The third amendment of the Chinese Patent Law (CPL) was passed by China’s top legislature, the National People’s Congress, on 27th December 2008 and will come into effect on 1st October 2009. The current law was introduced in 2001 in response to China’s international obligations under GATT TRIPs and this upcoming revision brings many aspects of Chinese patent law further into line with current practice in major countries.

Headline changes

- New absolute novelty requirement
- First filing requirement in China removed, but a new secrecy examination introduced
- Assignment of Chinese patents to foreign entities to follow prescribed procedures
- Changes to compulsory licence provisions
- Increase in statutory damages award
- New “Bolar” infringement exemption
- Clarification of patent right exhaustion and parallel imports
- Statutory availability of pre-suit injunction
- Statutory availability of order to preserve evidence

Accompanying the new CPL will be new implementing regulations as well as revised patent examination guidelines to be used by the State Intellectual Property Office (SIPO), as well as revisions to the current regulations covering the administrative enforcement of patents and compulsory licensing of patents. However, at present there is no confirmed date for the introduction of these other regulations.

Absolute novelty requirement

Upon introduction of the new CPL perhaps the biggest change will be felt in the move to an absolute novelty regime compared to the current novelty requirements. Under the current law, prior public use outside of China or other non-publication forms of prior disclosure outside of China do not count against the novelty of a Chinese patent. Accordingly, under the current law a patentee is able to publicly demonstrate a product outside of China before obtaining a valid Chinese patent for an invention embodied in the product. However, the current law is also susceptible to abuse by parties who rush to file a patent in China after having been alerted to the patentee’s efforts outside of China, in effect ‘hi-jacking’ the invention in China. Under the new CPL any public disclosure of any kind anywhere in the world prior to the filing date (or the priority date if any) of a Chinese patent application will count against it, so this kind of abuse by hi-jacking an invention in China will no longer be possible.

The change to an absolute novelty requirement will also have far-reaching implications when attempting to invalidate Chinese patents. For example, for patents granted in technical fields where the earliest disclosures were unlikely to have been formally published, an example being early advances in the field of Internet-related inventions which were not routinely documented by formal publication, under the new CPL evidence of all prior public disclosure will be relevant. Of course, even though the amount of relevant evidence may be greatly increased under the new CPL, to be admissible all foreign-sourced evidence will still have to satisfy the onerous administrative regulations regarding legalisation and notarisation.
The new CPL also formalises the current SIPO practice of only allowing one granted IP right (invention patent or utility model) for a single invention. Under current Chinese law there is no statutory bar to prevent the grant of both a patent and a utility model for the same invention if both were filed on the same day by the same patentee. To prevent abuse of this procedure, current SIPO practice requires that before allowance of an application for an invention patent, the patentee must surrender any already-granted utility model still in force. The new CPL formalises this rationale and will bring the legislation in line with current SIPO practice.

First filing / secrecy examination

Under the current law, for inventions made by a Chinese applicant in respect of an invention completed in China a patent application must first be filed in China before patent applications may be filed abroad. The current law is silent on the case where the applicant is non-Chinese. Under the new CPL all inventions completed in China are no longer required to be first filed in China, but there is a new requirement for the application to be submitted for a secrecy examination before a foreign patent application can be filed, where that foreign patent application is the first patent application for that invention. Unfortunately, there is no statutory definition in the new CPL of what is meant by “completed in China”, though it is thought that this term extends to cover inventions made in China by Chinese and non-Chinese co-inventors, a common scenario for joint venture agreements or companies such as foreign multinationals with research facilities in China.

As the penalty for non-compliance with this new requirement is severe – the refusal to grant a patent for such an invention, and/or the possibility that the patentee would have to surrender any patent granted on such a patent application - it may be prudent to submit to the new secrecy examination procedure in all cases where there may be any doubt at all as to Chinese inventorship. The new examination guidelines are expected to provide guidance on how SIPO will handle secrecy examinations as well as the level of detail that is required to be submitted for this approval procedure.

Approval for certain types of assignments

Under the new CPL assignments of Chinese patents or patent applications from a Chinese assignor to a foreign assignee must now follow prescribed rules and procedures which will be set out in the accompanying regulations. Depending on how this requirement is implemented, this may have great impact on joint ventures between multinationals and Chinese entities and/or Chinese inventors.

Compulsory licensing

Under the current patent law there are already present wide-ranging powers allowing the court to grant a compulsory licence to anyone unable to obtain a licence on reasonable terms within a reasonable amount of time for a Chinese patent. However, to date no compulsory licence has been granted in China and the new CPL introduces better guidance, as well as additional grounds for the grant of such a licence:

(i) Insufficient practising of the invention by the patentee: available from three years after grant of patent, or four years after filing, where the patentee has not exploited or sufficiently exploited the patent without proper reason.

(ii) Patentees conduct judged to be anti-competitive: wherein the patentee’s actions have been found to have the effect of restricting or excluding competition, and grant of a compulsory licence is justified. The new CPL in this respect has to be considered in conjunction with the regulations already in force through the Anti-Monopoly Law which makes it illegal to eliminate or restrict market competition by abusing intellectual property rights.

(iii) Public health reason: where a patented product is a medicinal drug, and the compulsory licence is for making or exporting to countries which are signatories to an international treaty to which China is a member, and during times of national emergency or any extraordinary state of affairs.

In addition to the above, where the patent in question relates to semiconductors, under the new CPL a compulsory licence may be awarded in the public interest following anti-competitive behaviour of the patentee.

Increase in statutory damages award

Under the current law where damages or an account of profits cannot be accurately assessed in a patent infringement case there is recourse to a statutory award of damages at a reasonable multiple of a reasonable royalty rate. The current maximum value of damages assessed in this manner is RMB500,000 which was set in a Supreme People’s Court judicial interpretation issued in 2001. Under the new CPL this maximum value has been codified and doubled to RMB1m, and the ability for the patentee to recover reasonable expenses to stop
infringement has also been introduced. However, even though the ability to recover costs is now provided for in legislation, from past experience Chinese courts have been reluctant to allow large claims for costs and this practice is unlikely to change much under the new CPL.

Introduction of “Bolar exemption” provision

Some countries make an exception in their patent law for acts of patent infringement carried out for the purpose of seeking regulatory approval for a drug, such as in the case of Roche Products v Bolar Pharmaceutical.

Under the new CPL generic drug companies will be allowed to use patented inventions to obtain SFDA approval prior to expiry of a patent without the patentee’s licence. Under the new CPL these provisions will apply to both medicines and medical equipment. The allowed acts include the making, use, import of patented drugs or patented medical equipment, and the specific making, importing of drugs or medical equipment solely for the purposes of obtaining and providing information required for regulatory approval.

A related point to bear in mind is that China does not compensate patentees with any form of patent term extension, or supplemental protection certificates, with which to extend the life of a patent, in view of any delay caused by seeking marketing authorisation of a new drug.

Clarification of patent right exhaustion and parallel imports

Under the current patent law there is provision for patent exhaustion for licensed products sold in China. However, the current law is not clear on whether this exhaustion can extend to products imported into China. Under the new CPL it is clear that both domestic and international exhaustion apply to products sold, or licensed to be sold by the patentee. Thus, under the new CPL the act of parallel importation of a patented product will not be an act of infringement. However, the new CPL does not make clear how exhaustion will apply to imported products sold outside China under contractual restrictions.

Statutory availability of pre-suit injunction

Currently, pre-suit injunctions are available to the patentee following judicial interpretations issued by the court on the current patent law. Under the new CPL the existing practice will be codified in statute. Under the new CPL the judge will be required to make a decision within 48 hours of the injunction application being made, with a time extension available in special circumstances. The applicant for the pre-suit injunction is required to post a bond and has to undertake to compensate the defendant for any loss sustained if the injunction subsequently is found to have been mistakenly granted. The decision of the court whether to grant the pre-suit injunction may be appealed to the same court for self-review, but there is no stay of the injunction whilst the self-review takes place. If granted, the patentee has to initiate infringement proceedings within 15 days of the order being made, otherwise the injunction will be lifted.

Even though codified legislation will shortly be in place, successfully applying for a pre-suit injunction in China has always been difficult and this is not expected to change much. The burden of proof on the applicant is heavy – both infringement and irreparable harm have to be clearly proven. Furthermore, counting against the grant of pre-suit injunctions is the existing guidance from the Supreme People’s Court that pre-suit injunctions should not be granted where there is non-literal infringement or where the technology involved is complicated.

Statutory availability of order to preserve evidence

Under current law the court may make evidence preservation orders to preserve evidence at risk of destruction or removal. The current law stems from judicial interpretations and the new CPL codifies the existing practice for the grant of evidence preservation orders. The main requirements to be met for a successful application to court are that the evidence must be at risk of disappearing and the applicant must put up a bond. The court then is obliged to make a decision within 48 hours of the evidence preservation application being lodged, and the evidence preservation order itself will be lifted if infringement proceedings are not begun within 15 days of the order being made.

Other changes under the new CPL

Under the new CPL where the completion of an invention in China relies upon genetic resources, the applicant must state in the application documents the direct and original source of the genetic material, otherwise, the applicant must provide reasons for not being able to supply this information.

Also, under the new CPL co-patentees may now license their patent without having to seek the consent of their co-owner first, though any licence fees obtained are to be shared.
The new CPL also covers changes to the law on registered designs. Under the new CPL there will be a requirement to furnish a brief description of the design, and the representations must show clearly the design features for which protection is sought. Under the new CPL multiple designs may now be made in a single application. Under the new CPL, there is now also a bar to registering 2-dimensional designs if the main purpose of the design is to serve as a trade mark.

On a practical note, the new CPL now allows foreign applicants wanting to file a Chinese patent application to do so through any legally established patent agent firm, rather than having to file through a designated patent agent firm as is required under current law.

**Conclusion**

The changes coming into effect on 1st October 2009 in the new CPL will radically alter the landscape of Chinese patent law and will likely require changes to how both legal practitioners and applicants approach Chinese patents.

There will be some obvious changes, for example, the change to an absolute novelty regime will be a fundamental shift that will finally require the validity of Chinese patents to be scrutinised wholly in the light of global knowledge, rather than an outdated hybrid model of part-local and part-worldwide knowledge. From a patent prosecution viewpoint, whilst the change will require applicants to reassess their patent filing strategies it is not likely to result in major changes as China is merely now joining the already established practice for most countries. From a litigation angle, the change to absolute novelty will increase the pool of prior art available for attacking weak patents, and likely mean that patents that were previously considered at risk of invalidation, but were not attacked for lack of applicable prior art, may now be invalidated. Similarly, patents which were formerly considered not worth asserting may now be reconsidered following the increase in statutory damages available.

On the other hand, the effects of some of the other changes heralded in the new CPL will be harder to predict. For example, the requirement for a secrecy examination before foreign filing may prove to be no more a burden in practice than the measures already in place in other countries, or it may end up causing impractical delays depending on how it is implemented. Considering that the penalty for falling foul of the requirement is draconian, it may be that some clients will find the cost of always filing in China an acceptable compromise between compliance and expediency for inventions completed in China. There is also hidden in this new requirement the prospect of conflict with other national laws, as although multinational corporations are now no longer required to file their first patent application in China for an invention completed in China, by complying with the secrecy examination requirements required by the new CPL they may be falling foul of their own domestic laws which may preclude foreign disclosure until a domestic patent application has been made.

The new provisions concerning assignment of a patented invention to a foreign entity will also likely require careful thought considering the many joint-ventures planned, and already in existence, between multinationals, Chinese universities and other local research establishments. Consideration has to be given to ownership of patent rights from the outset of any agreement. Another change whose effect will be hard to predict will be the impact of parallel importation - the nexus between patent exhaustion, contractual obligations and antitrust issues is a complex area through which companies will need to tread carefully and seek specialist advice.

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