gaozhizhongzi 5/1995
[2] *Wilson sporting goods Co. v. David Geoffrey & Associates*, 904 F. 2d 677, 1990.
[3] *Shanghai Shuaijia Electronics Technology Company and Cixi Xibeile Appliances Co., Ltd. v. Shandong Joyoung Small Household Appliances Co., Ltd., Wang Xuning and Jinan Zhengming Commerce and Trade Co., Ltd.*, Shandong Higher Court Luminsanzhongzi 38/2007
[4] *Xiangbei Welman v. Guangzhou Welman*,Changzhongminsanchuzi 365/2005

5.2 Bolar Exemption

The Bolar Exemption provision, which is widely adopted by countries and regions including the United States, Canada, EU and Japan, is added in Article 69 of the new Patent Law. According to the new law, any entity or individual who manufactures, uses or imports a patented pharmaceutical or a patented medical device for the purposes of providing the information needed for an administrative approval should not be deemed as infringing. Under the Bolar exemption, the generic drug manufacturers can conduct clinical trials before the expiration of a pharmaceutical patent and therefore acquire the necessary data needed for getting the approval of the SFDA (Chinese FDA). As a matter of fact, even before the revision of the law, the Beijing Second Intermediate People's Court has ruled in the spirit of the Bolar Exemption in several cases during 2006-2007[5]. In these cases, given that the Bolar exemption has yet to become a ground for ruling, the court ruled that the clinic trials were not for "immediate" commercial purposes and thus should be exempted from punishment. After the revision, similar clinical trials could be directly held non-infringing based on the Bolar Exemption.

Two points should be noted:

1) In countries and regions such as the United States and the EU, while protecting the generic pharmaceutical manufacturers' rights, the patentee's loss of the protection term due to waiting for the approval of SFDA before the product goes on the market is made up by a prolonged patent protection term. Namely, the interest between the generic pharmaceutical manufacturer and the patentee is balanced. However, such "prolonged patent protection term" has not been introduced into the Chinese Bolar exemption.

2) In the latest international developments, drugs obtained with the patented process have been brought into the coverage of Bolar Exemption[6]. However, interpreted strictly, the provision of Bolar Exemption in the new Chinese Patent Law only covers pharmaceuticals and medical devices. Whether it can also apply to drugs obtained with the patented process remains uncertain.

5.3 Parallel Importation

The provision of parallel importation is added into Article 69 of the new Chinese Patent Law: after a patented product is sold overseas by the patentee or a licensee, its importation to China shall not be deemed as an infringement, i.e. international exhaustion of rights.

Currently, China is one of the low-price markets in the world. Therefore, the chance of

[5] *Shanghai Sankyo Pharmaceutical Co., Ltd. v. the Beijing Wansheng Drug Industry Co., Ltd,* the Beijing Second Intermediate People's Court Civil Judgement Erzhongminchuzi 04134/2005, see also *Eli Lilly Company v. Ganli Pharmaceutical Co., Ltd,* the Beijing Second Intermediate People's Court Civil Judgement Erzhongminchuzi 13419-13423/2007

[6] *Amgen Inc v. International Trade Comission,* 519 F. 3d 1343, 2008

parallel importation of patented products into China appears small. Also, because there is little precedent, the possible impact of this revision will be limited.

6. Regarding undue extension of protection term

6.1 Double patenting

The new Patent Law on double patenting states: "Article 9: The same invention-creation shall only be granted one patent right. Where the same applicant applies for both a patent for a utility model and a patent for invention for the same invention-creation on the same day, and the granted patent for the utility model has not expired, the applicant has to abandon the patent right for the utility model before the invention is granted."

Comments:

In case of filing applications for patents for both an invention and a utility model by the same applicant on the same day, since there is no improper extension of the protection period, patent rights may be granted to the invention as long as the patent for utility model is abandoned.

Another uncommon scenario is that the same applicant files an application for patents for a utility model and an invention for the same invention-creation on the same day, and the earlier granted patent right for a utility model has expired on the date the patent right for the invention is about to grant. Although the Article is silent about this scenario, it can be understood that a patent right for invention may also be granted on the basis of the decision[7] made by the Supreme People's Court of China on July 14, 2008.

6.2 Conflicting applications by the same applicant

To avoid the same applicant from prolonging the protection period by filing an application for utility model and later an application for invention, the new Patent Law also modifies the definition for novelty prescribed under Article 22(2) by changing "other person" into "any entity or individual". In other words, an earlier filed but later published application from the same applicant may constitute a conflicting application. The revised terms on conflicting application is consistent with European Patent Convention Article 54 (3)[8].

7. Designs

7.1 Restrictions on eligible subject matters for design patents:

[7] "As long as two patents do not exist simultaneously, the principle of prohibiting double patenting is not violated." *JiNing Pressure-free Boiler Plant v. the Patent Reexamination Board of the State Intellectual Property Office*, Supreme People's Court of China (2007) Hangtizi No. 4

[8] "Additionally, the content of European patent applications as filed, the dates of filing of which are prior to the date referred to in paragraph 2 and which were published on or after that date, shall be considered as comprised in the state of the art."

According to Article 25 of the new Patent Law, "two-dimensional designs of patterns, colors or their combination, mainly for the purpose of indication" is no longer patentable. It is understood that, by making this revision, the legislator intends to sweep out the "trash patents" for designs, e.g., bottle labels and two-dimensional packages.

7.2 Raising the bar for granting

Article 23 of the new Patent Law prescribes that:

"Any design for which patent right may be granted shall neither belong to the prior design, nor be included in any application filed by any other person earlier but granted later.

Any design for which patent right may be granted shall be non-obvious from the prior design or a combination of features of the prior design.

Any design for which patent right may be granted must not be in conflict with any prior right of any other person.

The 'prior design' referred to in this Law means any design known to the public in this country or abroad before the date of filing. "

It can be seen that, concepts of "conflicting application" and "inventiveness" similar to those of invention/utility model patents are introduced to designs patents. The threshold of "non-obvious", however, needs to be further clarified. Possible factors including, for example, the knowledge level of the observer, the degree of "obvious", are to be clarified later.

Moreover, it is prescribed that any design for which patent right may be granted must not be in conflict with any prior right of any other person, in order to prevent intentional imitation and copying of the crafty and unique designs .

It is to be further noted that, Article 27 of the new Patent Law requires submission of "a brief description" for all design applications. It is stipulated under Article 59(2) that the function of brief description is to interpret the protection scope of the design shown in the drawings/photographs. As a result, it is foreseeable that "brief description" will be playing a more important role in finding infringement for design patents.

8. Compulsory License

Until today, there has not been a precedent of compulsory license in China. Nevertheless, after Ebay case[9] ruled by the U.S. Supreme Court in 2006, every country is considering putting suitable restrictions on the exclusivity of patent right. In the Third Revision of the Chinese Patent Law, the following amendments are made to the provisions of compulsory

[9] *eBay Inc v. MercExchange, L.L.C.*, 547 U.S. 388, (2006)

license:

First, echoing with "to promote the application of inventions-creations" in Article 1 of the new Patent Law, it is stipulated under Article 48(1) of the new Patent Law that a compulsory license may be granted if the patentee has not exploited the patent or has not sufficiently exploited the patent without any justified reason: "In any of the following cases, SIPO may, upon the request of the entity or individual which is capable to exploit, grant a compulsory license to exploit the patent for invention or utility model:(1) where the patentee, after three years from the grant of the patent right and four years from the filing date of patent application, has not exploited the patent or has not sufficiently exploited the patent without any justified reason…" The time restriction of three years and four years come from Article 5.1(4) of the Paris Convention[10].

Further, for the monopolies which hinder the development of technology, a compulsory license can be applied according to Article 48(2) of the new Patent Law: "(a compulsory license may be granted) where it is determined through the judicial or administrative process that the patentee's implementation of the patent thereof is an monopoly act, so as to eliminate or reduce negative influence of such act on competition."

In response to the *Doha Declaration on the TRIPS Agreement and Public Health* and the *Decision of the Implementation of Paragraph 6 of the Doha Declaration on the TRIPS Agreement and Public Health*, and the *Hong Kong Declaration*, it is stipulated under Article 50 of the new Patent Law that a compulsory license can be granted to export a medication to a country having insufficient capability to manufacture the said medication: "for the purpose of public health, SIPO may grant a compulsory license to manufacture and export a medication which has been granted patent rights in China to countries or regions that co-joined relevant treaties with China."

Article 52 is added: "where a compulsory license is granted to semi-conductor technology, the exploitation shall be limited to the purpose for public interest and under the situation as stipulated under Article 48(2) of this law", corresponding to Article 31(1) (c)[11] of the TRIPS agreement and Rule 72(4) of the original Implementing Regulations[12].

Article 53 is added: "the exploitation of a compulsory license shall be for the supply of the domestic market, except as otherwise provided for in Article 48(2) and Article 50 of this

[10] "A compulsory license may not be applied for on the ground of failure to work or insufficient working before the expiration of a period of four years from the date of filing of the patent application or three years from the date of the grant of the patent, whichever period expires last; it shall be refused if the patentee justifies his inaction by legitimate reasons. Such a compulsory license shall be non-exclusive and shall not be transferable, even in the form of the grant of a sub-license, except with that part of the enterprise or goodwill which exploits such license."
[11] "The scope and duration of such use shall be limited to the purpose for which it was authorized, and in the case of semi-conductor technology shall only be for public non-commercial use or to remedy a practice determined after judicial or administrative process to be anti-competitive."
[12] "Where the invention-creation involved in the compulsory license relates to the semi-conductor technology, the exploitation of the compulsory license shall be limited only for public non-commercial use or to remedy a practice determined after judicial or administrative process to be anti-competitive."

Law", which basically corresponds to Article 31(1) (f)[13] of the TRIPS agreement and Rule 72(4) of the original Implementing Regulations[14]. That is, except for the circumstances of anti-trust and exportation of urgently required medications, the compulsory license shall be limited within China.

With regard to the royalty of compulsory license, Article 57 stipulates that: "the licensee shall pay a royalty on a reasonable basis, or based on international treaties the People's Republic of China has joined. The amount of the royalty shall be negotiated by both parties. Where the negotiation fails, SIPO will determine the amount.

With regard to Article 48 (1), the definitions of "not exploited" and "not sufficiently exploited" are not clear. And, what if the patentee does not exploit the patent by himself/itself but licenses it out? The answer will be given during the revision of the Implementing Rules.

9. Higher damage

The highest possible damage is raised from RMB500,000 to RMB1,000,000, (around 147,000 USD) in Article 65 in the new Patent Law. In addition, the patentee's the reasonable expense to stop the infringement is included in the damage.

10. Abolishing the qualification requirement for foreign-related agencies

The new Patent Law has removed the restriction of foreign-related agencies. After the revision, any local patent agencies may handle foreign-related patent affairs.

It is foreseeable that following the implementation of the new Patent Law, foreign applicants are faced with more choices for patent agencies. Despite the fact that smaller agencies are more flexible and operate at lower cost, large-scale agencies have incomparable advantages in terms of systemized management as well as experience. China Patent Agent (H.K.) Ltd., with a glory history of 25 years, is the most experienced foreign-related agency in China. The firm has an advanced electronic workflow system capable of avoiding procedural mistakes to the greatest extent. Furthermore, China Patent Agent (H.K.) Ltd. is manned by the largest team of patent attorneys in China that cover each and every specific technological area, in other words, each application will be assigned to the very specific technical expert. In addition, China Patent Agent (H.K.) Ltd. has a multi-lingual talent pool well versed not only in English, but also in Japanese, German, French and other languages, thus ensuring accurate communication with clients from anywhere in the world. China Patent Agent (H.K.) Ltd. is in the best shape ever to provide the service in China.

[13] "Any such use shall be authorized predominantly for the supply of the domestic market of the Member authorizing such use."
[14] "The decision of SIPO granting a compulsory license for exploitation shall limit the exploitation of the compulsory license to be predominantly for the supply of the domestic market."

11. Conclusion

It can be seen from the foregoing that improving patent quality and enhancing patent protection are two key points in the revision. We note that the final version of the revision has canceled some of the proposed provisions, such as treble damage, patent misuse, doctrine of equivalent, prosecution history estoppels, etc. In view of this, it can be concluded that although the amended Patent Law has introduced some measures to promote and protect invention-creations, there is still much room for improvement for the new Patent Law through further amendments.