

# China IP Briefing

## The Third Amendment to the Chinese Patent Law

---

December 2009

The “Third Amendment to the Patent Law” in China was passed on 27 December 2008 and entered into force on 1 October 2009. The main changes are a new standard for novelty, tightened national security regulations, a new “invalidity defence” and a Bolar exemption. The changes are explained below in more detail.

### **Absolute Novelty**

There is now a requirement of absolute novelty, so public use, verbal disclosures and publications anywhere in the world, before the priority date, counts as prior art. Under the previous law, verbal disclosures and public use did not count as prior art, unless they took place in China. The new novelty standards apply to applications having a priority date on or after 1 October 2009. The old law will apply to applications having a priority date before 1 October 2009.

### **Novelty - Self-Collision**

Under the new law, all patent applications which were filed before, but published after, the priority date of a later patent application, are prior art against the later application.

This includes applications filed by anyone, even by the same inventor or applicant. It is thus possible for an applicant’s earlier Chinese patent application to ‘collide’ with, and render invalid, the same applicant’s later application. For example, where an applicant has filed two applications, on different dates, with the same description but different claims, the earlier application may invalidate the later application.

The new law is different from the old law, under which only earlier applications by ‘other people’ are prior art and so ‘self-collision’ is not possible. The new law is similar to the situation in Europe, but different from the law in US and Japan where self-collision is not possible. Attorneys are advised to consider the disclosures carefully when filing a series of related applications. This type of earlier application is only prior art for determining novelty. They are not considered when assessing inventive step. For inventive step, the prior art consists only of technology known to the public before the priority date.

### **Security Clearance for Foreign Filings**

Under the new law it is necessary to obtain a foreign filing licence from SIPO (the State Intellectual Property Office) before filing a patent application abroad if the invention was made in China. If patent applications are filed abroad without obtaining security clearance, then any corresponding Chinese patent application will be rejected by SIPO or may be invalidated post-grant. Filing applications abroad without obtaining a foreign filing licence may also be in breach of Chinese law relating to national security.

Under the previous law, only Chinese individuals or companies needed to obtain a foreign filing licence before filing abroad and there was no definite consequence for the corresponding Chinese application. The new law represents a change in practice and means that some foreign companies, carrying out R&D in China, may have to change their filing procedures.

The procedure for obtaining a foreign filing licence has not yet been finalised. We believe that obtaining a foreign filing licence may take as long as four to six months, but in most cases should not take more than a few weeks.

Applying for a Chinese national application does not automatically count as a request for security clearance. A request may, however, be filed together with the application. Alternatively a request for a foreign filing licence may be filed without filing a Chinese national application (in this case a description of the invention is needed).

As an alternative to requesting a foreign filing licence, the applicant may file an International (PCT) application with SIPO as the Receiving Office. The International application may be filed in either Chinese or English. SIPO will check the application to make sure that it is not relevant to national security and if SIPO does not issue a notice then the applicant may file corresponding applications in other countries (for example in countries which are not members of the PCT). We recommend that the applicant wait at least until the application has been forwarded to the International Bureau before filing such foreign applications; this usually occurs one month after filing, but may take longer if there is a problem with security clearance.

Where protection in Taiwan is desired, it must be noted that Taiwan is not a member of the PCT and that the Taiwanese patent office does not accept priority claims from a Chinese patent application. Therefore the invention must be kept secret until it is possible to file a patent application in Taiwan.

### **Invalidity Defence**

In China, infringement and validity are tried separately. Infringement hearings are the responsibility of the People's Court. Invalidation actions are dealt with by the Patent Re-Examination Board of SIPO. Generally the Court will rule on infringement directly and will not stay the hearing pending the result of the invalidation action. An exception is for a utility model patent or design patent, where the Court will usually stay proceedings.

The new law provides a new defence against infringement. It allows the alleged infringer to argue that the alleged infringement is known from the prior art. If they can provide evidence that the alleged infringement was known from the prior art, then they are deemed not to infringe. This is similar to the established practice known as the Gillette Defence in UK and the Fornstein Defence in Germany. The new law applies to infringements alleged to have occurred after 1 October 2009.

### **Dual Protection**

The new law resolves a long standing ambiguity concerning dual protection by both a patent and utility model. The new law makes it clear that it is allowed to file both patent and utility model applications for the same invention, as long as they are filed on the same day. However, it is necessary to inform SIPO that both a patent and utility model are being filed for the same invention. Generally the utility model will be granted first and remain in force, while the corresponding patent application is still pending. When the patent application is accepted for grant, then the applicant must abandon the utility model before the patent is granted.

### **Designs**

There have been significant changes to the rules concerning registered designs or design patents as they are termed in China. The standard of validity for designs has been raised. There is now a requirement of global novelty (as for patents). There is also a new requirement of "obvious individuality" compared to previous designs. It remains to be seen exactly how this "obvious individuality" requirement will be interpreted in practice, but it appears similar to the 'non-obviousness' requirement for patents. It may also be similar to the requirement of "individual character" for design registrations in Europe.

According to the new law, two dimensional printings of pattern and/or colour may not be registered as designs, if their “primary function” is to mark a product. It is thought that this is directed against packaging material, product labels, bottle stickers etc which have the primary function of identifying the source of the product or producer, rather than creating an aesthetic effect. The purpose is to avoid an overlap between protection for designs and protection for trademarks. The exclusion does not apply to patterns for bed sheets, curtains and wallpaper etc.

The new law makes it compulsory to include a brief explanation of the design together with the drawings or photographs. While the scope of protection is determined based on the design shown in the drawings or photographs, the new law suggests that the “brief explanation” may be taken into account as well. This brief description could be particularly useful in cases where the design is for part of a product. Under Chinese law, the whole product has to be shown in the design drawings, even where the design relates to only part of the product, but the new law will at least make it possible to clarify the part for which protection is sought.

“Offering to sell” products that fall within the scope of a registered design has been added to the list of infringing acts under the new law. This may make gathering of evidence easier in infringement cases.

The new law allows up to ten designs to be filed together in one application, if the designs are for the same product and if for a designer in the field “there is no obvious difference between the other designs...and the basic design indicated in the brief description”. It is thought this applies primarily in cases where there are minor variations to the same design.

Under the new law, it is recommended to file similar designs together in the same application. If similar designs are filed in separate applications then the Examiner may reject one of them for lacking obvious individuality. However, if the designs are filed together in one application, then the Examiner will either allow the application to proceed (if he considers the designs to be similar), or insist that divisional applications are filed (if he considers that the designs are not similar).

### **Joint Ownership**

The new law contains a provision setting out the default rights of joint applicants/patentees. If the joint owners have an existing agreement then that agreement prevails. Otherwise each owner is free to exploit the patent individually or to issue a non-exclusive licence to others; royalties on any such licences should be split between the owners.

For other types of exploitation there must be agreement between the joint owners. This suggests that abandoning the right, issuing an exclusive licence or filing an infringement lawsuit, can only be done with the agreement of the other joint-owner(s).

The new law makes it important for joint owners to have a written agreement, as in many situations the default situation is not favourable. For example, under the default arrangement, a joint owner will be unable to issue an exclusive licence, will have no control over the terms in licences issued by the other owners, or whom such licences are issued to, and might not be able to issue an infringement lawsuit without co-operation of the other owners.

### **Bolar Exemption**

The new law allows use of patented technology for the purpose of providing information for administrative approval to make, use or import patented medicine or medical equipment. This allows competitors to carry out the necessary tests to apply for administrative approval for their version of a patented medicine or medical device before expiry of the patent.

This exemption from infringement is similar to the “Bolar exemption” in the US, Canada and EU. However, it is not counter-balanced by additional measures for protecting the rights of the patentee, such as extending the patent term to compensate for time taken to gain administrative approval.

### **Exhaustion of Rights**

The new law introduces a concept of international exhaustion of rights and contains a provision which exempts parallel importation from infringement.

Under the previous law, selling on, or using, a product originally made or imported into China by the patentee was not an infringement, but importing into China was an infringement. According to the new law, after sale of a patented product (or direct product of a patented process) by the patentee, or with the patentee's authorisation, it will not be an infringement to import the product into China. This new provision may restrict the ability of patentees to charge higher prices in China than in other jurisdictions, as they will be vulnerable to being undercut by parallel importers.

### **Compulsory Licences**

The grounds on which compulsory licences may be granted have been clarified. The old law required that an application be made by a person who has failed to get a licence on reasonable terms in a reasonable period of time after requesting one from the patentee.

The new law clarifies that a compulsory licence may, on request, be ordered by SIPO in the following circumstances:-

- after at least 4 years since the filing date and 3 years from grant of the patent, the patentee has not sufficiently exploited the patent right without any reasonable excuse.
- if the patentee has acted in an anti-competitive manner in exploiting the patent contrary to anti-trust laws.

The entity requesting the compulsory licence has to provide evidence that they have not been able to agree a licence on reasonable terms in a reasonable amount of time.

The previous law allowed a compulsory licence in the case that there was a national emergency (e.g. health crisis) in China. The new law extends this. According to the new law, a compulsory licence may be issued for making a patented medicine and for exporting to countries/regions other than China on the grounds of “public health”. While the new law simply gives “public health” as the reason, in the context of the Doha declaration on TRIPS, it is probably aimed at the situation where a developing country lacks the ability to manufacture a medicament for treating an epidemic disease and wishes to import the medicament from China.

For semi-conductor technology, compulsory licences are limited to those in the public interest or where the patentee has acted anti-competitively. This appears to be broader than the previous law, which referred to “public non commercial use” instead of the “public interest”.

The previous law required all compulsory licences to be limited “mainly” for the supply of the domestic market. The new law provides two exceptions, where the licence can be to supply external markets, in the interests of “public health” or where the patentee has exploited that patent in an anti-competitive manner.

### **Minimum Damages**

Under the new law, the penalty for “patent counterfeit” has been increased to 4 times the illegal earnings (previously it was three times the illegal earnings). If there is no illegal income then the penalty is up to 200,000 RMB (previously 50,000 RMB). “Patent counterfeit” is the act of passing off someone else's

patent as one's own, e.g. by using the patent number on products, advertisements or in contracts without authorisation of the patentee.

The patent administrative department has new powers to investigate counterfeit patents, including examining the locale where the counterfeit occurred, making copies of the contracts, invoices, account books and other relevant materials involved and sealing and detaining products proved to be counterfeit patented products.

Under the current law, damages in the case of infringement were determined on the basis of either the losses suffered by the patentee, or the profits made by the infringer, or where those difficult to determine, an appropriate multiple of the licence fee for the patent. However, in practice, Chinese courts required an extremely high standard of proof for establishing the losses, profits or licence fee. As a result, in the majority of cases damages were limited to "statutory damages" which were capped at a maximum of 500,000 RMB.

The new law has been amended so that damages should be determined by losses first, profits only if losses are hard to determine, by licence fee if both losses and profits are hard to determine and otherwise by "statutory damages" determined by the court. The maximum level of "statutory damages" has been raised and is now 1,000,000 RMB.

### **Interim Injunctions and Preservation of Evidence**

Under Chinese law, a patentee can apply to preserve evidence or for an interim injunction, if they can prove an infringement is occurring or will soon occur, which if not prevented or checked in time will cause the patentee irreparable damage. The standard of proof for "infringement" and "irreparable damage" is high. Therefore it is difficult to obtain either an interim injunction or order for preservation of evidence. However, several firms have been successful in obtaining such orders.

The new law clarifies the procedures for obtaining interim injunctions. Firstly, the applicant must provide a financial guarantee (a bond) to the court. Secondly, the court gives a ruling within 48 hours, which is extendable by 48 hours in exceptional circumstances. The ruling has immediate effect and there is one opportunity for the other party to request 're-consideration'. However, the order remains in force during any 'reconsideration'. The injunction is terminated if the applicant does not commence litigation (infringement proceedings) within 15 days of the injunction commencing. If there is a mistake and the injunction should not have been granted, the patentee must compensate the alleged infringer for losses due to the injunction.

The new law similarly clarifies the procedures for requesting preservation of evidence. A guarantee must be provided to the Court and a decision is made within 48 hours. Any order made by the Court is effective immediately. Litigation must be filed in 15 days of the order for preservation of evidence, otherwise it is lifted.

### **Genetic Material**

The new law states that where an invention "relies on genetic resources", the direct source and the original source of the genetic resources must be stated in the application. The original source is, for example, the country in which the genetic resources are naturally found. If this information is not given when filing the application, a reason why the information is not available must be provided.

It appears that this provision has very broad scope. The draft administrative regulations define "genetic resources" as any material containing a genetic function unit and having practical or potential value, which is obtained from human being, animal, plant or micro-organism. "Relies on genetic resources" is



defined as meaning the performance of the invention utilises the genetic function of the genetic resources.

The new law states that a patent will not be granted, if obtaining and utilising of the genetic resources is contrary to the relevant laws and administrative regulations.

Currently, there are very few Chinese laws or administrative regulations concerning genetic material, so it remains to be seen what effect this provision may have in the future.

These new provisions are as a result of discussions at the Convention on Biological Diversity (CBD). While certain developing countries have pushed for amendment of patent laws to require disclosure of the origin of “genetic resources”, China is the first country to implement such measures into their national patent law.

Biotechnology companies need to pay close attention to this new requirement. Failure to do so could result in rejection or invalidation of a Chinese patent. This is especially the case, as Europe, US and Japan, where many applications originate from, do not have an equivalent disclosure requirement in their laws.

**For more information on the changes to Chinese Patent Law, contact your usual Marks & Clerk attorney or Daniel Holt at [dholt@marks-clerk.com](mailto:dholt@marks-clerk.com).**