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How rules and procedures for reviewing patent applications and those for enforcing patents can hamper patent quality and innovation in China⁺

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Abstract: This chapter finds that there are a variety of concerning rules and procedures for patent application review and enforcement of patent rights in China that hamper patent quality. These range from inadequate review systems to requirements and practices that generally weaken the efficiency and effectiveness of the patent enforcement environment, which in-turn ultimately somewhat discourage building of quality patents and related innovation in China.

Keywords: patent quality, China, patent enforcement, patentability requirements, patent prosecution, innovation

⁺ This paper is Chapter 4 of Prud'homme, D. (2012) *Dulling the Cutting Edge: How Patent-Related Policies and Practices Hamper Innovation in China*, European Union Chamber of Commerce in China Publications

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III.4 Chapter 4: Rules and procedures for reviewing patent applications and those for enforcing patents

III.4.1 Analysis

III.4.1.1 Sub-section 4.1: Patent application review

Introduction: This sub-section investigates how some aspects of the patent application review process in China can stifle patent quality and related innovation.

III.4.1.1.1 Overly burdensome “Confidentiality Review” required before filing patents abroad

China’s *Patent Law* (“*Patent Law* (2008)”), the third revision on which was issued on December 27th 2008 by the Standing Committee of the National People’s Congress, and its implementing rules set forth an overly burdensome Confidentiality Review process (also often called a “Confidentiality Assessment” or “Confidentiality Examination”) for all foreign patent filings for inventions made in China’s territory. Article 20 of the *Patent Law* (2008) states that when an owner of an invention or utility model “completed in China,” i.e. for which the substantive part of the technical solution is completed in China, wants to file that patent abroad they must request a Confidentiality Review from SIPO before doing so.¹ Article 8 and 9 of the *Implementing Rules of the Patent Law*, as amended in January 2010, provide details on this Confidentiality Review procedure whereas Article 9 stipulates if it is determined that the solution “*may relate to the security or vital interest of the State and is required to be kept secret,*” a confidentiality notice is sent to the applicant with which they have to comply,² and the patent will not be published (even if approved in China) and it cannot be filed in a foreign country.

The level of ambiguity as to what constitutes a solution that “relates to the security or vital interest of the State” opens up the possibility that a wide-range of solutions might fall within this category and thus face complications. This puts a damper on entities’ ability to internationalise and may directly discourage development of a wide variety of patents that could conceivably fall within this area of regulation.

Further, even if the Confidentiality Review reveals no problem for first filings abroad, as should be the case in most instances, the requirements for this review create a burden because the texts for the review need to be translated or a costly PCT application has to be filed with SIPO by external counsel in order to comply with SIPO’s request.³ At the very least, these requirements cost companies more time and money to develop and commercialise or otherwise productively transform certain solutions into productive assets, which in turn discourages certain innovation and patent filing. And particularly disconcertingly, the requirements may discourage competitive companies with quality patents that are more likely than those with the lowest quality patents to seek to internationalise in the first place.

¹ Measure retrieved from <http://www.lawinfochina.com/display.aspx?lib=law&id=7289>

² Measure retrieved from http://www.ccpit-patent.com.cn/references/Implementing_Regulations_Patent_Law_China.htm

³ 2012, May 9- Consultations with Dr. Oliver Lutze in Shanghai

Even more troublesome is that additional Confidentiality Reviews are burdensomely required on patent applications amended during the priority filing period even if such amendments are within the scope of the original claims. It is usual practice that patent applicants in certain fields (e.g. chemical arts) amend patent applications shortly before foreign filings in many countries within the 12 month priority period. Such amended texts, according to SIPO, need another Confidentiality Review as the amendments need to be checked even if in the scope of the original claims. In most cases, this additional Confidentiality Review is not possible anymore at a time so close to the end of the priority period. This puts the resulting Chinese patents at risk that they can be invalidated if no security check has been performed on the amendments. This discourages the innovation activities of those who conduct R&D in China with a view to filing patents in China and abroad on such R&D.⁴

III.4.1.1.2 Concerns over regulations on the green channel for patents

Uncertainties in the application of expedited examination of patents via what is often referred to as “green channel” approval may inhibit patent quality. As noted in the European Chamber’s January 13th 2012 response to SIPO’s Call for Comments on the *Administrative Measures on Prioritised Examination of Patent Applications (Draft)*, while these measure are welcome in general, there are uncertainties as to whether the measures will translate into a less rigorous examination process for patents, both in terms of Substantive Examinations for invention patents and other review for utility models. This would be concerning and may jeopardise necessary patent quality reviews. Also, in absence of assurances as to how the process will play out in practice, there are concerns that application requirements for prioritised examinations may be implemented in a less than egalitarian manner.⁵

Elliot Papageorgiou, Executive and Partner at Rouse in Shanghai, further explains some of the most serious concerns surrounding China’s approach to expedited examination of patents:

“The most pressing concern would be how SIPO would keep track of and take account of the pending applications which have not been prioritised but of course may still constitute relevant prior art for any expedited application. This problem is magnified as a result of the large volume and growth in patent filings in China. If this potential issue is not managed appropriately, situations could arise where expedited applications lead to grants despite existence of novelty-destroying prior art contained in prior-filed but later examined non-expedited applications.”⁶

The *Administrative Measures on the Priority Examination of Invention Patent Applications*, issued on June 19th 2012 by SIPO, may address some of these concerns regarding the assessment of *prior art* for expedited examination of invention patents. For example, Article 7 of the measures requires a Search Report be conducted and submitted as part of an application for prioritised patent examination on invention patents.⁷

However, there are still a number of ambiguities in the rules surrounding the expedited patent review process in China. It is will also be helpful to seek assurances as to how the green channel for

⁴ 2012, May 9- Consultations with Dr. Oliver Lutze

⁵ European Chamber’s response to SIPO’s Call for Comments on *Administrative Measures on Prioritised Examination of Patent Applications*, submitted to SIPO on January 13th 2012.

⁶ 2012, June 12 - Consultations with Elliot Papageorgiou in Shanghai

⁷ Measure retrieved from http://www.sipo.gov.cn/zwgs/ling/201206/t20120621_712805.html

Article 7: “To go through the priority examination formalities, the applicant should submit the following materials...the search report in prescribed format provided by the unit that is qualified to conduct patent searches, or the search report, examination report and the Chinese translated version for the search report and examination report provided by the patent examination institutes in other countries or regions.” (Translation from European Chamber thus is unofficial.)

prioritised patent examination in strategic sectors, e.g. those in the *2012 National IP Strategy*, will be implemented,⁸ whereas there may be potential for these examinations to be implemented in an overly discriminatory manner and disconcertedly provide favourable review to lesser than highest-quality patents, and at worst low-quality patents, just because they are in an industry defined as strategic. As mentioned in Chapter 2, it is also worth seeking assurances from SASAC in particular regarding how this system is currently and will be applied to patents filed by SOEs. The requirement in Article 4 of the *Administrative Measures on the Priority Examination of Invention Patent Applications* that priority review will concentrate on “patents of great significance to national or public interests” does not allay these concerns.⁹ These factors may potentially create a patent review environment that may jeopardise an import filter of patents, or otherwise inappropriately favour lower quality patents over higher quality ones.

III.4.1.1.3 Genetically modified plants and other genetic material are unreasonably excluded from patentability

There are restrictions on core inventions in the agro-sciences, whereas a notable amount of genetically modified plants are excluded from patentability as clarified by SIPO’s *Patent Examination Guidelines (2010 revision)*. Genetically modified plants can only enjoy plant variety protection (PVP) because wider protection on plants regardless of variety is excluded in China. This is compounded by the fact that China has not ratified the International Convention for the Protection of New Varieties of Plants as revised in 1991 (“UPOV ‘91 version”)¹⁰ for PVP protection. Patent protection for whole plants, regardless variety, or plant cells, would better foster R&D activities in the field in China.¹¹

Also, important claims for genetic material, like DNA, are only allowed in a very narrow scope, thus not giving the applicant sufficient protection on such materials. Further, the claims that are allowed can be easily circumvented by using slightly modified homologous genetic material. This reduces the motivation to patent inventions in related fields, thus to a large degree denying China quality patents and related innovation.¹²

III.4.1.2 Sub-section 4.2: Patent-specific enforcement issues

Introduction: This sub-section investigates how certain patent-specific enforcement issues individually, and more so collectively, contribute to negative perceptions about the strength of the IPR protection environment in China, which in turn can somewhat stifle innovation and linked patent quality in China.

⁸ For example, Part 2, measure 15 in the *2012 National IP Strategy* sets forth an initiative to “improve the green channel for patent examination, accelerate the acquirement of IPRs by burgeoning strategic industries from their innovations. (SIPO, MoST.)” and Part 3, Article 3 of *SC Notice on Strengthening IPR in Strategic Industries* also sets forth an initiative on a green patent channel, stipulating: “We shall optimise the application and review system of intellectual property rights and shall establish and optimise the green channel for patent and trademark review...”

⁹ Article 4: “Invention patent applications which can have priority examinations include...other patent applications in need of priority examinations for their great significance to national interests or public interests...” Translation from European Chamber thus is unofficial.

¹⁰ Measure retrieved from <http://www.upov.int/en/publications/conventions/1991/act1991.htm>

¹¹ 2012, April 18- Consultations with Dr. Oliver Lutze in Shanghai

¹² Ibid

III.4.1.2.1 “Abuse of patent rights,” including “abuse of right of action” and “malicious prosecution actions”

In light of the well-known *Chint vs. Schneider* case, among other recent cases, Chinese companies have seen that they can successfully litigate against foreign adversaries to earn significant compensation.¹³ As a result, there have been a number of high-profile patent litigation cases brought by domestic firms against foreign firms. Some of the most concerning cases involve patents filed with the sole purpose of being used in litigation.

As detailed in Gao et al. (2011), the concept of “abuse of patent rights” deserves to be clarified in the *Patent Law* as at present it is overly general. Given weaknesses in application of the specific principles of “abuse of right of action” and “malicious prosecution actions” (which can be broadly thought of as filing a lawsuit solely intended to harm the defendant) in cases involving complex patents and ambiguity in the scope of patent claims, complainants in some cases, albeit not the majority of cases, can force accused infringers to undertake overly strong liability.¹⁴ This results in overly strict liabilities and provides a perverse incentive for litigation.

Sources suggest that many patents in China are filed for the sole purpose of being used for retaliation and/or to first initiate litigation. As cited in McGregor (2010), low-quality patents are often used in China to retaliate against foreign companies inside China that have filed cases outside China against Chinese companies. As mentioned in Chapter 1, some sources go as far as to suggest that more than 50% of the patents filed with SIPO “are of foreign innovations with the sole intention of suing the same for patent infringement.”¹⁵ This concern, where patents are used as first-attack and/or tit-for-tat weapons, discourages business from setting-up and/or expanding operations in China, especially IP-reliant operations, and thus creates barriers in the way of China’s move to develop quality patents and related innovation.

As also mentioned in the Introduction and Chapter 1, given utility models are cheaper and easier to obtain than invention patents, in principle it makes the most sense for applicants to apply for utility models if they indeed intend to utilise their patents for the sole purpose of malicious prosecution actions. Bai and Cheng (2011) confirm that there have been concerning cases in China where utility models patents in particular were filed on solutions that are already part of the *prior art*, and these were used as “harassment tools.”¹⁶ Such patents also can be used as “barriers to entry or restrictions on Freedom-to-Operate.”¹⁷ Box 7 below provides two sample case studies on the usage of low-quality utility model patents in malicious prosecution actions in China.

¹³ Chint Group Corp. and Schneider Low-Voltage (Tianjin) Co. have been suing one another over patent infringement since 1999. Over the years, Chint lost a variety of cases that Schneider filed in Europe. Litigation in China spanned several years, whereas the most recent case was decided by the Wenzhou Intermediate People’s Court on September 29th 2009, finding that Schneider and its authorised distributor, Star Electric Equipment Co. Ltd. in Zhejiang, were guilty of patent infringement. The ruling was based upon Chint’s claim that Schneider had infringed upon a utility model Chint had registered in China. Schneider was ordered to cease patent infringement and pay 330 million RMB to Chint, although eventually settled to pay 157 million RMB. Even though reduced from the initial amount awarded, this was the largest compensation ever awarded in China in an IP dispute.

¹⁴ Concern mentioned in Gao et al. (2011), pp 90-104; 2012, May 17- Consultations with Lin Xu suggest that these cases are not the majority of cases.

¹⁵ “China’s Innovation Capacities May be Over-hyped” (2011)

¹⁶ Bai, B., & Cheng, H. Chinese Supreme Court brings about sea change [sic] for patent litigation in China. *Allen & Overy*. Retrieved from <http://www.allenoverly.com/publications/en-gb/Pages/Chinese-Supreme-Court-brings-about-sea-change-for-patent-litigation-in-China.aspx>

¹⁷ 2012, July 14- Consultations with Elliot Papageorgiou in Shanghai

Box 7: Case studies: low-quality utility model patents used in malicious prosecution actions in China¹⁸

The Forced Marriage

An international escalator company (“Company”) was approached by a former Chinese supplier upon having commenced its own production of an item of equipment which it formerly drew from that supplier. The former supplier gave the Company a choice, either to continue/recommence the prior supply arrangements (which the Company had terminated due to reliability problems) or it could pay a royalty for the licensing of a utility model that the former supplier had filed covering the product which the Company had formerly instructed the supplier to manufacture on its behalf. Upon the Company’s refusal to recommence the commercial relationship, the former supplier issued utility model infringement proceedings against the Company. The Company was faced with a difficult choice of recommencing now commercially unfavourable commercial relations with the former supplier and paying a license fee on a product that the supplier did not develop in the first place, or invalidating the relevant utility model and/or facing utility model patent infringement proceedings. The Company decided to pursue invalidation proceedings against the utility model and succeeded but only partially (which is not an unusual occurrence), thus having to run the risk of potentially infringing the remaining part of the utility model.

Patents as Barriers to Entry

A European specialty manufacturer of construction materials was importing machines into China utilising technology contained in their expired European patents. Their Chinese competitor derived a number of utility models from the European company’s expired patents by adding some immaterial improvements (which in fact were devised by the European company but it did not file for them as these improvements failed to meet the patentability threshold for inventiveness in Europe). Upon the European company’s market success in China, the Chinese competitor sought to draw upon those utility models to stop the European company’s advance in China’s burgeoning construction market. While the European company was successful in showing that the bulk of the utility model lacked inventiveness, the remaining, insignificant, improvements were held to be valid and enforceable. As such, the European company had a choice: cease to use the improvements in its products in China or pay the Chinese company what was an unreasonable royalty fee.

The trend of low-quality patents being used for malicious prosecution actions is compounded by a number of interconnected Chinese policies, practices and other trends. For one, it is exacerbated by the proliferation of NPEs in China mentioned in the section of Chapter 3 on standardisation policies. It is also compounded by, among other issues, ambiguities surrounding application of the anti-monopoly rules which are further discussed later in this chapter.

Light at the end of the tunnel?

All this said, it deserves to be recognised that there is commendable recent focus by the Chinese government on addressing the phenomenon of abuse of patent rights. The concept of abuse of patent rights was proposed for inclusion in the most recent (third) amendment to the Chinese *Patent Law* (2008), although not ultimately included therein; however, subsequent SPC opinions specifically mention the concept. For example, Article 18 of the SPC’s *Judicial Interpretation on Some Issues Concerning the Application of Laws to the Trial of Patent Infringement Disputes*, which came into effect on January 1st 2010, allows for declarations of non-infringement to bring declaratory

¹⁸ *ibid*

judgment in their home courts, meaning patentees should be cautious about sending warning letters or making other threats of action unless they are prepared to sue.¹⁹ Moreover, Article 16 of the *December 16th 2011 SPC Opinion* finds “If anyone is fully aware that his/her patent falls within the category of prior arts or prior designs, however, still maliciously issues infringement warnings to or abuses its right of action against any party who legally uses such prior art or prior design and the trade partners thereof, courts may uphold the victims’ request for damages in light of actual situations.”²⁰ In addition to the SPC, SIPO officials have set forth in policy statements like the *NPDS* and otherwise publicly announced intentions to limit abuse of patent rights.²¹

Given the recentness of some of the SPC and SIPO initiatives mentioned, it is not possible to determine the full extent to which the abuse of patent rights is still playing out and is not ideally being addressed in China. However, given the extreme importance that abuse of patent rights in China are effectively curtailed as soon as possible and the notable potential that more still needs to be done to achieve such a result, the issue was raised in this section. In assessing this issue further in the near future, the actions of utility model filers in China in particular warrant close attention,²² and jurisprudence from the courts should be monitored to see if penalties being granted and other judgments in cases of abuse of patent rights are appropriately deterring such abuses. Further, it is possible that changes to the *Patent Law* (2008) might be a useful way to ensure that the aforementioned intentions of the SPC and SIPO are effectively heeded.

III.4.1.2.2 Difficulties invalidating utility models given limits on submission of prior art

Sources suggest that under the *Patent Examination Guidelines* issued by SIPO on January 21st 2010 and effective on January 1st 2010 (“*Guidelines for Patent Examination [2010]*”), a petitioner is sometimes restricted to presenting too few pieces of *prior art* in an attempt to prove lack of inventiveness in a utility model invalidation case.²³ According to Part IV, Chapter 6, Section 4, Sub-Section 2 of the guidelines, under “normal circumstances” petitioners are allowed to submit “one or two” pieces of *prior art* in a case involving a utility model patent; whereas petitioners can submit,

¹⁹ Clark, D. (2011). *Patent litigation in China*. New York: Oxford University Press, p. 101

²⁰ Article 16: “It is imperative to properly handle the relations between patent protection and prevention of abuse of rights, and regulate abuse of patent right and abuse of the preliminary injunction system according to law. While protecting patent rights and safeguarding the right of action of the parties involved, courts shall also pay attention to preventing patentees from exercising their rights in obvious violation of the purpose of law, causing damage to their competitors by illegitimate means, obstructing fair competition or disturbing market order. If anyone is fully aware that his/her patent falls within the category of prior arts or prior designs, however still maliciously issues infringement warnings to or abuses its right of action against any party who legally uses such prior art or prior design and the trade partners thereof, courts may uphold the victims’ request for damages in light of actual situations. Courts shall apply legal conditions strictly, strengthen procedural protection, and be careful in taking measures for stopping patent infringement prior to litigation...” Also note Article 13 in the *December 16th 2011 SPC Opinion* finds: “[we]...shall adhere to the principle of eclectic interpretation for the scope of right of invention patents and utility model patents, and accurately define the scope of patent right protection.”

²¹ Among other references, see Part II, Section 2 of the *NPDS*.

²² Note 1: As a side note, rights-holders in China are increasingly being advised by attorneys to file for both utility model patents and invention patent protection on the same solution. This is because utility model patents are awarded much quicker than invention patents and when/if an applicant is awarded the invention patent they can just abandon the utility model for the invention patent. While certainly not the only reason this type of legal advice is heeded, in the instance that enterprises heed this type of advice not necessarily because it is an efficient and effective way to protect patents but because they feel it necessary to protect themselves against malicious patent litigation and/or bad faith filings in China, this reflects a problem with the structure of the current system. And either way, the existence of this ‘dual track’ method for patent granting will create at least somewhat of a burden for patent reviewers. While these burdens absorb at least some resources that could be spent in other areas to build-up patent quality, the solution to these concerns arguably is to reform the system without ridding it of the aforementioned ‘dual filing’ option. Note 2: Given the different nature of what they protect and the arguably lesser necessity of such models to innovation, this concern may apply less to design patents.

²³ Measures retrieved from <http://www.sipo.gov.cn/zlsqzn/sczn2010.pdf>

“one, two, or more” pieces of *prior art* in an invention patent proceedings.²⁴ While, depending on the circumstances of the utility model case, more pieces of *prior art* can theoretically be submitted, practice suggests this is by no means the usual occurrence, i.e. it is only for exceptional cases. As explained by Elliot Papageorgiou, Executive and Partner at Rouse in Shanghai, this restriction on pieces of admissible *prior art* for utility model invalidation cases makes it more difficult to invalidate utility models, as it effectively requires one or two pieces of “knock-out *prior art*” to show that the utility model has been anticipated. Papageorgiou suggests this is difficult to find unless the utility model in question merely copies a single prior registered right in its entirety and does not go beyond such right.²⁵

While one could argue that it is dangerous to allow too many submissions of *prior art*, given a broad scope of solutions can be sufficiently covered by “mosaicing” individual items of *prior art*, this does not negate the fact that normally only allowing one or two pieces of *prior art* may be an unreasonably low restriction that makes it difficult to challenge utility models. As such, the requirements in the *Guidelines for Patent Examination (2010)* actually make it often more difficult to fairly determine a utility model dispute than even an invention patent dispute. This is particularly concerning when considering that, during their maintenance, a valid utility model enjoys the same powerful legal protection rights as an invention patent.²⁶

This situation further enables proliferation of low-quality utility model patents in particular in China. If in practice China’s enforcement system allowed (or better, required) a greater number of pieces of *prior art* to be considered by examiners in utility model invalidation proceedings, patent invalidation rates in the country would likely be higher. This supports the view that China has more low-quality patents than those gauged only by current patent invalidation rates.

III.4.1.2.3 Overly narrow consideration of *prior art* for utility models in pre-enforcement searches

In a related vein to the previously mentioned issue, sources suggest that in infringement cases SIPO’s “Patent Evaluation Report” assessing *prior art* for utility models is currently overly limited to the art in the identical technical field. With China’s technological progress, borrowing or referring to technologies in similar areas is becoming usual practice for inventors to make technological improvements. As such, not widening the range of technical fields for assessment of *prior art* on a utility model does not decrease incidence of trivial and low-quality patents in China, and may in fact enable the proliferation of such patents.²⁷ This is further compounded with the phenomenon that SIPO’s patent examiners unfortunately do not have easy access to information on the larger amount of *prior art* disclosed by use or other methods that are not part of patent litigation materials.²⁸

²⁴ Part IV, Chapter 6, Section 4, Sub-Section 2 of the *Guidelines for Patent Examination (2010)*: “...(2) Number of *prior art* references. For an invention application, one, two, or more *prior art* references can be cited to assess its inventive step. For a utility model, under normal circumstances, one or two *prior art* references can be used to assess its inventive step. Where the utility model is made by merely juxtaposing some *prior art*, the examiner may, according to the circumstance of the case, cite more than two *prior art* references to assess its inventive step.” (emphasis added) Note 1: Translation is from the European Chamber thus is unofficial. Note 2: Consultations with members of the European Chamber’s IPR Working Group suggest that pursuant to the aforementioned article, in practice up to nine pieces of *prior art* are allowed in assessing *prior art* for invention patents.

²⁵ 2012, June 10- Consultations with Elliot Papageorgiou in Shanghai

²⁶ Ibid

²⁷ 2012, May 8- Consultations with Qu Xiaoyang, Vice Chair of the European Chamber’s IPR Working Group in Beijing

²⁸ Gao et al. (2011), p. 81-82

III .4.1.2.4 Patent Evaluation Reports are not given appropriate weight in judicial infringement proceedings

A "Patent Evaluation Report" is the current form of the less comprehensive "Original Search Report" once used to assess the patentability of utility patents in China. The introduction of the Patent Evaluation Report in the latest revision of China's *Patent Law* (2008), was in part an attempt to address the fact that the invalidation rate of utility models in China around that time was considered high. It was suggested that the creation of an examination process similar to the Substantive Examination required for invention patents might be a constructive way of solving this problem. At present, there is an office in SIPO designated to perform these Patent Evaluation reports, staffed by several examiners transferred from the Substantive Examination Department of SIPO, who are ostensibly well-qualified to execute examinations. The Patent Evaluation Report they produce is issued after a utility model is actually granted, and is similar in several ways to an "Office Action" required during the Substantive Examination of an invention patent.²⁹

Consultations suggest that in an infringement proceeding the Patent Evaluation Report for utility models is not necessarily considered as legally binding, but rather is only considered evidence, whereas although in some cases a judge may give appropriate weight to the report, in others he/she may consider such evidence along with other evidence in making a ruling or, worse, give the report very little consideration.³⁰ This is significantly problematic as it undermines the expert Evaluation Report of SIPO examiners, which while facing some limitations (as discussed above) is still arguably one of the best tools assessing patentability of a utility model, in favour of different types of potentially dubious evidence in patent enforcement cases.

It is also worth pointing out that if China's adjudication system mandated more weight be given to Patent Evaluation Reports, utility model invalidation rates might be higher. This further supports the view that China has more low-quality patents than those gauged only by current invalidation rates.

²⁹ An Office Action is always issued by a SIPO examiner of an invention patent application during the Substantive Examination period for that patent. In an Office Action, the examiner will perform a search to see whether they can find any documents/information that would challenge the patentability of the solution in the patent application; provide their comments regarding whether the claims in the according application are supported by the descriptions therein; determine whether the technical solutions in the descriptions are sufficiently disclosed; determine whether the draft of the claim is clear; among other elements. The patent applicant is required to respond to this report. Usually there are three to seven Office Actions during the Substantive Examination of an invention patent. (Source: 2012, February 20- Consultations with an expert at the EU IPR SME Helpdesk)

³⁰ Note 1: Article 61 of the revised Patent Law states "...Where any dispute over patent infringement involves a patent for utility model or design, the people's court or the patent administrative department may require the patentee or the interested parties to present a patent assessment report issued by the patent administrative department of the State Council, after the retrieval, analysis and assessment of the pertinent utility model or design, as a proof for trying and settling the dispute over patent infringement." (LawinfoChina translation). Note 2: other translations of the law, e.g. from IPR2, are different in a way that can lead to a different interpretation of the article. The relevant selection of the Article in Chinese is "... 专利侵权纠纷涉及实用新型专利或者外观设计专利的, 人民法院或者管理专利工作的部门可以要求专利权人或者利害关系人出具由国务院专利行政部门对相关实用新型或者外观设计进行检索、分析和评价后作出的专利权评价报告, 作为审理、处理专利侵权纠纷的证据。" Note 3: 2012, March 20 consultations with Lin Xu in Shanghai suggest that herein to be "used as evidence" is different from a "binding decision." If a patent is invalidated through an invalidation procedure, this is binding in court, but if the Evaluation Report is only considered evidence by the judge then he/she may consider such evidence along with other evidence in making a ruling. In practice, the judge might consider the Evaluation Report as powerful evidence, but still this is still different from a binding decision. Note 4: A variation of this phenomenon is described in Gao et al. (2011) (p. 121), where even if an Evaluation Report for a utility model is conducted and it finds that a patent should be invalidated, SIPO may still not actively initiate an invalidation procedure on its own.

III.4.1.2.5 Lack of mandatory suspension of utility model infringement cases pending the outcome of validity proceedings

While most judges require utility model patent infringement cases in court be suspended or adjourned pending the outcome of validity proceedings at SIPO, this is not universally applied. However, this should be necessary unless the utility model patent in question has already been shown to be valid in separate/other proceedings.³¹ Such a requirement would help strengthen the perception of China's IPR protection environment, which would have spillovers in terms of further encouraging development of quality patents and related innovation.

III.4.1.2.6 Anti-monopoly Law concerns, including regulation of patent pools

There is continued uncertainty over how the *Anti-Monopoly Law* (AML), which underwent major revisions effective in August 2008, specifically Article 55³² which discusses regulation of monopolistic behavior based on intellectual property rights, will be implemented in practice, and this in-turn somewhat creates a drag on development of quality patents. Anti-monopoly enforcement is important in breaking-up monopoly-building resulting from certain types of patent pools (although in some circumstances patent pools can in-fact create positive impacts on patent quality³³), related behavior stemming from the discriminatory standardisation process mentioned in Chapter 3, amongst other practices. Anti-monopoly rules are also important to monitor issues that might present themselves in implementation of a range of practices and policies (e.g. like the *2012 National IP Strategy's* plan to build up to 30 "*patent alliances among burgeoning strategic industries*").³⁴ Herein, given the ambiguity in AML regulation of IPR at present, it is unclear how it can be used to actually appropriately regulate patent pools and other issues that can evolve into monopoly behavior and thus ultimately harm patent quality and related innovation in China.

Although they have by no means resolved the aforementioned concerns, it is worth noting that the government is continually investigating how to approach IP-related issues under the AML. For example, Part IV, Section 1 of the *NPS* states "*In accordance with relevant provisions of the Anti-monopoly Law, we will study and actively promote the development of standards and procedures to determine whether the abuse of patent right constitutes monopolistic behavior.*" (See the entry in this Chapter on "abuse of patent rights" for related issues.)

III.4.1.2.7 Difficulty enforcing process patents

It is very difficult for right-holders to prove infringement of process patents (which are only granted under invention patents), and thus adequately protect such patents, given the lack of access to evidence/appropriate evidence preservation protocols in patent process cases.³⁵ This said, there have been some positive developments herein, such as Article 15 of the *SPC's December 16th 2011 Opinion*, which provides further guidance to reverse the burden of proof in process patent cases.³⁶

³¹ 2012, May 8- Consultations with Qu Xiaoyang

³² Article 55 of the AML states: "*This law shall not apply to the conduct of business operators to exercise their intellectual property rights according to the laws and relevant administrative regulations on intellectual property rights; however, this Law shall apply to the conduct of business operators to eliminate or restrict market competition by abusing their intellectual property rights.*" (translation retrieved from Lawinfochina)

³³ Note: In some cases, patent pools may actually intensify patent competition by lowering transaction costs and facilitating the commercialisation of technologies (Source: WIPO [2011], p. 122). Patent pools also offer a potential solution to the high coordination costs of navigating patent thickets. (Source: WIPO [2011], p. 125)

³⁴ Part 2, measure 14 (from SIPO and MoST): "*Advance the establishment of patent alliances among burgeoning strategic industries, guide and set up 30 or so such alliances.*"

³⁵ 2012, March 31- Consultations with Dr. Oliver Lutze in Shanghai

³⁶ 2012, March 23- Consultations with Doug Clark, Vice Chair of the IPR Working Group, Shanghai. Importantly, Article 61 of the *Patent Law* (2008) stipulates a reversal of burden of proof for process patents on new products.

Difficulties enforcing process patents clearly drag down patent quality, as protection of process patents is important to stimulate not just process innovation but also subsequently related product and service innovation. Further, the importance of process patent protection in China as a basis to stimulate innovations will likely grow in importance in the future.

III.4.1.2.8 Potentially overly strict limitations on granting preliminary injunctions in patent cases

Dr. Oliver Lutze, Chair of the Shanghai Chapter of the European Chamber's IPR Working Group, and Head of IPR at Bayer China, notes that Article 16 of the *December 16th 2011 SPC Opinion* may encourage reluctance in granting of preliminary injunctions (PIs) in IP cases, which could particularly harm development of quality patents in the pharmaceutical industry. The first-granted compound patents in China will expire in the next two years as compound protection was first allowed in 1993, and as such generics may increasingly enter the market prior to patent expiration. Considering Article 16 of the *December 16th 2011 SPC Opinion*, Lutze notes that:

“With a Bolar exemption and no strong patent linkage, the pharmaceutical industry may need to rely on preliminary injunctions if generics enter the market well before patent expiry. If PIs are rejected because the simple chemical analysis for determining the content of a patented compound is considered to be ‘technically complex,’ generics will not be estopped from sale and prices may be influenced significantly even before patent expiry. This already happens in India.”³⁷

Difficulties in obtaining a PI in patent cases in China are not only specific to the pharmaceutical sector or the abovementioned concern. While the abovementioned concern reflects a challenge to the development of quality innovations in the pharmaceutical sector in particular, they also can have a larger impact on patents and linked innovation in China in other fields if even simple technical cases are denied PIs in practice.³⁸ Additionally, sources note the difficulty industry in China experiences in obtaining a PI before a potentially infringing good enters the market as well as the burdensome threshold for obtaining a PI.³⁹

III.4.1.3 Section 4.3: Other factors

Introduction: This sub-section investigates how variety of significant factors, which while not necessarily patent-specific are closely related to patent enforcement, can somewhat stifle innovation and linked patent quality in China.

III.4.1.3.1 Lack of publication of patent case decisions

A lack of published IP decisions, including those related to patent disputes, prevents entities from fully feeling comfortable with developing and filing quality patents in China as it reinforces concerns over the lack of transparency in China's environment for enforcing IPR. Out of tens of thousands of cases decided annually, including patent cases, only a few are published in a timely manner, and some may not be published. This lack of publication of IPR cases, patent cases inclusive, conflicts

³⁷ 2012, March 31- Consultations with Dr. Oliver Lutze. Note: A Bolar exemption is an allowance in patent law that allows generic producers to conduct necessary studies, trials, and tests on products related to those already patented, whereas without this exemption these producers may otherwise run the risk of patent infringements in their conduct of clinical trials on a patented product prior to that patent's expiry.

³⁸ 2012, March 31 - Consultations with Dr. Oliver Lutze

³⁹ US Patent and Trademark Office [USPTO]. (2012). *Report on patent enforcement in China*. p. 8. Retrieved from http://www.uspto.gov/ip/global/enforcement/Report_on_Patent_Enforcement_in_China.jsp

with publication requirements in Article 63 of the *TRIPS Agreement*.⁴⁰ Doug Clark's book *Patent Litigation in China* provides a comprehensive review of patent litigation trends in China with readily available information on the subject,⁴¹ but more openness is needed from the government to allow observers to further review trends in unpublished cases and assess their impact on patent quality in China.

III.4.1.3.2 Concerns surrounding non-compliance with evidence preservation orders

European Chamber members are highly concerned about the ineffectiveness of evidence preservation orders in China. In the absence of discovery, an evidence preservation order is the only avenue by which IP owners can obtain crucial evidence that is required to enforce their rights in China, e.g. in order to prove the process of manufacture for patent infringement, or to substantiate damages claims with the defendants' sales figure. IP owners would not otherwise be able to collect this type of evidence by themselves. In practice, however, defendants often refuse to co-operate with the request to produce documents even after an evidence preservation order is granted by the Court. There is limited recourse for the IP owner to deal with this situation. First, although the executing judge could invoke provisions under the *Civil Procedure Law* to impose a fine or other criminal penalties on the non-complying party, it is unclear under what circumstances such power could be or would be exercised. Second, statements signed by the defendants during evidence preservation are not provided by the court to the IP owners. This lack of transparency has prevented IP owners from investigating whether any false statements are provided by the defendants with the aim to dismiss the evidence preservation action.⁴² These problems with the enforcement environment for IP, patents inclusive, discourage patent building and related innovation in China.

III.4.1.3.3 Concerns about the PSB's acceptance of cases for criminal prosecution of IPR infringement, high thresholds for such prosecution, and too small penalties therein

A long-standing problem dragging down the development of IP in China, inclusive of quality patents, is the country's overly high value and volume thresholds to start a criminal prosecution of IPR infringement, which in effect creates a "safe harbor" for commercial-scale infringers. This conflicts with obligations under Article 61 of the *TRIPS Agreement*.⁴³

Moreover, sources suggest that the Public Security Bureau (PSB)'s reluctance to acknowledge when criminal thresholds have been reached and accept cases therein is an even bigger factor inhibiting criminal prosecution of IPR infringement.⁴⁴ This significantly undermines the ability of patent holders to properly enforce their rights.

These concerns are compounded by the often small fines and limited administrative injunctions imposed upon IPR infringers.⁴⁵ Such fines are not significant enough deterrents for patent infringement, creating a patent enforcement environment offering weak protection that deters development of certain quality patents and related innovations otherwise encouraged by a stronger enforcement system.

⁴⁰ European Chamber 2011/2012 Position Paper, p. 41

⁴¹ Clark (2011)

⁴² 2012, June 13 - Consultations with Christine Yiu, Senior Associate, Bird & Bird Shanghai

⁴³ USTR. (2007). 2007 National trade estimate report on foreign barriers (p. 106). US Trade Office Representative. Retrieved from http://www.ustr.gov/sites/default/files/uploads/reports/2007/NTE/asset_upload_file855_10945.pdf

⁴⁴ 2012, July 14- Consultations with Elliot Papageorgiou

⁴⁵ Ibid

III.4.1.3.4 Overly burdensome notarisation and legalisation requirements on evidence and other materials

While not exclusively related to IPR, China has set forth requirements in a variety of SPC opinions and other rules on notarisation and legalisation of evidence and other materials that are often essential in IPR cases and enforcement actions.⁴⁶ Evidence taken from outside China is required to be notarised and legalised. Notarisation and legalisation are also required on counterfeit goods at point-of-sale or at trade fairs in order to make the evidence usable. There are requirements to notarise the original trademark certificate prior to taking an enforcement action. Powers of attorney and company registration information are also required to go through a notarisation and legalisation process.

These requirements are time consuming, sometimes costly, and otherwise burdensome and arguably unnecessary. Non-Acceptance of un-notarised and un-legalised documents delays preliminary injunctions. Non-acceptance of un-notarised and un-legalised evidence limits right holders' ability to enforce IPR violations, whereas it has been reported that administrative and judicial authorities refuse to accept cases with un-notarised evidence (whereas the act of administrative and judicial processing herein is called li'àn [立案]). Moreover, notarising and legalising the evidence and other materials mentioned herein in no way provides an attestation that these materials are accurate; rather, it only confers that the materials exist and were notarised or legalised at a certain point-in-time. Collectively, these restrictions appear to conflict with Article 41.2, 41.22, 44 and 50 of the *TRIPS Agreement*. They make it particularly difficult to adjudicate cases, which exacerbate the image of China's IPR enforcement environment, which in-turn may somewhat hamper patent quality and related innovation in China.

III.4.1.3.5 Overly burdensome requirements for acting against repeat IPR offenders at trade fairs

Patent owners are sometimes estopped from enforcement against repeat infringers due to the regulations and *de facto* practices of some local intellectual property bureaus that require, as a prerequisite before action can be taken, a decision from a prior infringement lawsuit (or in some cases, administrative action) be obtained against the repeat infringer. This is an unreasonable requirement that makes it difficult for rights holders to enforce patent rights at trade fairs. This in part enables companies to offer manufacturing of infringing products well before patent expiry, and otherwise enables patent infringement at trade fairs, which contributes to the perception that China's IPR enforcement environment is less than desirable⁴⁷ and thus in-effect somewhat hampers patent development and related innovation in China.

⁴⁶ For example, among others, see: Article 11 of the *Provisions of the Supreme People's Court on Evidence in Civil Procedures*; Article 11 of *Several Provisions Regarding Civil Litigation Evidence of the Supreme People's Court*; Article 27 of the *Procedures for Imposition of Administrative Punishment of Administrative Departments for Industry and Commerce*; Article 67 and 240 of the 2007 *Civil Procedure Law of the PRC*; and Article 36 of the *Notarisation Law*.

⁴⁷ European Chamber, IPR Working Group Position Paper 2012/2013. Note: Trade fair organisers have reportedly interpreted the *Implementing Measures for the Administration of Shanghai's Exhibition Industry* (particularly Article 7), issued by the Shanghai Intellectual Property Rights Bureau on May 23rd 2005, in a way that the fair will not accept new complaints against old targets at Shanghai fairs unless the complainant has received a final court decision against the alleged infringer. (Source: Consultations with members of the IPR Working Group, May 17th 2012. Measures retrieved from <http://www.shanghai.gov.cn/shanghai/node2314/node3124/node3164/node3172/userobject6ai1415.html>; date and promulgation authority listed at: <http://www.docin.com/p-383391561.html>).⁴⁷ Reports from members of the IPR Working Group find that enforcement authorities have reportedly interpreted the *Measures for Complainants and Settlements of Infringements of Intellectual Property Rights* issued during the 91st Canton Fair in 2002 by China Import and Export Fair organiser in Guangdong (the Canton Fair), particularly Article 10, in a similar fashion. (Source: 24 May 2012 - Consultations with members of the IPR Working Group; Canton Fair measures retrieved from: <http://www.cantonfair.org.cn/cn/service/ipp/detail.aspx?oid=11062>)

It is worth noting that the central-level regulation, *Protection Measures for Intellectual Property Rights During Exhibitions (“Trade Fair Protection Measures”)*, issued on January 10th 2006 by MOFCOM, SAIC, NCAC, and SIPO, provides a general regulatory framework for trade fairs.⁴⁸ However, the provisions therein do not appear strict enough to sufficiently address the aforementioned concerns.⁴⁹

III.4.1.3.6 Other enforcement concerns

A number of additional issues involving IPR enforcement, patents inclusive, in China can hamper innovation and related development of quality patents. For example, some issues not discussed at length in this study but mentioned in USPTO (2012)⁵⁰ appear to warrant further investigation as they may not only be anecdotal.

III.4.2 Summary

There are a variety of concerning rules and procedures for patent application review and enforcement of patent rights in China that hamper patent quality. These range from inadequate review systems to requirements and practices that generally weaken the efficiency and effectiveness of the patent enforcement environment, which in-turn ultimately somewhat discourage building of quality patents and related innovation in China.

III.4.3 Recommendations

III.4.3.1 Core recommendations

III.4.3.1.1 Chapter 4 – Sub-Section 4.1

- 1. Recommendation: Create a taskforce to determine how the Confidentiality Review process can be reformed to still protect national security interests but also not overly burden innovators looking to register their patents abroad.**
- 2. Recommendation: Set forth several reforms to ensure reliability and compliance with patentability requirements within the prioritised patent examination process.**

36.1 Address the comments provided in the European Chamber’s Call for Comments on the *Administrative Measures on Prioritised Examination of Patent Applications submitted to SIPO on January 13th 2012*. Comments to be considered herein include concern that the measure might potentially create a less rigorous examination for patents in terms of Substantive Examinations for invention patents.

⁴⁸ Retrieved from http://english.ipr.gov.cn/ipr/en/info/Article.jsp?a_no=2040&col_no=121&dir=200603

⁴⁹ European Chamber, IPR Working Group Position Paper 2012/2013

⁵⁰ US Patent and Trademark Office [USPTO]. (2012). *Patent enforcement in China: Summary chart of industry views*. Retrieved from http://www.uspto.gov/ip/global/enforcement/Summary_Chart_of_Issues_and_Recommendations_9-1-11.pdf

36.2 Suggested that SIPO and MoST confirm a green channel for patent examination for strategic industries will not be applied in a discriminatory manner against otherwise qualified foreign and private domestic companies.

36.3 At least broadly clarify the meaning of Article 4 of the *Administrative Measures on the Priority Examination of Invention Patent Applications* that priority review will concentrated on “patents of great significance to national or public interests.”

36.4 A special record of prioritisation of patent applications could be disclosed regularly on the website of SIPO, including applicant name, type of application, submission date and approval date, etc.

- 3. Recommendation: Remove restrictions on the patentability of plants in the *Guidelines for Examination* by applying the same rationale as the European Patent Office that allows claims for patent protection of plants and plant cells where there is no overlap with plant variety protection. Furthermore, the allowable scope of patents with regard to homology claiming genetic material (like DNA) should be reviewed with a view to providing more suitable protection to the inventor.⁵¹**

III.4.3.1.2 Chapter 4 – Sub-section 4.2

- 4. Recommendation: Set-up a taskforce to monitor jurisprudence from the courts to see if penalties being granted and other judgments in cases of abuse of patent rights are appropriately deterring such abuses in China. Also, null revisions to the *Patent Law* that better define and explicitly include protection against “abuse of patent rights.”**

38.1 The “white-listed clauses,” “grey-listed clauses,” and “black-listed clauses” found in the *European Commission Regulation on the Application of Article 85(3) of the Treaty Establishing the European Community to Certain Categories of Technology Transfer Agreements* might serve as a model herein for defining abuse of patent rights.⁵²

38.2 Also, in a parallel initiative, pursue international cooperation initiatives with the EU and other foreign institutions on regulatory and other tools to limit patent trolling.

- 5. Recommendation: Create better disincentives meant to discourage bad faith patent filings or otherwise infringing patents. Create better disincentives meant to discourage repeated attempts to enforce a patent filed in bad faith or an otherwise infringing patent.**

39.1 For example, institute better disincentives meant to discourage the filing of “abnormal” and bad faith patents. SIPO could consider penalties for applicants filing abnormal applications (Fēi zhèngcháng zhuānlì shēnqǐn/ 非正常专利申请). Meanwhile, patentees who are found obtaining their patents in bad faith can be ordered to cover all or part of the fees related to the invalidation proceedings. And, further to the recommendations in Chapter 3 hereto, any subsidies and tax benefits the

⁵¹ 2012, May 8- Consultations with Dr. Oliver Lutze in Shanghai

⁵² Recommendations to use these clauses as a model to define abuse of patent rights are suggested in Gao et al. (2011), p. 112

wrongdoer has received for patent development and filing should be refunded to government.⁵³

6. **Recommendation: When an applicant has submitted more than one or two pieces of *prior art* in the course of a utility model invalidation proceeding, the PRB should be explicitly required to consider such *prior art* when assessing patentability of the utility model.⁵⁴ This requires revising the *Guidelines for Patent Examination (2010 revision)*.**
7. **Recommendation: Require *prior art* is more appropriately considered in wider technical fields when conducting pre-enforcement searches for utility model patents, and better develop the mechanisms to conduct such searches.**
8. **Recommendation: Develop a number of tools to improve patent screening. At a minimum, seek assurances from the authorities that this area is being adequately addressed. For example, consider developing an improved patent monitoring system modeled off of the EU's EPOQUE2 and USPTO's PAIR database. The database could include details on patents pending approval or already approved (including in terms of rejections ["final" and "non-final"], appeals from the inventor, non-patent literature, accounts of the examiner's search strategy, and receipt of fees).**
9. **Recommendation: Mandate that Patent Evaluation Reports (for utility models) are presumed as fully valid in all court infringement proceedings and moreover are given substantial weight in such proceedings, unless, through a formal process, a judge demonstrates deviation from this requirement is necessary to appropriately adjudicate the case.**

43.1 Regarding this deviation, if a judge has a strongly justifiable reason for wanting to deviate from this requirement, then a SIPO expert must at least be consulted regarding such a deviation. A formal mechanism for this exception should be established.⁵⁵

10. **Recommendation: Explicitly require utility model patent infringement cases be suspended or adjourned pending the outcome of validity proceedings, unless the utility model patent in question has already been shown to be valid in separate/other proceedings.**
11. **Recommendation: Develop appropriate guidelines on the application of the AML's Article 55 to patent pools, "patent alliances," and other IPR-related activities that may risk producing the equivalent of a monopoly. Ensure the guidelines appropriately meet the objectives of avoiding abuse of IPR and monopolistic behavior generally advocated in Part IV, Section 1, para. 2 of the NPS.**
12. **Recommendation: Enact clarifications to the adjudication rules surrounding process patents.**

46.1 Request the SPC provide further guidance to assist both patentees and alleged infringers to understand how Article 15 of the *December 16th 2011 SPC Opinion* is to be applied in practice to patents.⁵⁶

⁵³ 2012, May 8 - Consultations with Qu Xiaoyang

⁵⁴ 2012, July 14- Consultations with Elliot Papageorgiou

⁵⁵ 2012, June 11 - Consultations with Dr. Oliver Lutze

⁵⁶ 2012, March 23- Consultations with Paul Ranjard, Doug Clark, and Dr. Oliver Lutze

46.2 Current Chinese rules and practice governing evidence preservation in patent cases could be brought more in line with the French “Saisie contrefaçon” or German “Besichtigungsanspruch,” especially in relation to process patents.⁵⁷ A formal exchange mechanism with French and German experts could be set-up to facilitate experience sharing herein. Judges could be trained on these aforementioned principles, and other necessary topics, through mechanisms like the EUCTP STIS project or an IPR3.

- 13. Recommendation: Revise Article 16 of the December 16th 2011 SPC Opinion to clarify if circumstances where a claimed compound is easily confirmed or even mentioned as an active ingredient as part of the accused infringer’s product constitutes an infringement and therefore preliminary injunctions are obtainable.⁵⁸ Also, develop guidance encouraging judges to grant more necessary preliminary injunctions in patent cases.**

III.4.3.2 Other recommendations

III.4.3.2.1 Chapter 4 – Sub-section 4.3

- 14. Recommendation: Fully publish all IP disputes in a timely manner, including those related to patent disputes.**

- 15. Recommendation: Reform the procedures surrounding treatment of non-compliance of evidence preservation orders.**

49.1 Allow legal representatives from the IP owner to be present at the execution of an evidence preservation order, provided that suitable confidential undertakings are given.

49.2 Establish an appropriate protocol for the manner in which an evidence preservation order is executed (e.g. empowering the executing judge to search computer records and documents).

49.3 Provide the IP owner with a copy of the statement signed by the defendants after the execution of an evidence preservation order.

49.4 Establish a protocol that sets out the specific criteria for the judge to impose a fine or other penalty if the defendants refuse access to documents, or provide statements which are subsequently found to be false.⁵⁹

- 16. Recommendation: Ensure that provisions relating to criminal IPR infringement are implemented, including more substantial penalties and custodial sentences, thereby actually acting as a deterrent to IPR infringement.**

⁵⁷ 2012, March 31– Consultations with Dr. Oliver Lutze

⁵⁸ 2012, March 31 – Consultations with Dr. Oliver Lutze

⁵⁹ 2012, July 13 - Consultations with Christine Yiu

17. **Recommendations: Bring China's notarisation and legalisation regime better in line with Article 41.2, 41.22, 44 and 50 of the TRIPS Agreement by simplifying and/or omitted the number of overly burdensome requirements in a variety of SPC opinions and other rules.**
18. **Recommendation: Set-forth specific revisions to the 2006 Protection Measures for Intellectual Property Rights During Exhibitions.** The measures should specify in a new article that actions against repeat infringers are allowed unless the infringer is able to justify that he/she has filed a request for declaration of non-infringement on the offered product after receiving a warning letter, or has started an invalidation proceeding against the patent in question.⁶⁰

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VII Annexes – Some other issues

Some other (non-exhaustive list of) issues and recommendations flagged for inclusion but ultimately not included in the body of the report

Explanatory note: While numerous issues were vetted for further analysis in this study and ultimately not included, the following issues were even more seriously considered for potential inclusion in the body of this paper although were also ultimately not included. (Reasons for not including such issues include that perhaps while problematic in their own right, they either do not appear to notably drag down patent quality in China; and/or there is not sufficient evidence for these practices to warrant them being highlighted in the body of the paper; and/or they are notably diverging views on if the issue mentioned is a problem and/or how it should be addressed.)

Judges are relegated to judicial review after Patent Re-examination Board rulings on invention patents

Issue: Even if an invention patent of questionable validity is found in an infringement case in China, the infringer needs to file an application with the PRB for invalidating the patent, and only then can the judge determine the merits of an invalidation decision. Further, most of time the court will not even determine the validity of the patent, but instead focus on the legitimacy and rationality of the PRB's decision. This said, if the court finds the decision was made improperly, the invalidation decision can be revoked.⁶¹

At present, the structure of this system in many ways makes sense for China, as judges are not typically trained to determine the technical merits of an invention patent's validity, and thus should rely on those at the PRB that are technically trained to do so; however, this is not to say that there are still concerns with this system and that it might be improved. For example, some concern may be warranted over the incentives PRB reviewers have/do not have to invalidate a patent that one of their potential colleagues (other SIPO examiners) formerly approved. Further, it should be noted that the aforementioned restraints on the judiciary in patent infringement cases in China contrasts with the well-functioning and arguably more efficient procedure in a number of countries where judges can determine patent validity without such prior decision from a re-examination board. However, unlike in China, in some of these countries, like Germany for example, the judges hearing patent cases are not only lawyers and professional judges, but a large proportion are also technically trained to review patents; this provides them not only the authority but technical capacity to review and authoritatively rule on such cases.⁶²

Recommendation: China might create a bifurcated system where the PRB is an important first instance reviewer of patent validity in patent infringement cases, but a separate patent tribunal, presided over exclusively by technically/scientifically qualified judges to determine patent validity, might also be established to rule on cases in the second instance. Rules could be issued stipulating that in an instance where the PRB and patent tribunal make opposite decisions, the tribunal's decision is followed.

⁶¹ Gao et al. (2011), p. 122

⁶² 10 June 2012 - Consultations with Elliot Papageorgiou

Standard of “inventiveness” for utility models*

Issue: Given the proliferation of low quality utility models, it is worth questioning if the statutory requirements for Chinese utility models in particular need improving to boost patent quality in China. Utility models in China are only required to meet a much lower threshold of “inventiveness,” also called “inventive step,” as compared to invention patents. This criterion for patentability in particular does not appropriately discourage proliferation of low quality patents in China.⁶³

Recommendation: The State Council and SIPO should revise the standard of inventiveness employed to evaluate utility model patents to be in-line with the German approach that there is no difference for inventive step for invention patents and inventiveness for utility models.⁶⁴

**Note: This recommendation was not included in the body of the study as it is the opinion of the author that this is not necessary per se at the present stage of China’s development; however, this indeed may be prudent to consider at some time in the next decade or so.*

Standard of “inventiveness” for invention patents

Issue: Gao et al. (2011) suggests that the concept of inventiveness for invention patents grounded in the *Patent Law* and detailed in the *Guidelines for Patent Examination* is overly ambiguous. As such, the study suggests that when simple technical solutions that can be relatively easily imitated are challenged as infringing they are often easily invalidated because they are simple and, in absence of a clearer definition, are quickly considered not to satisfy the criteria for inventiveness. (Note that instead of argue the point, when a patentee is charged with infringement they often resort to the defense of invalidity). This is argued to be an uncertainty in the review process of patent applications and adjudication in patent disputes.

Recommendation: As recommended in Gao et al. (2011), the *Guidelines for Patent Examination* should be revised so as to provide a specific and objective criteria for defining “inventiveness” that will allow for protection of simple technical solutions that should be protected under the *Patent Law*. This standard might be shifted from the threshold premised on a neutral person skilled in the art who does not possess “recognised skill” to a person skilled in the art who does possess recognised skill.⁶⁵

Inventor clawback

Issue: Other countries do not have rigid rules on inventor “clawback” like China. Like non-compete agreements, this rule reduces labor mobility although also reduces IPR misappropriation. The basis for such rules is listed in the following:

Article 11 of the *Implementation Regulations of PRC Patent Law* (“*Implementing Regulations*”) sets forth the invention clawback regulation in the PRC.

Under Article 6 of *PRC Patent Law*, if an invention is made by a person in execution of the tasks of the entity to which he belongs, or made by him mainly by using the material and technical means of the entity, then the invention is a service invention and its ownership should belong to the entity.

⁶³ Consultations with several members of the European Chamber’s IPR Working Group, May 2012

⁶⁴ Consultations with several members of the European Chamber’s IPR Working Group, May 2012

⁶⁵ Gao et al. (2011), p. 120

Article 11 of the *Implementing Regulations* further details the circumstances prescribed in Article 6. As to “made by a person in execution of the tasks of the entity to which he belongs,” Article 11 specifically prescribes that such an invention also refers to those which are made “within one year from his resignation, retirement or change of work, where the invention-creation relates to his own duty or the other task entrusted to him by the entity to which he previously belonged.”⁶⁶

Recommendation: Amend these rules to be more in-line with international practice.

Overly strict application of the “doctrine of equivalents” in patent litigation

Issue: Some sources suggest that Chinese courts may apply the “doctrine of equivalents,” the technical scope of what a patent covers, overly strictly in some cases. This is particularly problematic in infringement cases centering on patent validity, whereas courts may overly narrowly rule a patent covers a particularly technical field, and an even closely-related patent is found as not infringing as it exists ‘outside’ that particular field.⁶⁷

Recommendation: Create a joint taskforce of SPC judges and other experts, along with equivalent representatives from the EU, to assess trends in Chinese courts’ application of the “doctrine of equivalents.” Provide recommendations therein to ensure better application of this principle.

⁶⁶ 19 May 2012 - Consultations with Tony Chen, Partner, Jones Day, Shanghai. Note: in addition to the inventor clawback provision, the “work for hire” clause in Chinese law reduces IPR misappropriation.

⁶⁷ Source: two different presentations at the 3rd Advanced China IP Counsel Forum, February 13-14, 2012