

Client Alert

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China: Proposed Amendments to the Patent Law and Draft IP Provision in the Foreign Investment Law

The PRC Patent Law was last amended in 2008 (the third amendment) and the fourth amendment is arguably over due. The current draft amendment to the PRC Patent Law was approved by the PRC State Council on 5 December 2018 and has been submitted to the Standing Committee of the National People's Congress for further review ("**Draft**"). In the meantime, the Draft was released for a month long public consultation on 4 January 2019.

The policy focus in the current Draft is to strengthen the protection of legitimate rights of patent owners and to encourage the implementation and industrialization of inventions. Key amendments proposed in the current Draft cover the following areas:

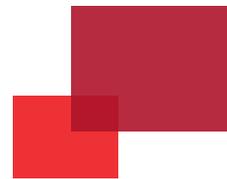
Employee inventions

In line with the current legal regime for employee inventions, the Draft clarifies that the rights to employee inventions belong to the employer. However, the Draft provides that the employer should provide a mechanism for the employee inventor to have a share of the revenue resulting from the invention, and to encourage the implementation and use of the invention. Such mechanism may include granting the employee inventor with equity interest, ownership right, option and/or dividend.

The previous draft amendment (released for public consultation in December 2015, the ("**2015 Draft**") proposed to narrow the scope of employee invention by defining it as an invention created by an employee "in carrying out the employer's assigned tasks". For inventions that are created by using the employer's material or technical resources, the employer would need to specify the ownership through an agreement with the employee; otherwise, the employee, being the inventor, would own the invention.

This proposed amendment in the 2015 Draft was widely criticized as overly narrowing employers' rights to employee inventions. The current Draft has aligned the definition of employee invention to that under the current law, covering both inventions made in carrying out the employer's assigned tasks as well as inventions made by primarily using the employer's material or technical resources.

The implementing rules of the current Patent Law set a relatively low statutory award and remuneration for employee inventions (e.g., an award of CNY3,000 for an invention patent). In 2015, the State Intellectual Property Office published draft rules on employee inventions, which sought to increase the statutory award linking the amount to average monthly salary paid by the employer (e.g. twice the average monthly salary for an invention patent). The amount of remuneration was also proposed to be increased. The draft rules were never finalized but many anticipate that the statutory award and remuneration would soon be increased.



Although the current Draft has not discussed any detailed reward mechanisms, it has shown a trend consistent with granting employees with more financial incentives to innovate and make improvements. Details can be expected through implementing regulations and rules.

Patent licensing

The Draft proposes to establish a voluntary licensing mechanism for a patentee to provide a written statement to confirm the patentee's willingness to grant a license to whomever is interested in implementing the patented technology, and to specify details of the royalty payment. The voluntary licensing system demonstrates China's determination to encourage the commercialization and industrialization of technology. However, the practical merit of such a voluntary system remains to be seen.

Meanwhile, although the Draft has not proposed amendments on compulsory licensing, it emphasizes that the exercise of patent rights should comply with the principles of honesty and good faith. One should not abuse patent rights to impede or restrict competition.

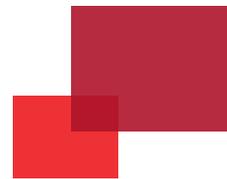
Similar revisions were proposed in the 2015 Draft. However, one important aspect left out in the current Draft is licensing with respect to standard-essential patents (SEP). The 2015 Draft proposed an implied licensing mechanism for an SEP owner who participates in the enactment of national standards but fails to disclose its SEP. This amendment has been left out in the current Draft, although no official comments have sought to explain this omission.

IP abuse has been a topic hotly discussed in China, with the anti-competitive authorities in China, namely, the then State Administration for Industry and Commerce (SAIC), the National Development and Reform Commission (NDRC), and the state-level Anti-Monopoly Commission, all having issued draft guidelines on the exercise of IP rights to avoid potential anticompetitive effects. According to the SAIC's 2015 Guidelines on Prohibiting the Use of IP Rights in Restricting or Impeding Competition, a company with market dominance should not impose unreasonable trading requirements such as exclusive grant-back of improved technology, non-challenge provision, restrictions on use of non-infringing, competing technology after the license period, etc. Now that the anti-competitive task force of the SAIC and the NDRC have been consolidated into the newly established State Administration for Market Regulation, more coordinated rule-setting and enforcement action can be expected going forward.

Patent term extension

The Draft proposes to extend the term of design patents to fifteen years from the date of application. In addition, patent term extension of up to five years is proposed for innovative drugs that seek market entry to China simultaneously with that in a foreign market. The total patent term should not exceed fourteen years from the receipt of market authorization for the drug.

These proposed amendments are likely to be included in the finalized law without substantive revision. The fifteen-year term for design patents is proposed to align with the Hague Agreement. The same amendment was also proposed in the 2015 Draft.



In contrast, the five-year extension for innovative drugs is a newly proposed amendment to the Patent Law. This proposal did not come as a surprise, however, as it was already discussed as part of China's healthcare reformation and publicized during the State Council's April 2018 meeting.

Liability for ISPs

The Draft provides that internet service providers (ISP) should take necessary remedial measures including deleting, blocking access or disconnecting link to infringing products, upon receiving notification of the infringement based on effective ruling. The ISPs can be held jointly liable for the expanded damages in case of non-compliance.

ISP liability was also proposed in the 2015 Draft, which states that an ISP should be jointly liable if it "knows or should have known" about the patent infringement, and fails to promptly take necessary remedial measures. The 2015 Draft also provides that the patent owner or an interested party can require ISPs to take such remedial measures, but requires that such notification be "qualified and valid".

What constitutes a "qualified and valid" notification was not specified in the 2015 Draft. However, the current Draft appears to require such a notification be based on effective judgment, ruling, mediation decision or administrative order. The current Draft is silent on ISPs liabilities short of such an effective, official decision.

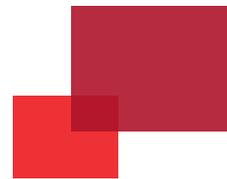
Compared to the 2015 Draft and existing laws and regulations, the current Draft appears more skewed in favour of ISPs by demanding an effective ruling. Under the Tort Law of the People's Republic of China, an ISP shall be jointly liable for the expanded damages if the ISP fails to promptly take necessary remedial measures after receiving a notification from the infringed party. The Supreme People's Court of China previously explained that an effective notification should contain sufficient information for identifying the infringing contents, as well as the reason for requesting a deletion.

Patent infringement

The Draft proposes to reduce the plaintiff's burden of proving damages where the relevant materials and records are mainly controlled by the defendant infringer. Punitive damages are proposed for willful infringement, which can result in up to five-time increase in damage calculation. The maximum statutory damage is proposed to be increased to CNY 5 million.

Similar amendments were proposed in the 2015 Draft. The current Draft has increased the punitive damages to five times the original damage, compared to three times the original damages in the 2015 Draft. The increase is in line with the legislative intent to strengthen the protection of rights of patent owners.

The current Draft is comparatively silent on administrative enforcement. Under the 2015 Draft, the powers of local patent authorities in handling patent infringement cases were proposed to be enhanced substantially, including to empower local patent offices to confiscate and destroy infringing products, tools, parts, moulds and equipment exclusively used for manufacturing the infringing products, and to issue a fine up to five times the



illegal turnover for repeated infringement. These provisions are no longer in the current Draft.

Overall observations

Many of the proposed amendments are not new and have been noted in other laws and regulations (e.g. ISP liability), discussed in official notices (e.g. patent term extension for new drugs) or applied in judicial practice (e.g. burden shifting in damage calculation).

Meanwhile, there are important aspects of industry-specific patent protection left unaddressed in the current Draft. One notable example is patent linkage for pharmaceuticals. Although patent linkage has been widely discussed in China's recent healthcare reformation, both originators and generic manufacturers would need further guidance on how drug marketing approval would be linked to the patent status of the originator's product.

Draft Foreign Investment Law addresses technology transfer

As a related update on intellectual property protection for technology, the draft Foreign Investment Law has also been published for public consultation in late December 2018. The consultation period will end on 24 February 2019. The draft stipulates that for foreign investment in China, the terms and conditions of technological cooperation should be negotiated and decided by the parties, and emphasizes that administrative authorities should not force technology transfer. This draft provision demonstrates a favourable trend towards respecting foreign patent owner's rights in China inbound investment. However, the draft left out key aspects such as whether the parties' freedom to negotiate extend to ownership of improved technology, which is currently subject to restriction under China's mandatory technology transfer regime. Whether the draft law would bring material assurance for foreign patent owner would depend on its detailed implementation and reconciliation with existing laws and regulations on technology transfer.

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