

# Remarks on the proposed Fourth Amendment to the Patent Law of China

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*Since 2012, the Chinese State Intellectual Property Office has been working towards a revision of China's patent law – the so-called fourth amendment. The fourth amendment deals with standard essential patents, government enforcement, notice and remove requirements and design patents. This discussion considers the changes in the current draft of the proposed amendment and the criticisms it has faced.*

**Keywords:** *patent law, China, law reform*

The enactment of the Patent Law of People's Republic of China ('Patent Law') in 1984 and its several subsequent revisions have strengthened patent protection and promoted innovation, yet problems and challenges persist. On 10 August 2012, the State Intellectual Property Office ('SIPO') published a notice calling for public opinions and suggestions concerning the Patent Law's revision. SIPO then published the first draft of the proposed Fourth Amendment to the Patent Law on 3 April 2014, followed by the second draft on 1 April 2015. On 2 December 2015, the Legislative Affairs Office of the State Council published the third draft of the Fourth Amendment of the Patent Law to the People's Congress Standing Committee ('the Draft'). The Draft would materially amend 18 articles, add 14 articles and repeal one article of the current Patent Law, focused on the licensing of standard essential patents ('SEPs'), governmental patent law enforcement, Internet Service Providers' 'notice and remove' duty and protection for design patents.

## 1 ESTABLISHMENT OF THE IMPLIED LICENCE FOR STANDARD ESSENTIAL PATENTS

The Draft established the implied licence for SEPs by adding Article 85, which provides:

A patentee who participated in formulating a national standard is deemed to grant an implied licence if it fails to disclose having in its possession the relevant standard essential patent during the formulation process. The licence fee shall be settled by negotiation or, should negotiations fail, either the patentee or licensee can petition the Patent Administration under the State Council for a decision. A party dissatisfied with that decision may file a lawsuit with the people's court within 15 days of receiving notice of the decision.

This rule aims to prevent the patentee from holding up the patent by not revealing its use in the process of establishing a national standard. SIPO's accompanying comments on the Draft state that a patentee who participated in formulating a national standard must conform with the principles of honesty and good faith, and has a reasonable duty

to reveal its SEPs. However, the implied licence is not free of charge, as the patentee has the right to claim a licence fee.<sup>1</sup>

Currently, the proposed article faces many criticisms. First, the article is obscure on the extent of the patentee's required disclosure. Second, the article establishes a defence to patent infringement in addition to traditional defences, and arbitrarily grants an implied licence to SEPs whenever the patentee fails to disclose.<sup>2</sup> In addition, the article may severely impede the patentee's right to sue for patent infringement.<sup>3</sup> Third, the article conflicts with the 'particular case by case licence' rule in Article 31 of TRIPS, because Article 85 is similar to neither the implied licence in US Patent Law<sup>4</sup> nor the forced endorsement in the UK. In the US, when the patentee fails to disclose, the law treats this as either fraud<sup>5</sup> or implied waiver,<sup>6</sup> rather than granting an implied licence. Fourth, Article 85 fails to offer injunctive relief as an available remedy for the patentee, despite the critical importance for the patentees of being able to anticipate the financial promise of their research projects, thereby incentivizing investment in innovation.

Due to these criticisms, Article 85 might either be deleted, leaving the issue to the judiciary, or clarified through detailed administrative regulations.

## 2 STRENGTHENING ADMINISTRATIVE PATENT LAW ENFORCEMENT

Administrative patent law enforcement is regulated and strengthened substantially in the Draft. First, Article 3 explicitly grants the Patent Bureau of cities and authorized counties, as local agent under the SIPO, the power to enforce the Patent Law and its regulations progressively against massive and repetitive patent infringement. Under the current Patent Law and its regulations, the Patent Bureau has no power to initiate investigations without first receiving a complaint from the patentee. Second, Article 60 added new methods of enforcing the Patent Law, such as levying fines and imposing the forfeiture of infringing products and/or equipment for manufacturing such products or utilizing the process patent. Third, the Draft grants the Patent Bureau authority to mediate patent cases and, provided that the settlement is rectified, it is thus enforceable through the courts. In China, the courts cannot rectify a private settlement agreement unless authorized by statutory laws, and currently the only law that authorizes such rectification is the People's Mediation Law of the People's Republic of China. Fourth, the Draft grants the Patent Bureau the power to investigate, including seizing and detaining infringing products, and explicitly imposes upon the implicated parties a duty to cooperate in such investigations.

1. State Intellectual Property Office, 'Comments on the Revision of the Patent Law of China (Public Notice Version)' (2 April 2015) <[http://www.sipo.gov.cn/zcfg/zcjd/201504/t20150402\\_1096196.html](http://www.sipo.gov.cn/zcfg/zcjd/201504/t20150402_1096196.html)> accessed 24 June 2017.

2. Weijun Zhang, 'Implied Licence or Mandatory Licence – Remarks on Duty of Revealing Standard Essential Patents in the Revision of Patent Laws Draft' (2016) 27 Journal of Tongji University (Social Science) 3.

3. Bo Xu, 'On Standard Essential Patents in the Fourth Revision of Patent Laws' (24 March 2017) <[http://www.cnipr.com/sfsj/zjcf/201703/t20170324\\_201636.htm](http://www.cnipr.com/sfsj/zjcf/201703/t20170324_201636.htm)> accessed 24 June 2017.

4. See generally *De Forest Radio Tel. Co. v United States*, 273 U.S. 236 (1927); *Medeco Security Locks, Inc. v Lock Technology Corp.*, 199 U.S.P.Q. (BNA) 519, 524 (S D N.Y. 1976).

5. *Rambus Inc. v FTC*, 522 F.3d 456, 462 (D.C. Cir. 2008).

6. See *Qualcomm Incorporated v Broadcom Corp.*, 548 F.3d 1004 (2008).

It is not uncommon to uncover massive and repetitive patent infringement which plausibly calls for intervention by the responsible governmental agency. Nonetheless, this strengthened governmental intervention still needs to be specifically justified.

First, as the patent right is basically a private right, using taxpayers' money to fund governmental intervention in protecting private rights needs special justification. The Draft adopts a dual-channel 'administrative decision plus judicial remedy' model to protect patent rights, and the Patent Bureau can initiate an investigation without a patentee's complaint. In contrast, the US International Trade Commission can investigate patent infringement only when a complaint has been filed, and it has no power to forfeit infringing products or impose fines. In the EU, member states' customs authorities have the power to conduct investigations and to seize, detain, destroy and issue injunctions against infringing products; however, customs authorities have no power to handle domestic patent infringement cases. Thus the Draft really granted progressive powers to the Patent Bureau beyond the normal standard in other countries.

Under the dual-channel model, after the administrative decision has been issued, the parties can still seek a judicial remedy. In those cases involving complicated factual and legal issues, the parties seem always to pursue litigation after the administrative decision; and it is not clear under the Patent Law and its regulations, whether the court is bound by the factual finding of the Patent Bureau or not. Thus, the public resources expended during the administration process are wasted.

Second, many issues remain unclear in the Draft, such as the definition of 'massive and repetitive patent infringement'. The Draft provides that the Patent Bureau can initiate an investigation without receiving a complaint when there are 'massive and repetitive patent infringements'. However, if 'massive and repetitive patent infringement' is not defined, then the Patent Bureau has total discretion, which will eventually lead to abuse of power, as generally believed by the legal community. As one scholar has highlighted, the Patent Bureau only has the power to enforce the law, and has no power to make final decisions; and the purpose of patent administrative protection is to assist judicial protection, not to replace it. Therefore, from this perspective, the Draft arguably crosses the line.<sup>7</sup> In the light of those criticisms, the proposed articles will be refined before being enacted.

### 3 CLARIFICATION OF INTERNET SERVICE PROVIDERS' 'NOTICE AND REMOVE' DUTY

The popularity of e-commerce in China is accompanied by frequent patent infringements in the cyber domain. Some large e-commerce platforms receive an extraordinary number of complaints each year. However, the responsibilities and duties of Internet Service Providers ('ISPs') are not clearly defined under current laws. In practice, the principles in the Tort Law of the People's Republic of China are the only relevant guide, and these may be inadequate in determining highly professional and complex patent infringement cases. Article 63 of the Draft stipulates that ISPs have a duty to cut off an Internet user's network service if the providers know or ought to have known that the user has committed an infringing act using that service.<sup>8</sup> There are

7. Ning Cui, 'On Administrative Enforcement of Patent Law in the Fourth Revision of Patent Law' (2017) 48 Chinese Intellectual Property 2.

8. Legislative Affairs Office of the State Council, 'Draft Amendment of the Patent Law for People's Congress Standing Committee', Article 63 (2015).

two types of liability here. First, ISPs bear joint liability with the Internet user if they know or ought to have known that the user has committed an infringing act using their service but fail to take prompt action against them. Second, ISPs bear joint liability with the user for any additional harm resulting from their failure to take timely action after receiving notice of infringement from the patentee/interested party or the patent administrative agency.<sup>9</sup>

This article is unreasonable in several aspects. First, the ‘ought to have known’ provision imposes higher supervisory responsibility on ISPs. Second, the article can easily be misused by competitors in the same industry or by other entities. According to Alibaba, the abuse of intellectual property rights is prevalent in e-commerce, and only 50 per cent of complaints are factually grounded.<sup>10</sup> Third, there is no clear explanation or unified standard for the so-called ‘qualified and effective notice’ in the proposed rules. Fourth, ISPs’ infringement review capacity is constrained by the separation of information and physical goods in the cyber environment, and, in the case of e-commerce platforms, a lack of expertise or qualification in determining infringements. Fifth, the article actually vests in ISPs the right to exercise ‘quasi-judicial’ power, turning them into ‘arbiters’ of patent infringement. Sixth, as the determination of patent infringement involves complex technical issues, the principle of technical neutrality would be undermined were ISPs allowed to judge if the user is infringing or falsifying a patent. To overcome these defects, SIPO has proposed a series of modifications. Considering the uniqueness of the patent right, the difficulty in determining patent infringement, and the reasonable attention and review obligations of ISPs, SIPO recommends that the introduction of the ‘notice and remove’ rule should be supplemented by the following: clarification of the requirements of the ‘qualified and effective notice’ with regard to subject qualification, format and content; detailing the infringement proofs that must be submitted; and issuing guidance on which materials should be prepared by the patentee/interested party before sending the ‘notice’, and how ISPs should act in making quick judgments in response.<sup>11</sup>

Judging from the position of e-commerce platforms and the status quo of the Internet industry in China, there is only a slim chance that the current proposals in this article will be enacted into law. The principle of technical neutrality must be kept before giving ISPs clear duties. It is logically wrong to overburden ISPs with unbearable obligations or allow them to assume full responsibility for cracking down on counterfeit and shoddy products. The ‘notice-forwarding’ rule should be established to free ISPs from any responsibility for determining patent infringements, allowing them to focus, instead, on fulfilling the duty to forward complaints, asking the obligee to negotiate and exchange directly with the seller. The e-commerce market would be regulated through a combination of the ‘notice-forwarding’ rule and the punitive compensation system for malicious and repeated infringements.

9. State Intellectual Property Office (n 1).

10. Hunan Provincial People’s Government, ‘Experts Attending Conference in Changsha to Discuss “Internet+” Intellectual Property’ (14 December 2015) <[http://www.hunan.gov.cn/zw/hnyw/zwdt/201512/t20151214\\_1960493.html](http://www.hunan.gov.cn/zw/hnyw/zwdt/201512/t20151214_1960493.html)> accessed 24 June 2017.

11. State Intellectual Property Office, ‘Questions and Answers in Legislation: The Revision of Patent Law (I) Internet Service Providers’ (20 July 2016) <[http://www.sipo.gov.cn/ztl/ywzt/zlfjqssxzdcxg/xylzlfzg/201607/t20160720\\_1281808.html](http://www.sipo.gov.cn/ztl/ywzt/zlfjqssxzdcxg/xylzlfzg/201607/t20160720_1281808.html)> accessed 24 June 2017.

#### 4 EXPANDING THE SCOPE OF AND EXTENDING THE PERIOD FOR DESIGN PATENT PROTECTION

Due to continuous improvement in the design capability of Chinese enterprises, more design patents are filed in China than in any other country in the world. It is, thus, of great urgency to strengthen design protection. In a mature industry, there is limited space for improving product design, making local design improvement the main carrier of innovation. In China, only ‘holistic’ designs are currently protected, while local design innovations are easily pieced out, replaced and imitated.<sup>12</sup> In addition, the ten-year protection period in the current Patent Law is too short and unfavourable for the implementation of China’s ‘going global’ strategy.<sup>13</sup> Hence, the Draft proposes to extend the scope of design protection to include ‘local design’ and to extend the protection period to 15 years.

There is concern that low requirements for granting a local design patent might lead to a proliferation of local design applications and impair the overall quality of design patents.<sup>14</sup> To ensure or enhance the overall quality of patents in China, this article may be cut short in the enacted legislation, and limitations may be set for the application of local design patents.<sup>15</sup>

#### 5 SUMMARY

Considering the legislative process and the criticisms of the proposed draft, the revision might not be eventually enacted until 2020. Despite some of the controversial contents, the fourth revision of the Patent Law promises to generally improve the patent environment and promotes the strategic transition from ‘Made in China’ to ‘Created in China’; the revision would also help to put into effect the measures proposed at the 18th National Congress of the Communist Party of China and its 3rd and 4th Plenary Sessions, including, for example, implementing an intellectual property strategy and strengthening the protection and utilization of intellectual property rights, while also improving the incentive mechanism for technological innovation.

12. State Intellectual Property Office, ‘Questions and Answers in Legislation: the Revision of Patent Law (II) Protection on Design Patent’ (1 April 2017) <[http://www.sipo.gov.cn/ztzl/ywzt/zlfjqssxzdcxg/xylzlfxcg/201704/t20170401\\_1309234.html](http://www.sipo.gov.cn/ztzl/ywzt/zlfjqssxzdcxg/xylzlfxcg/201704/t20170401_1309234.html)> accessed 24 June 2017.

13. State Intellectual Property Office (n 1).

14. Jing Li, ‘The Impact on Overall Visual Effect of Partial Changes in Design Patent’, Proceedings of the 2013 Annual Conference of the Patent Agents of China and the Fourth Intellectual Property Forum 4 (2013).

15. State Intellectual Property Office (n 12).