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She has advised and acted in leading cases in international patent litigation such as "Windsurfing" and "Epi-Lady" – famous cases which contributed to some landmark decisions by the German Federal Supreme Court. She advises clients in a wide range of sectors, including engineering, electronics and pharmaceuticals. One of the focuses of her practice is East Asia.

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The Third Amendment of the Chinese Patent Act

by Dr. Sabine Rojahn and Jingjing Cao

On 27 December 2008 the Standing Committee of the National People's Congress – China's legislature – passed the latest amendment of the Chinese Patent Act. The revision will take effect on 1 October 2009. The Third Amendment will fundamentally change the legislation by introducing the absolute novelty standard and the possibility of compulsory licenses in the event a patent has not been used in the three years after its grant. These amendments will have a crucial impact on the future patent application and enforcement strategies.

According to *Tian Lipu*, director general of SIPO, the latest reform is intended to bring the law and processes up to international standards and has made several important changes to the law's application process and enforcement. Its overarching purpose is to enhance the innovative capacity of China's domestic industry and "promote scientific progress and economic social development" (Article 1).

The “Absolute Novelty” Standard

One of the most important amendments is the adoption of the so-called “absolute novelty” standard that is used internationally for granting an invention patent, a utility model or a design.

Articles 22 and 23 of the previous version of the Chinese Patent Act require that patent examiners may not consider public use evidence outside China when processing patent applications. That is to say, the products of foreign companies are not prejudicial as to novelty as long as they are not publicly used in China, even if the foreign companies have distributed them throughout the world. This regulation can expose foreign companies to the risk of not being permitted to import their products into China, if a Chinese patent for the same product has been granted to a Chinese competitor.

According to Chinese legislature the intent behind the raise of the standards for granting a patent, a utility model or a design is to improve the quality of Chinese patents, encourage domestic innovation and stimulate the spreading and application of foreign technology in China. This is a substantial progress in Chinese patent law which creates advantages for the international trade.

This absolute novelty requirement is, however, not retroactive. Once the new revision comes into force, there will be a diversity of interpretations of novelty.

The Grant of a Compulsory License

Another important change involves the granting of a compulsory license. The amendment outlines several situations where a compulsory license for a patent may be granted by SIPO. Article 48 (2) of the new version allows the granting of a compulsory license when a patentee is determined to be acting as a monopoly. According to Articles 49 and 50 a compulsory license may be granted in case of a national emergency or for the purpose of public health.

Furthermore, according to Article 48 (1), anyone can file a request for the grant of a compulsory license at SIPO when a patentee, without any legitimate reasons, has not exploited the patent or has not sufficiently exploited the patent for three years after the patent grant. In this case the petitioner of the compulsory license may provide proof that he has made requests for a license to the patentee on reasonable conditions, but did not receive a license within a reasonable period of time (Article 54).

In addition, the petitioner of the compulsory license has to indicate the reasons and facts for his request in accordance with the “Measures for Compulsory License of Patent Implementation” issued by SIPO in 2003. His request will be refused if the patentee justifies his inaction by legitimate reasons.

These clauses, providing for a compulsory license in case of failure to exploit or to sufficiently exploit a patent, have been developed from the Paris Convention for the Protection of Industrial Property. Article 5 A of this Convention allows the member states to grant compulsory li-

censes to prevent the abuse of patents which might result from, “for example, failure to work”. In this case the compulsory license may not be applied for “before the expiration of a period of four years from the date of filing of the patent application or three years from the date of the grant of the patent”. In many instances, however, the patented inventions are not actually being reduced to practice at the time of the patent grant or even within three years after the patent grant. It is therefore doubtful whether three years are a reasonable period of time.

A critically important factor for patentees is the meaning of “exploit”. Does it refer to “make, use, offer to sell, sell or import” in terms of Article 11 of the Patent Act? Would research or a clinical trial qualify as sufficient exploitation of a granted patent? Would the use of the patent outside of China be considered? These questions hopefully will be answered when China’s Supreme Court releases its interpretation of the new version of the Patent Act this year.

Nevertheless, patent applicants have to take this time-limited threat of a compulsory license into account. They may adjust their strategy of patent applications accordingly.

It must be pointed out that, previously, China had administrative rules, but not laws, covering the compulsory license. This is the first time the grant of compulsory licenses is actually laid down in written patent legislation. This might indicate that the government’s use of the new stipulations to negotiate drug prices with international pharmaceutical companies is facilitated.

The Exception to Patent Infringement

Contrary to the stipulation of a compulsory license, another amendment to Article 69 would certainly make it more attractive for pharmaceutical companies to set up manufacturing facilities and conduct R&D in China. This section allows, similar to the U.S. Bolar exception, the manufacture, use and importation of a drug or a medical apparatus in order to provide information required to obtain administrative approval.

Other Important Amendments

- **Where to File.** The statutory requirement for Chinese applicants to first file applications in China for inventions made in China has been abolished. Under Article 20 applicants can apply for foreign patents even before obtaining a Chinese patent.
- **Enforcement Measure.** The amended patent law provides several important measures to improve the enforcement of patents in China. For example, Article 65 raised the maximum compensation for IPR infringement from 50,000 yuan to 1,000,000 yuan when the damage cannot be specifically identified.
- **Licensing of Patents.** Article 15 allows any co-owner of a jointly owned patent to exploit the patent alone. The royalty which he has obtained through the licensing shall be distributed among all the co-owners.
- **Genetic Resource.** Another newly introduced change requires an applicant for a patent to disclose the source of genetic resources for an in-

vention completed on the basis of genetic resources.

Conclusion

In June 2008 China's State Council issued a "Compendium of China's National Intellectual Property Strategy", which stated the goal of developing China into "a nation with an internationally top level of creating, using, protecting and managing intellectual property rights by 2020." Six months later, the third revision of the Patent Act, which was initiated by China's State Intellectual Property Office (SIPO) in April 2005, was adopted.

The newly released revision of China's patent law reflects the trend that China is becoming more global, and the efforts made by authorities to comply with international IPR standards.

However, there are ambiguities in a couple of the amendments noted above. The lack of clarity makes these sections particularly confusing for foreign companies seeking patent protection in China. The Supreme Court is therefore expected to give a clearer and more detailed interpretation concerning these amendments. Nevertheless, considerable uncertainty is created by the newly introduced compulsory license for third parties in case the patent is not used. Patent application strategies will have to be adjusted at least to this amendment in the coming years.

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Disclaimer

The contents of this newsletter are a general information on the respective subject matter only and cannot be treated as a complete description or a substitute of specific advice.

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