More Changes Possible in China's Patent Law Amendment?

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February 3 was the deadline for the Standing Committee of the National People's Congress of China to accept the public comments on the new version of the proposed Draft Amendments to the Patent Law ("the Draft"). This new draft is the result of the first reading at the end of December by the standing committee. The 2nd reading of the Draft is expected to be in April 2019. The final version may be approved in June at the earliest.

While the NPC is reviewing the comments, let us analyse what are possible changes to come. Compared to the earlier version, the Draft has eliminated some provisions that generated intense discussions, e.g., rules related to administrative enforcement on repeated infringement matters, some special rules on service invention, and secondary infringement etc. The Draft has introduced a new provision on patent term extension for innovative pharmaceutical drugs, among other notable points.

The Draft seems to be driven by strong motivation to demonstrate pro-IP attitudes. China's current patent law was implemented in 1985, and was revised three times in 1992, 2000 and 2008. Given the fact that the last round of patent law amendments happened about 11 years ago, there is always some hope that the Draft may include more meaningful changes to the Chinese patent system.

The following highlights the changes in the current version and we also add some comments on what could be desirable:

1) Article 6 of the Draft relates to service invention. The new rules seem to intend to give more freedom to employers to handle employees' service inventions. It is made clear that the employer is entitled to deal with the right to file a patent and the subsequent patent rights (if granted) for any service invention under law. The controversial part in the earlier version, which could be interpreted to give default rights to inventors, was all deleted. While that is positive, the remaining language of the proposed amendment to this article appears to be a big concern for most companies because it ambiguously requires employers to provide incentives such as equities and stock options to employees for service inventions even before a patent is filed or granted. This is also somewhat redundant because the existing Article 16 already provides inventor awards and remunerations for service inventions after a patent is granted and exploited. Most companies seem to suggest that this language be deleted or moved to Article 16 also subject to the employer's company policy or agreement with its employees in order to ensure corporate autonomy in dealing with the inventor remuneration issues.

2) Article 20 of the Draft adds a new broad rule against patent abuse, which stipulates that "The applying of a patent and exercising of patent rights shall abide by the principle of good faith. Abuse of patents shall not be allowed to harm public interests and others' lawful rights and interests or to exclude or restrict competition." The new provision arguably touches on the competition law and overlaps some of the rules in the antimonopoly law in China. The

concept of the patent abuse is not defined in the Draft, nor is the term of "public interest" clarified. This provision is likely to generate lots of discussions. Some people might find it acceptable to keep the language regarding good faith, but will strongly reject the inclusion of language of patent abuse. But others who wish to keep some sort of tools in defending patent assertions will like this Article 20.

3) Article 42 extends the patent term of design patent to 15 years. The Article also stipulates patent term extension for pharmaceutical inventions. The proposed rule states that "The State Council may make a decision to extend the duration of the innovative pharmaceutical patents that are synchronously applied for market launch in China and abroad, to make up the time used for drug approval". The draft language seems to require lots of clarifications, but in general it should be beneficial to innovative pharmaceutical companies. What is really required as priority is to add additional rules in the Draft to enable the patent linkage system, which has been expressly stated to be in exploration by the highest level policy documents back in 2017. This will be a critical area to watch.

4) Article 50-51 stipulates a system of "open license" for patents. Under this system, a patent owner may publish the licensing royalty rates and a potential licensee can take on the license based on such terms by written notice. Some commentators believe such a system is no longer necessary as actually it was proven not very popular in the western world and even put in place, the patent owner should be given certain incentives such as reduction of annuities. It is possible that the Chinese government wishes to drive more patent transactions by introducing this new system but many remain skeptical whether it can really work out as designed.

5) Article 70 of the Draft provides the patent enforcement powers by the CNIPA and its local patent offices. CNIPA is proposed to have powers to handle patent infringement disputes that are of nationwide significance. While this might be interesting routes for enforcing standard essential patents, the question remains if the powers of administrative enforcement will somehow make the current patent enforcement system overly complicated. And in practice most international patent owners are still very hesitant to try out the administrative enforcement route for valid reasons. They are even more concerned with local Chinese companies potentially abusing the option of administrative enforcement against them in return based on those unexamined utility model or design patents which could be invalid by nature. For that reason, many of them suggest that the local patent offices' power of administrative enforcement should be reasonably limited, and people should rely on courts more for patent dispute resolution.

6) Article 72 of the Draft provides one to five times punitive damages for willful infringement. But the issue of willful infringement is not addressed. The Draft proposes to increase the statutory damages to 5 million RMB with a minimum of RMB 100,000 and clarify a shifting of the burden of proof to the defendant under a duty to cooperate in providing relevant information in order to determine the amount for compensation. Similar rules are already in the trademark law.

Some academics and practitioners really hope that this round of amendment may clearly define the issues of secondary infringement, clarify the exhaustion issue of method claims, and add in the protection of partial designs. Other opinions believe that the Supreme Court has already set out exploratory rules in this area and the legislature could watch out more time before codifying such rules.

More importantly, many people are calling for restructuring the invalidation proceeding as a quasi-judiciary proceeding such that only one judiciary review is sufficient. Right now, the judiciary review of the invalidation result at the Patent Review Board (PRB) is considered as administrative litigation. Practically speaking, the PRB always sits as a co-defendant with either the petitioner or the patent owner in the judiciary review. And two levels of judiciary review are required and most of the time the decisions are simply remanded for additional consideration, resulting in significant waste of time. With the establishment of the Supreme Court's IP Court, there is a hope that the future decisions of PRB may directly appeal to the new court. If this suggestion is accepted, the fight over patent validity will dramatically expedite.

Between now and April are critical to the finalization of the amendments. Hopefully, the opinion from the domestic and international community will make some difference.