

## **Changing Landscape: Introduction to the Third Amendment to the Chinese Patent Law**

China's patent law is rapidly evolving to keep pace with its constantly expanding economy. On December 27, 2008, the Standing Committee of the Eleventh National People's Congress – China's top legislature – approved the Third Amendment of the Chinese Patent Law. The Third Amendment will go into full effect on October 1, 2009. These changes will have profound effect on global industries and innovative Chinese companies that expect to obtain and enforce patents in China. To help foreign businesses and practitioners stay on top of the new laws, major changes are outlined as follows:

### **Absolute Novelty Requirement**

Currently, Article 22 of the Patent Law makes use of a two-pronged approach to novelty. That is, while an absolute novelty standard is applied to publications, a relative novelty standard is applied to prior public use or public knowledge. As such, a publication anywhere in the world concerning a relevant invention is deemed as prior art, but prior public use such as sales, offers for sale, and manufacturing outside China is not prior art and does not destroy novelty. The current law, therefore, creates an often exploited loophole by Chinese companies to usurp patent protection in China for another's invention. Such a situation may occur when a product is disclosed to the public at a foreign trade show, but without any publications, and a third party races to the State Intellectual Property Office (SIPO) and files a Chinese patent application on

the product. With the patent on the product, the third party can extort money from the innovator company or prevent the import of its products.

The Third Amendment eliminates this loophole by introducing an absolute novelty requirement. Under the amended Article 22, the territorial restriction on prior public use and knowledge has been removed, and an invention loses its novelty in China from any prior public disclosure in the world. The inclusion of an absolute novelty requirement will force patent practitioners to adjust their patent application strategies. For jurisdictions which enjoy a grace period, such as in the U.S. (one year to file after disclosure (offer for sale, use, publication, etc)), utilization of that period before filing a Chinese patent application will destroy the novelty of the invention. Therefore, it is advisable to file a Chinese patent application before there is any disclosure of the invention. Because the Third Amendment lacks transitional provisions, whether or not the new law will affect existing applications and patents remains unclear.

### **Foreign Filing License**

Under Article 20 of the current law, an invention made in China by Chinese individuals or entities must first be filed in China before patent applications may be filed elsewhere. To circumvent this filing requirement, a common practice is to assign ownership of the invention to a related foreign entity that is not subject to the requirement to file in China before filing anywhere else.

To combat the above, under the amended Article 20, the Patent Law will no longer require inventions “made in China” to be first filed in China. However, similar to

the U.S. foreign filing license requirement, the application must first be submitted to SIPO for a “confidentiality examination” prior to filing abroad. This new national security review is intended to prevent security leaks through the aforementioned circumvention techniques. The time to complete the review is uncertain, but it is expected to be provided in the implementing regulations. To reinforce the governmental control on foreign filing of patent for invention “made in China,” a penalty provision has been added for non-compliance with the confidentiality examination procedure – the refusal to grant a patent right in China.

### **Compulsory Licensing**

Under Articles 48-55 of the current Patent Law, there is already broad discretion in granting a requesting party a compulsory license on a Chinese patent when the party otherwise was unable to obtain a license on reasonable terms within a reasonable amount of time. To date no compulsory license has been granted.

Specifically, the Third Amendment provides better guidance and additional grounds for the grant of a compulsory license. Under amended article 48, SIPO may grant compulsory license to a requesting party upon request if: (1) the patentee, without satisfactory reason, does not exploit or sufficiently exploit the patent after the expiration of three years from the grant of the patent right and four years from the date of filing, and (2) the patentee exploitation of the patent has been determined through a legal process as having negative monopolistic effects on competition.

Under amended Article 50, for the purpose of public health, SIPO may grant a compulsory license for manufacturing and exportation to approved countries, belonging to treaties in which China participates, of Chinese medicinal patents.

### **Genetic Resources Disclosures**

With an eye towards protecting and preventing the misappropriation of China's genetic resources, the amended Article 26 added provisions that require the applicant to disclose the direct source and original source of the genetic resources relied upon in the completion of an invention. If the original source can't be disclosed, the applicant must state the reason.

Further, amended Article 5 added provision stipulating that any patent application for any invention based on genetic resources, the acquisition or exploitation of which violates relevant laws and administrative regulations, will be rejected.

In contrast, the U.S. does not require the disclosure of the source of genetic resources. This disparity between Chinese and foreign laws in relation to genetic resources should make foreign scientists conducting research related to genetic resources in China, and practitioners aiding in patent procurement, wary of this unique disclosure requirement.

### **Prior Art Defense**

Under the current law, patent infringement cases are heard in the People's Courts while in parallel the invalidation proceedings are administered in the Patent Reexamination Board (Board). As such delays often occur in the patent infringement

cases and thus increase the costs to the Patentee. Article 62 allows for a prior art defense if the accused infringer has evidence to prove that his technology belongs in the prior art. This defense is similar to the U.S. such as when the accused infringer technology has been practiced before the Patentee invented his invention.

### **Double Patenting**

The Third Amendment also codifies the current SIPO practice in which both an invention patent and a utility model may be filed on an invention for an article, but that only one can ultimately be obtained. Since a utility model application is not substantially examined, it is often granted within one year of the filing date, while an invention patent takes about three years. Thus, the current practice is to abandon the utility model patent once the invention patent is granted.

Amended Article 9 now provides that where the same applicant applied for the both invention patent and utility model on the same day and the previously granted utility model has not expired, the applicant must abandon the utility model patent then the invention patent can be granted.

It is good practice to file both an invention patent and a utility model in China so that the utility model patent that can be asserted should there be infringement. However, utility model patents are not substantially examined and are thus, subject to being held invalid by the Board.

### **Statutory Damages Award**

Currently, damages in a patent infringement case are determined based on actual losses or lost profits. However, if actual losses or loss profits can't be accurately calculated, the Court can award damages based on a multiple of a reasonable royalty rate.

The amended Article 65 provides maximum statutory damages of RMB 1,000,000, upward from the RM 500,000 as set in 2001 and provides for payment of reasonable expenses incurred in stopping the infringement.

### **Bolar Exemption**

A clinical trial exemption, or Bolar exemption, is introduced under the Third Amendment. Under new Article 69(5), a party can manufacture, import, or use a patented drug or patented apparatus for medical use in order to obtain regulatory approval prior the expiry of the patent. This exemption is similar to the Safe Harbor Provision under the Hatch-Waxman Act in the U.S. which allows the use of a patented invention solely for uses reasonable related to the development and submission of information to the FDA.

### **Co-Ownership**

The current Patent Law does not address how a co-owner can individually exploit a co-owned patent. Under the new Article 15, a co-owner can individually grant a non-exclusive license to a third party, but must share the royalties with the other co-owners. In all other circumstances, consent by all co-owners is required. Thus, it is

recommended that joint ownership be avoided to the extent possible or that an agreement to assign any patent rights in a joint venture to your client.

This is in contrast to U.S. laws in which a co-owner can grant a license without any accounting to the other co-owners.

### **Changes to Design Patents**

Amended Article 23 attaches the absolute novelty standard to design patents. It also appears that design patents should be non-obvious over the prior design. Other changes in the Third Amendment include not allowing trademarks and labels to be registered as a design patent, allowing more than one embodiment may be made in one application and

### **Conclusion**

The Third Amendment will change the way foreign companies obtain patent protection and conduct business in China. With the new absolute novelty standard, it is advisable to file a patent application before any disclosure. It is also advisable to submit the application to a confidential examination by the SIPO before it is filed anywhere in the world particularly if there is at least one Chinese inventor. Inventions involving genetic materials require a disclosure of its source which a practitioner should consider before filing the application. Foreign companies should consider filing both an invention patent and the utility model on the same day in order to maximize patent protection for their products. When a foreign company is developing a product with a Chinese company, the foreign company should have an agreement in place to have any

intellectual property developed by the Chinese company assigned to the foreign company.