Comments on the Fourth Revision of the Patent Law of China

Featured Article

The Patent Law of the People's Republic of China came into force in 1985, and was revised three times in the years of 1992, 2000 and 2008. Work on the fourth revision of the Patent Law of China started in 2012, which took eight years to complete, during which the draft revisions of the Patent Law have been adjusted for several times. The Decision on Revising the Patent Law of the People's Republic of China was adopted at the 22nd session of the Standing Committee of the 13th National People's Congress of China on October 17, 2020, and the fourth revision of the Patent Law will come into force on June 1, 2021. This article will provide comments on several important aspects of the fourth revision of the Patent Law of China.

I. Amendments to the articles on strengthening the protection of patent rights (Articles 71 and 74)

1. Raising the upper and lower limits of statutory compensation

In China's civil patent infringement cases, due to lack of a system similar to Discovery, patentees often face the following difficulties: it can be determined that the defendant has infringed upon the patent right, but the evidence for damages is in the possession of the defendant, and the plaintiff has no way to obtain the relevant evidence for the actual losses suffered due to the infringement of the defendant or the profits obtained by the defendant from the infringement, and there is no evidence for the royalties of the patent. Therefore, in accordance with the provisions of the Patent Law, judges can only determine the amount of damages on the basis of statutory compensation. According to statistics, in most of China's patent civil infringement cases in recent years, judges have applied statutory compensation to determine the amount of damages. Therefore, raising the amount of statutory compensation is crucial to raising the amount of damages in patent litigations and better safeguarding the interests of patentees.

The fourth revision of the Patent Law significantly raises the amount of statutory compensation, from the original scope of CNY 10,000 to CNY 1 million to the scope of CNY 30,000 to CNY 5 million. The upper limit of CNY 5 million is consistent with the relevant provisions of the Trademark Law, the Anti-Unfair Competition Law and the Copyright Law, and reflects China's determination to strengthen intellectual property protection; while the lower

limit of CNY 30,000 takes into account the actual conditions and affordability of smaller infringers, such as dealers.

2. Introduction of punitive compensation system

In patent civil infringement litigations of recent years, Chinese courts at different levels and relevant government departments have found that determining the amount of damages merely based on the "Restitution Principle" is insufficient to curb malicious patent infringement. Therefore, the punitive damages system is introduced into the Patent Law for the first time, stipulating that in the case of willful infringement of a patent right and serious circumstances, the amount of damages may be determined at one to five times the amount of normal damages, which is consistent with the provisions on punitive damages for intellectual property rights set out in the Civil Code of China, which will come into force as of January 1, 2021. And the upper limit of five times is higher than the three times in the United States, and is the highest multiple in patent laws of all jurisdictions. Punitive compensation can not only compensate for the losses of patentees, but also greatly deter willful infringers, which is conducive to maintaining the social environment in which technology innovation and intellectual property protection are respected, and to ensuring good social economic order.

According to Article 71, the application of punitive compensation mainly involves two issues: how to determine the subjective intent of an infringer and how to determine the seriousness of the circumstances. Circumstances constituting "willful" may include: committing the same infringement with the same entity or with a changed entity, intentionally plagiarizing a patent with knowledge of the existence of the patent (e.g., simultaneously infringing a number of claims of the same patent or a number of patent rights of the patentee, plagiarizing a patented product labeled with a patent mark by the patentee, etc.), intentionally concealing the infringement facts or destroying relevant evidence, or refusing to take remedial measures against the infringement, etc., and the malice of the infringer may be determined according to such circumstances. Further, if the infringer is mainly conducting infringement for his livelihoods, and the infringement is of large profits, large scale, long duration, or many times, it may be determined as constituting "serious circumstances".

3. Shifting burden of proof

As mentioned above, due to the lack of Discovery system, it is often difficult for a patentee to obtain the evidence relating to damages that is normally in the possession of the defendant. To solve this problem, Article 71 of the Patent Law incorporates the provision of Article 27 of the Interpretation of the Supreme People's Court on Several Issues Concerning the Application of Law in the Trial of Patent Infringement Dispute Cases (II) (effective as of April 1, 2016) which has been popular with patentees in practice, i.e., the burden of proof of damages shall be shifted to the defendant under certain circumstances. That is, where the plaintiff has tried its best to produce evidence, and the account books and materials relating to the infringement are mainly in the possession of the defendant, the court may order the defendant to provide the account books and materials relating to the infringement; where the defendant does not provide such account books and materials or where the account books and materials provided are false, the court may determine the amount of damages by referring to the claim of the plaintiff and the evidence provided. Moreover, Article 71 revises the provision that "the right holder has provided

the preliminary evidence on the profits obtained by the infringer" to "the right holder has tried its best to produce evidence", which further lowers burden of proof of the patentee and the triggering condition for the shift of burden of proof.

The increased statutory compensation amount, the punitive damages, and the shift of burden of proof are conducive to increasing the amount of damages adjudicated in patent civil infringement litigations, better safeguarding the interests of the patentee, and deterring the infringer.

4. Limitation of actions

The general limitation of actions has been revised from two years to three years in the General Rules of Civil Law of China effective as of October 1, 2017. In this regard, Article 74 of the Patent Law has been revised accordingly, extending the limitation of actions for patent infringement litigation to three years, and revising the starting point of the limitation of actions from "the date on which the infringer knows or should have known the infringing act" to "the date on which the infringer knows or should have known the infringing act and the infringer", so as to be consistent with the relevant provisions of the General Rules of Civil Law and the forthcoming Civil Code.

II. Amendments to the articles on design patents (Articles 2, 29 and 42)

1. Protection of partial designs

Previously, China only protected the overall design of the product, but not the partial design of the product. The Guidelines for Patent Examination specify in the part of "circumstances under which patent right for designs shall not be granted" that "partial designs of a product that cannot be divided or sold separately and cannot be used separately, such as the heel, hat brim, cup handle, etc.". In practice, in order to avoid patent infringement, plagiarizers often plagiarize the most characteristic parts of the design, or combine them in the product. Due to lack of protection of partial designs, the patentee could generally do nothing about such plagiarism. In addition, as far as the patent of graphical user interface is concerned, the scope of protection is limited because it can only protect the overall design of the product containing the graphical user interface, such as a mobile device and computer. In order to solve this problem, China introduces the protection of partial designs in the fourth revision of the Patent Law.

In the United States, Europe, Japan and other jurisdictions where partial designs can be protected, solid lines can be used to represent parts of the product that claim protection and dashed lines can be used to represent parts where no protection is claimed for line drawings, and blurred expressions can be applied to parts where no protection is claimed for photos or renderings. After the protection of partial designs is introduced, when a patent applicant submits a design patent application in China claiming priority to a design application filed in these foreign jurisdictions, such dashed lines or blurred parts are not required to be amended, so that the protection scope similar to that of the priority application may be obtained.

In recent years, the number of design patent applications in China has been the highest in the world. In 2019, the number of applications reached about 712,000, and the total number of valid and enforceable design patents currently stands at about 2.72 million. It is foreseeable that the number of design patent applications will further increase after the introduction of partial designs. However, since the design patent applications in China are issued after

preliminary examination only without substantive examination, and more partial designs with fewer design elements and thus no patentability are likely to be granted patent right, and a large number of identical or substantially identical partial design applications are all likely to be granted patent rights, the number of civil litigation cases for infringement of design patents may increase accordingly. In recent years, the number of litigation cases for infringement of design patents has already ranked first among the three types of patents, accounting for about 60%. Therefore, it is necessary to be vigilant against the risk of abuse of patent right arising from partial designs, and China may consider imitating the United States, Japan and the Korea to conduct substantive examination to a certain extent on design applications, in particular partial design applications, so as to prevent the damage to public interests and the waste of judicial resources.

2. The term of protection of design patent to be extended to 15 years

In order to give better protection for designs, the fourth revision of the Patent Law has extended the term of protection of design patents from 10 years to 15 years, which is also in line with the term of protection provided for in the Hague Agreement Concerning the International Registration of Industrial Designs to which China plans to accede. Currently, there are about 70 contracting states in the Agreement, and the time and cost of applications can be greatly reduced by seeking design protection overseas through the Agreement.

3. Providing domestic priority to designs

Previously, the domestic priority system was only applicable to applications for invention patents and utility model patents. The fourth revision of the Patent Law has provided the domestic priority to applications for design patents, and the term of priority is 6 months. Considering the short examination period for applications for design patents, the patent applicants may, after the first application is rejected or deemed withdrawn, re-submit applications for overcoming the defects within the priority period, and claim the priority of the first application to enjoy the priority date. Additionally, any patent applicant who adjusts the design of relevant products after the filing of an application for a design patent may be at the risk of double patenting in the subsequent application he files for the adjusted design, but making use of the domestic priority system for designs, he may re-file a design application on the basis of both the original and adjusted designs, and claim the priority to and enjoy the priority date of the first application. By adopting such an application strategy, the applicant does not need to file a patent application until all the designs of the product have been completed.

III. Revision of the provision regarding drug patent linkage system (Article 76)

Similar to the Hatch-Waxman Act of the United States, the fourth revision of the Patent Law introduces in Article 76 the patent linkage system as an early mechanism for resolving disputes over drug patents, that is, the process of approving the marketing of generic drugs will be linked to the original drug patents, so as to avoid adverse consequences, such as the infringement of the patent right of the original drug after the generic drugs are marketed, which results in the suspension of the production of generic drugs and damage to the public interests. The patent linkage system along with the Bolar Exemption and patent protection term extension discussed below will become an important part of China's drug patent protection system.

In accordance with Article 76, in the process of evaluating and approving a drug to be marketed, any patent holder or interested party that owns a patent relating to the drug technologies may file a lawsuit with a court or apply to the CNIPA for an administrative ruling, requesting a judgment or an administrative ruling as to whether the relevant technical solutions of the drug fall within the scope of patent protection; the applicant for drug marketing may also file a declaratory judgment action of non-infringement with a court, or apply to the CNIPA for an administrative ruling. The Department of Drug Supervision and Administration under the State Council may decide whether or not to suspend the marketing approval of a drug according to the effective ruling of the court.

Article 76 further provides that the Department of Drug Supervision and Administration under the State Council shall, in concert with the Patent Administration Department under the State Council (i.e., the CNIPA), formulate specific measures for connection between the marketing approval and the resolution of patent disputes, which shall be implemented after being reported to and approved by the State Council. In this regard, on September 11, 2020, Department of Drug Supervision and Administration under the State Council and the CNIPA sought public comments on the Implementing Measures for the Mechanism for Early Resolution of Drug Patent Disputes for Trial Implementation (Draft for Comments). Under the Draft for Comments, the Department of Drug Supervision and Administration will also suspend the marketing approval based on the not yet effective judgment of the court or administrative ruling of the CNIPA determining that the drugs fall within the scope of patent protection. Further, on October 29, 2020, the Supreme People's Court sought public comments on the Provisions on Several Issues Concerning the Application of Law in the Trial of Patent Civil Cases Involving the Evaluation and Approval on the Marketing of Drugs (Draft for Comments), which is mainly used to solve the issue of the application of law for Article 76. Specifically, it is stipulated that patent civil cases of first instance involving the evaluation and approval on marketing of drugs shall fall under the jurisdiction of the Beijing Intellectual Property Court, and the patents concerned shall be those registered with the patent information registration platform for drugs being marketed in China, and the legal proceedings shall not be stayed due to the fact that the CNIPA has accepted the relevant application for administrative ruling or the request for invalidation of the patent involved.

IV. Amendments to the articles on patent protection term adjustment and patent protection term extension (Article 42)

1. Introduction of patent protection term adjustment

According to Article 42 of the fourth revision of the Patent Law, where a patent for invention is granted patent right after four years from the date of application and three years from the date of requesting substantive examination, the patentee may request compensation for any unreasonable delay in the patent grant procedure, except for any unreasonable delay caused by the applicant. It is estimated that the provision will significantly reduce the number of invention patent applications with a long examination period.

2. Introduction of the patent protection term extension

Since the substantive examination of invention patent applications related to drugs usually takes longer than patent applications for other

technical fields, and the marketing of drugs will go through a long process of clinical trial and administrative examination and approval, there may be little time of patent protection left by the time the drugs are officially launched on the market. In order to ensure that companies for original drugs can have a long enough patent protection period to obtain reasonable profits, Article 42 also introduces the patent protection term extension for drugs, that is, in order to compensate for the time taken up for the evaluation and approval of a new drug to be launched into the market, the CNIPA may, at the request of the patentee, grant compensation for the time taken up for the examination and approval of a new drug to be launched into the market. At the same time, in order to balance the relationships among companies for original drugs, companies for generic drugs, and public interests, double restrictions are added to the compensation for the time, that is, the compensation period shall not exceed five years and the total valid patent term of the new drug shall not exceed 14 years after it is launched on the market.

Patentee should be aware that both the patent protection term adjustment and the patent protection term extension do not occur automatically and require the patentee's requests.

V. Revision of the articles prohibiting abuse of patent rights (Article 20)

Article 20 of the fourth revision of the Patent Law provides that acts of applying for patents and of enforcing patent rights shall follow the principle of good faith; patent rights shall not be abused to harm the public interests or the legitimate rights and interests of others; and where patent rights are abused to exclude or restrict competition, which constitutes a monopoly, the matter shall be dealt with in accordance with the Anti-monopoly Law of China.

Both the principle of good faith and the principle of prohibition of abuse of rights are basic principles of the Civil Law of China, and by explicitly emphasizing these two basic principles in the Patent Law, it will be conducive to better regulating the dishonesty and abuse of patent rights, such as the acts of applying for patents by fabricating or forging technical solutions and experimental data, the acts of defrauding government subsidies through improper patent applications, the acts of initiating malicious lawsuits based on utility model or design patents which obviously do not meet the conditions for granting patent rights or which the plaintiff knows to be invalid, and the acts of abuse of patent rights to file a large number of patent litigations or administrative actions against the same competitor which are beyond the proper limit for protection of rights.

With regard to anti-monopoly, the Anti-monopoly Law of China, the Anti-monopoly Guidelines of the Anti-monopoly Commission of the State Council in the Field of Intellectual Property Rights, and the Provisions of the State Administration for Industry and Commerce on the Prohibition of the Abuse of Intellectual Property Rights to Exclude or Restrict Competition, have regulated the monopoly of the abuse of patent rights resulting in the consequence of exclusion or restriction of competition, and linking up the Patent Law and the Anti-monopoly Law in the aforesaid Article 20 will enable courts to directly apply the provision of the Patent Law in the subsequent patent monopoly cases.

VI. Revision of the articles of the patent open licensing system (Articles 50, 51 and 52)

According to statistics, the transformation rate of scientific and technological achievements in China is less than 30%, far lower than the level of developed countries. In order to improve this situation, the fourth revision of the Patent Law introduces the patent open licensing system in order to reduce the cost and risk of patent licensing transaction, improve the transaction efficiency, and overcome the problem of asymmetric information between the potential licensor and licensee of patent licensing.

According to the provisions of Articles 50 and 51, a patentee needs to declare to the CNIPA that it is willing to license any entity or individual to exploit its patent, and clarifies the payment method and standards of the royalties, which shall be announced by the CNIPA to implement the open licensing; a patentee may withdraw its open licensing statement, which shall be announced by the CNIPA; withdrawal of the open licensing statement shall not affect the effectiveness of the previously granted open licensing; where any entity or individual is willing to exploit a patent for which open licensing is stated, it shall notify the patentee, and pay the royalties in accordance with the announced payment method and standards of the royalties, it will obtain a patent exploitation license; during the period of open licensing, the patent annuities paid by the patentee shall be reduced or exempted correspondingly; and a patentee that implements open licensing may, after negotiating with the licensee over the royalties, grant a general license, but shall not grant an exclusive or exclusive license for this patent.

Compared with enterprises, China's universities and colleges may take more initiative in the patent open licensing system. In China, although universities and colleges have a large number of patents, the transformation rate of scientific and technological achievements and the rate of patent industrialization are far lower than those of enterprises. The main reason is that universities and colleges lack relevant resources and channels for patent transactions, and are not familiar with conditions of the patent transaction market. The patent open licensing system is a good way to solve this problem. Universities and colleges may use the open platform provided by the CNIPA to publish information on patents for which they wish to open licensing, and the negotiation on patent licensing is no longer necessary. In addition, the reduction or exemption of patent annuities during the implementation of the open licensing system can effectively reduce the cost of maintaining the patent right by the patentee.

The legislature and the CNIPA will specify detailed implementation-level provisions that are not specified in the fourth revision of the Patent Law in the subsequent Implementing Rules of the Patent Law and the Guidelines for Patent Examination.

In the 12 years between the third revision and the fourth revision of the Patent Law, China has become the world's leader in terms of the number of patent applications. Technology innovators all over the world regard China as one of the most important jurisdictions for filing patent applications, and their desire to enforce patent rights and conduct patent transactions in China is becoming stronger and stronger. The fourth revision of the Patent Law is designed to comply with such a trend to provide better patent protection for global patent owners.

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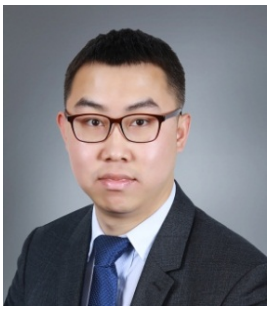

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Mr. Jacob Zhang has expertise in patent invalidity, patent administrative and civil litigation, patent prosecution, patent strategy design and portfolio development, patent due diligence and freedom to operate investigation, patent analysis, intellectual property anti-counterfeiting, etc., and he is very experienced in patent cases in technical areas of computer software and hardware, internet, e-commerce, electronics, telecommunication, semiconductor, image processing, display and lighting, mechanics, automation, etc.. Since March 2007, Mr. Zhang has represented many Fortune 500 companies in over 1,000 patent prosecution and litigation cases, among which a patent invalidity case was selected as the No. 1 case of the Top 10 cases of the Patent Reexamination Board of the China National Intellectual Property Administration in 2016, and patent civil litigation cases and the related patent invalidity case were selected by people.cn (a state-run media) as the No. 1 case of the Top 10 typical patent cases in 2018.