

April 20, 2009

**Comments of the American Intellectual Property Law Association
on the Second Draft Amended Implementing Regulations
of the PRC Patent Law**

Direct General
Treaty and Law Department
The State Intellectual Property Office of P.R. China
No. 6 Xitucheng Road
Jimenqiao, Haidian District
Beijing, 100088
CHINA

Dear Direct General:

The American Intellectual Property Law Association (“AIPLA”) is pleased to present the following comments on the second draft amended Implementing Regulations of the PRC Patent Law (“Draft Implementing Regulations”), released by the State Council’s Legislative Affairs Office (“SCLAO”) on March 9, 2009. Having also submitted comments on the third draft of the amended PRC Patent Law in 2006, AIPLA is excited about both the promulgation of the newly-amended PRC Patent Law, which goes into effect on October 1, 2009, and the opportunity to comment on the Draft Implementing Regulations.

AIPLA is a U.S.-based national bar association whose more than 16,000 members are primarily lawyers in private and corporate practice, in government service, and in the academic community. AIPLA represents a diverse spectrum of individuals, companies, and institutions involved directly and indirectly in the practice of patent, trademark, copyright, unfair competition, and trade secret law, as well as other fields of law affecting intellectual property. Our members practice or are otherwise involved in patent and other intellectual property law in jurisdictions throughout the world, and do so quite extensively in China.

AIPLA, thus, has a strong interest in the Draft Implementing Regulations. AIPLA recognizes the achievements already made in promulgating the new amended PRC Patent Law, and also recognizes the efforts made by SCLAO and the State Intellectual Property Office (“SIPO”) in preparing the Draft Implementing Regulations. AIPLA thanks SCLAO for the opportunity to submit comments on the Draft Implementing Regulations, and respectfully submits the following comments. We anticipate submitting a translated version of these comments shortly.

Sincerely and respectfully,



Teresa Stanek Rea
AIPLA President

COMMENTS

Comment # 1: Security review is required for filing applications in foreign countries for inventions or utility models completed in China. (Article 9)

Article 9 of the Draft Implementing Regulations requires any entity or individual intending to file a patent application in a foreign country for an invention or utility model “completed in China” to request a security review by SIPO. Although AIPLA understands the concern behind this requirement, AIPLA has the following comments:

- (1) The phrase “completed in China” is vague and may lead to confusion over when a security review is required. The meaning of “completed in China” should be clarified – in particular whether it means “to be conceived and reduced to practice in China” – so that entities and individuals are clear about when a security review is required. Moreover, many inventions and utility models are jointly conceived and/or reduced to practice by individuals or employees located in different countries and working together through telephone, e-mail, instant messaging and other Web-based tools, etc. It is not clear whether such jointly created inventions and utility models are deemed “completed in China” under Article 9 and therefore require a security review.
- (2) The requirement of a security review for possibly millions of patent applications annually will impose a substantial and oftentimes unnecessary burden on both applicants and SIPO. Many applications will be found not to involve any national security or substantial interests requiring confidentiality. To reduce this burden, applicants should be required to submit applications for a security review only when the invention or utility model might relate to national security or substantial interests requiring confidentiality. AIPLA suggests that the relevant authority identify technical areas or categories of concern and that Article 9 apply only to applications falling within those technical areas or categories.

Based on the above comments, AIPLA proposes the following modified paragraph 1 of Article 9:

“Any entity or individual intending to file a patent application in a foreign country for an invention or utility model completed in China and relating to national security or substantial interests requiring confidentiality shall request a security review from the patent administration department under the State Council in one of the following ways: ...”

AIPLA further proposes the following additions to Article 9:

“‘An invention or utility model completed in China’ referred to in paragraph 1 means an invention or utility model conceived and reduced to practice entirely in China.”

“The patent administration department under the State Council shall identify the technical areas or categories that may relate to national security or substantial interests requiring confidentiality and for which a security review is required under paragraph 1 and Article 20 of the Patent Law.

Comment # 2: Recordation of patent license contracts is optional. (Article 15)

The amendment to Article 15 providing that patent license contracts “may be recorded” rather than “shall be recorded within three months” is an improvement. Parties to license contracts may find it impracticable to record the license contract or not wish to do so for business reasons. This amendment recognizes these situations by making recordation of license contracts optional rather than mandatory.

However, AIPLA notes that patents are being sold and purchased as value assets in a market-driven economy. It is important to ensure that a licensee of a given patent can rely on a license agreement to protect itself against a claim of infringement asserted by a future owner of the given patent. Therefore, AIPLA suggests deletion of *“without recordation, a bona fide third party shall not be opposed.”*

Comment # 3: Pledging of patent rights is expressly allowed. (Article 15)

The amendment to Article 15 acknowledging that patent rights can be pledged as security also is an improvement. AIPLA notes that by expressly allowing the pledge of patent rights, Article 15 acknowledges the value inherent in patent rights. As currently drafted, however, the amendment requires patent pledge contracts to be registered with SIPO in order to be effective. AIPLA suggests that the amendment be modified to make registration of pledge contracts optional rather than mandatory (similar to recordation of patent license contracts). If necessary, the amendment can include protections for bona fide third parties if the pledge contract is not registered.

Comment # 4: Applications for design patents must include relevant drawings of the design. (Article 28)

Article 28 of the Draft Implementing Regulations requires applicants for design patents to submit relevant drawings of the design. AIPLA agrees that applications for design patents should include relevant drawings of the design. However, AIPLA suggests that applicants be permitted to use broken or dotted lines to designate minor or unimportant features of the product. The design patent systems of many countries, including that of the United States, have long allowed the use of broken or dotted lines to designate unimportant or minor features. If unimportant or minor features are required to be designated by solid lines, infringers can easily change the unimportant or minor features and argue they do not infringe. This is contrary to the PRC Patent Law’s intent to encourage and protect novel designs and may even discourage innovation in designs.

Based on the above comments, AIPLA proposes the following addition to paragraph 1 of Article 28:

“Unimportant or minor features of the design may be designated by broken or dotted lines.”

Comment # 5: Patent application process is improved. (Articles 31, 32, 63, 75)

AIPLA notes that the Draft Implementing Regulations improve on the patent application and prosecution process. The improvements include: (1) exempting applicants from the requirement of submitting a certified copy of foreign priority documents to SIPO if SIPO receives the priority documents from the original patent authority via electronic transmission (Article 31, ¶ 1), (2) permitting applicants to correct omissions or mistakes in their priority request (Article 32, ¶ 1), (3) permitting applicants for design patents to claim foreign priority based on an earlier application that does not contain a description (Article 32, ¶ 3), and (4) deleting the requirement for applicants to provide two copies of documents (Articles 63, 75).

Comment # 6: Preliminary examination of utility model and design applications is improved. (Article 46)

Article 46 of the Draft Implementing Regulations provides for preliminary examination of both utility model and design applications. AIPLA is pleased that Article 46 expands the scope of preliminary examination to include design patent applications, and is especially pleased that preliminary examination includes obvious lack of novelty and practical applicability (for utility models) and obvious lack of novelty and industrial application (for designs). AIPLA believes this is an improvement of the utility model and design patent process.

Comment # 7: The patentee of a utility model or design, or any other interested person, may request an evaluation report. (Articles 56-59)

AIPLA is pleased that Articles 56-59 of the Draft Implementing Regulations allow patentees and “any other interested person” to request an evaluation report for designs as well as utility models. This should improve the quality of design and utility model patents in China.

AIPLA suggests that the definition of “any other interested person” in paragraph 2 of Article 56 be expanded to specifically include (1) individuals or entities that are accused of infringement or have a reasonable belief that they may be sued for infringement, and (2) any other individual or entity that has a legitimate interest in the scope or validity of the patent, such as a current or potential assignee or licensee of the patent.

Based on the above comments, AIPLA proposes the following modified paragraph 2 of Article 56:

“Any other interested person” referenced in the preceding paragraph refers to a party entitled to sue in the People’s Court for or request the patent administration department to handle a patent infringement dispute under Article 60 of the Patent Law, including the licensee of an exclusive patent license, the licensee of a regular patent license that is granted the right to sue, any individual or entity that is accused of infringement of the patent or has a reasonable belief that they will be accused of infringement of the patent, and any other individual or entity that has a legitimate interest in the scope or validity of the patent, such as a current or potential assignee or licensee of the patent.”

Comment # 8: Reasons or evidence supporting a request for invalidation may be supplemented only within one month of filing the request. (Article 69)

Invalidation proceedings are important to ensure the strength and legitimacy of the patent system. The patent system should not support invalid patents, and it is in the patent system’s interest to receive all reasons and evidence relevant to the validity or invalidity of a patent. Article 69 of the Draft Implementing Regulations allows a person requesting invalidation of a patent to submit reasons and evidence supporting invalidation within one month of filing the request. One month normally is not enough time. AIPLA, therefore, proposes that Article 69 be modified to change the period for submitting supplementary materials from one month to three months.

Comment # 9: A request for a compulsory license must be accompanied by relevant supporting documents. (Article 75)

AIPLA generally opposes compulsory licensing except under very limited circumstances and only where substantial evidence shows that the requirements for a compulsory license have been met. AIPLA also believes there should be a rigorous and transparent administrative process for determining whether the requirements have been met and whether a compulsory license should be granted.

Articles 75-83 of the Draft Implementing Regulations are a good start. However, based on the above comments and given the significance of granting compulsory licenses, AIPLA proposes the following modified Article 75:

“Anyone requesting a compulsory license shall submit to the patent administration department under the State Council a request for a compulsory license, state the reasons for the request, and attach relevant supporting documents. The necessary supporting documents shall include:

(1) either --

(a) evidence that proves (i) the requestor fulfilled its obligation to make efforts to obtain authorization from the patent right holder on reasonable commercial terms and conditions and that its efforts were not successful within a reasonable period of time, and (ii) the patent right holder is not exploiting the patent or not sufficiently exploiting the patent without any justified reason, or

(b) a certified final judgment from the People's Court or a certified determination from the State Administration for Industry & Commerce determining that (i) the patent right holder's conduct violated the PRC Anti-Monopoly Law, and (ii) the grant of a compulsory license is necessary to remedy the anticompetitive effects of such conduct, and

(2) evidence that the requestor directly possesses sufficient financial resources and technical capability to commercially exploit the patent upon receipt of a compulsory license.

The patent administration department under the State Council shall send a copy of the request for a compulsory license to the patentee, who shall make his or its observations within the time limit specified by the patent administration department under the State Council. Where no response is made within the time limit, the patent administration department under the State Council will not be affected in making a decision.

Before making a final decision to reject the request for a compulsory license or to grant a compulsory license, the patent administration department under the State Council shall notify the requestor and patentee and give both of them the opportunity to make written comments and participate in an in-person hearing.”

Comment # 10: “Has not sufficiently exploited his patent” refers to the failure to meet domestic demand for the patented product or process. (Article 76)

AIPLA suggests modifying Article 76 of the Draft Implementing Regulations to clarify the many ways in which a patent can be exploited, including by the patent right holder exploiting the patent on its own, by licensing the patent, or through importation of a patented product or products made using a patented process.

AIPLA proposes the following additional paragraphs to Article 76:

“Exploited the patent” in Article 48, subparagraph (1), of the Patent Law shall include, without limitation, (i) the patent right holder practicing the patent, (ii) the patent right holder licensing or agreeing not to assert the patent on terms negotiated between the patent right holder and one or more third parties, or (iii) the patent right holder or licensee importing the patented product or products made using the patented process.”

“Domestic demand” in paragraph 1 refers to demand by purchasers of the patented product or products made using the patented process who reside in China, and does not include the demand on Chinese manufacturers or other entities or individuals from purchasers residing outside of China that would result in the exportation of the patented product or products made using the patented process.”

“The mere exercise of one’s patent rights or refusal to license the patent rights shall not be deemed a ‘monopoly act’ under Article 48, subparagraph (2), of the Patent Law.”

Comment # 11: Inventor reward and remuneration may be established by company rules or by contract. (Articles 87-92)

Articles 87-92 of the Draft Implementing Regulations provide companies and inventors with a blueprint for complying with the reward and remuneration requirement set forth in Article 16 of the PRC Patent Law. AIPLA generally supports these amendments.

AIPLA strongly supports Article 87 of the Draft Implementing Regulations, which gives employers freedom to set their own rules on inventor reward and remuneration and gives employers and inventors freedom to agree on inventor award and remuneration through contract. By striking a fair and reasonable balance between an employer’s patent right and an inventor’s reward and remuneration right, Article 87 encourages innovation by companies and their employees and minimizes the risk of future disputes between them.

In order to clarify that the remuneration stated in Article 89 of the Draft Implementing Regulations applies only if the company does not specify the remuneration in its company rules or the parties do not specify it in their contract, AIPLA proposes the following modified Article 89:

“Where the entity to which a patent right is granted does not specify in its legally-enacted company rules or in the contract that is concluded by the entity with the inventor or designer the remuneration specified in Article 16 of the Patent Law, the entity shall provide remuneration as follows:

(1) The entity shall, after exploiting the patent for invention-creation within the duration of the patent right, pay the inventor or designer not less than 2% each year of the after-tax profits directly obtained from the exploitation of an invention or utility model, or not less than 0.2% of the after-tax profits directly obtained from the exploitation of a design, or pay the inventor or designer a lump sum of remuneration by reference to the above percentages; (2) Where the entity to which a patent right is granted assigns the patent right or authorizes another entity or individual to exploit the patent, it shall pay the inventor or designer no less than 10% of the after-tax assignment fee or royalties obtained; or (3) Where the entity to which a patent right is granted makes a capital contribution with the patent right, it shall pay the inventor or designer no less than 10% of the pricing value or stock value of the patent right.”

Comment # 12: Companies must give monetary reward to the inventor on favorable terms if the invention was made on the basis of the inventor’s proposal. (Article 88)

Paragraph 2 of Article 88 of the Draft Implementing Regulations requires companies to give inventors a monetary reward on favorable terms if the invention was made on the basis of the inventor’s proposal adopted by the company. AIPLA notes that it is unclear what is meant in paragraph 2 by “an invention-creation made on the basis of an inventor’s or designer’s proposal adopted by the entity to which he belongs.” Moreover, it is unclear whether such an invention-creation is different from or the same as a normal service invention-creation and why the inventor or designer of such an invention-creation should be given a monetary reward “on favorable terms.” Finally, paragraph 2 seems unnecessary because inventor reward and remuneration are adequately addressed in paragraph 1 and elsewhere in the Draft Implementing Regulations (Articles 87, 89). AIPLA, therefore, suggests that paragraph 2 be deleted from Article 88, or at a minimum that the meaning of “an invention-creation made on the basis of an inventor’s or designer’s proposal adopted by the entity to which he belongs” be clarified and the phrase “on favorable terms” be deleted.

Comment # 13: Administrative patent enforcement procedures generally are clarified and improved. (Articles 93-117)

AIPLA notes that the Draft Implementing Regulations generally clarify and improve on the administrative patent enforcement procedures. The clarifications and improvements include: (1) clarifying the requirements for requesting the patent administrative department to handle a patent infringement dispute (Article 99, ¶ 1), (2) requiring the patent administrative department to decide whether to accept the case within five working days of receiving the request (Article 100, ¶ 1), (3) permitting the patent administrative department to request a patent right evaluation report from the applicant for disputes involving a utility model or design patent (Article 100, ¶ 2), (4) clarifying the required contents of the patent administrative department’s written decision on a patent infringement dispute (Article 105, ¶ 1), and (5) identifying the measures the patent administrative department may take upon finding patent infringement, including “any other necessary measures to stop the infringing conduct” (Article 106).

Comment # 14: If the patent administrative department finds patent infringement, it “shall” order the respondent to cease the infringing acts. (Article 106)

Article 106 of the Draft Implementing Regulations provides that the patent administrative department “shall” order the respondent to cease the infringing acts once it finds infringement. This requirement appears to conflict with Article 60 of the PRC Patent Law, which provides that the patent administrative department “may” order the respondent to cease the infringing acts once infringement is established.

AIPLA suggests that this conflict be eliminated by changing “shall” to “may” in Article 106 of the Draft Implementing Regulations and thus making it consistent with Article 60 of the PRC Patent Law.

Comment # 15: If the respondent files an administrative lawsuit after the patent administrative department has ordered it to cease the infringing acts, execution of the order shall not be stayed. (Article 107)

Article 107 of the Draft Implementing Regulations provides that where a respondent files an administrative lawsuit in the People’s Court after the patent administrative department has ordered it to cease the infringing acts, execution of the order shall not be stayed. This requirement appears to conflict with Article 44 of the Administrative Procedure Law, which provides that execution of an administrative action shall be stayed if it is deemed necessary by the patent administrative department or if the People’s Court determines that execution of the administrative action will cause irreparable injury and a stay of execution will not harm public interests and orders a stay of execution.

AIPLA suggests that this conflict be eliminated by modifying paragraph 1 of Article 107 of the Draft Implementing Regulations as follows:

“Where the respondent files an administrative lawsuit in the People’s Court after the patent administrative department has ordered it to cease the infringing acts, execution of the order shall not be stayed during the lawsuit period, unless one of the following situations applies:

- (1) the patent administrative department deems that a stay of execution of the order is necessary under the Administrative Procedure Law; or*
- (2) the People’s Court determines that execution of the order will cause irreparable injury and a stay of execution will not harm public interests, and thus orders a stay of execution of the order.*

Comment # 16: Any of the following is an act of counterfeiting the patent of another person as one's own prescribed by Article 63 of the Patent Law: “(5) where the patented product made by the patentee has been put to the market, purposely making, selling products that are the same with the patented products, making the public mistake the products as the patented products.” (Article 109)

Article 109, section 5, defines an act of counterfeiting the patent of another. In view of Article 63 of amended China Patent Law and Article 216 of China Criminal Law, Article 109, section 5 may operate to criminalize certain acts of patent infringement. Specifically, the phrase “making the public mistake the products as the patented products” is unclear and may result in categorization of certain patent infringement acts as acts of counterfeiting, and thus may be subject to Article 216 of China Criminal Law. Therefore, AIPLA suggests that the amendment be modified to clarify the intent of Article 109, section 5.

CONCLUSION

AIPLA sincerely appreciates the opportunity to provide its comments on the Draft Implementing Regulations and hopes these comments are helpful. If AIPLA can be of any further assistance in the development and implementation of the amended Implementing Regulations to the PRC Patent Law or of any other assistance on intellectual property issues, please do not hesitate to contact us.