Understanding the Current IP Landscape in China

Luke Minford
Jin Ling
Outline

• The path to innovation
• The response from industry
• Changes to the law
• Enforcement and the People’s Court
The Path to Innovation
The 6th Five-Year Plan

Deng’s legacy – market reform

第六个五年计划（1981-1985年）简介

“大跃进”计划1975年、1978年两次编制后，指标一
次比一次高。

1980年推翻原方案后开始重新制定。

1981年3月16日，国家计委提出拟定“六五”计划的初步意见。同年6月10日，国家计委发出《关于拟定“六
五”专题计划的通报》。

1981年10月8-13日，中共中央政治局举行扩大会
议。讨论“六五”计划控制数字。

1982年1月25日，国务院下达了“六五”计划控制数字：
工农业总产值平均每年递增4%，1985年达到8050亿元，
工业总产值年均递增4%，1985年达到6070亿元，农业总
产值年均递增4%，1985年达到1980亿元。国民收入年均
递增4%，1985年达到4410亿元。

1982年4月13日，国家计委同中共中央财经领导小组作
《关于拟定“六五”计划中几个问题的请示报告》。

1982年8月19日，国家计委同同中共中央财经领导小
组作《20年设想和“六五”计划的汇报》。

1983年8月下旬，国家计委同同中共中央财经领导小组
The 9th Five-Year Plan
Jiang’s legacy – restructuring under WTO umbrella

1996年9月28日，中共十四届五中全会通过了《关于国民经济和社会发展“九五”计划和2010年远景目标建议》。这是中国社会主义市场经济条件下的第一个中长期计划，是一个跨世纪的发展规划。

“九五”国民经济和社会发展的主要奋斗目标确定为：全国完成现代化建设的第二步战略部署，2000年，在中国人均将比1980年增长3亿左右的情况下，实现人均国民生产总值比1980年翻两番；基本解决贫困人口，人民生活达到小康水平；加快现代化企业制度建设，初步建立社会主义市场经济体制。

2010年国民经济和社会发展的主要奋斗目标是，实现国民生产总值比2000年翻一番，使人民的生活水平更加富裕，形成比较完善的社会主义市场经济体制。1996年3月，第八届全国人大代表大会第四次会议在北京召开，李鹏总理代表国务院在会上作了《关于国民经济和社会发展“九五”计划和2010年远景目标纲要的报告》。该报告提出了今后15年的奋斗目标和指导方针。
The 11th Five-Year Plan

Hu’s legacy – independent innovation?
The Path to Innovation

- NPC 5 year plan - S&T development
- SC Medium/Long term innovation plan
- SC Council National IPR Strategy
The Path to Innovation

• An innovation-based economy by 2020
• IPR enforcement should benefit the innovation & technological upgrading of domestic companies
• Improve IPR protection system and legal environment
• Less reliance on foreign technology
• Short term FDI
• Favours green-renewable technology
• Commercialisation of academic research
Harnessing the Bureaucracy

Cross-Ministry Working Group Created - the ‘Super Bodies’

1. National Development and Reform Commission (发展改革委)
2. Ministry of Science and Technology (科技部)
3. Ministry of Public Security (公安部)
4. Ministry of Finance (财政部)
5. Ministry of Environmental Protection (环境保护部)
6. Ministry of Commerce (商务部)
7. Ministry of Health (卫生部)
8. General Administration of Custom (海关总署)
9. State Administration of Quality, Supervision and Quarantine (质检总局)
10. General Administration of Press and Publications (版权局)
11. State Intellectual Property Office (知识产权局)
12. Ministry of Foreign Affairs (外交部)
13. Ministry of Education (教育部)
14. Ministry of Industry and Information Technology (工业和信息化部)
Harnessing the Bureaucracy

15. Ministry of Justice (司法部)
16. Ministry of Human Resources and Social Security (人力资源和社会保障部)
17. Ministry of Agriculture (农业部)
18. Ministry of Culture (文化部)
19. State Administration of Industry and Commerce (工商总局)
20. State Administration of Radio, Film and Television (广电总局)
21. State Forestry Administration (林业局)
22. Legislative Affairs Office of the State Council (法制办)
23. Chinese Academy of Sciences (中科院) (State Council Institution)
24. State-owned Assets Supervision and Administration Commission of the State Council (国资委) (State Council Special Institution)
25. Supreme People’s Court (高法院)
26. Supreme People’s Procuratorate (高检院)
27. General Armament Department of People’s Liberation Army (总装备部)
28. Publicity Department of the Central Committee of the Communist Party (中央宣传部)
Key Bodies and Policies

National People’s Congress

Supreme People’s Court

State Council

Outline of National IP strategy (5 Jun, 2008)
Key Bodies and Policies

National People’s Congress

Supreme People’s Court
State Council
Key Bodies and Policies

Supreme People’s Court

- Opinions of the Supreme People’s Court on Several Issues Regarding the Implementation of the National Intellectual Property Strategy (3 Mar, 2009)
- Provisions on the Division of Hearings of Administrative Cases in Respect of Authorization and Confirmation of Intellectual Property Rights such as Patents and Trademarks (22 Jun, 2009)
- Opinions of the Supreme People's Court on Several Issues regarding Intellectual Property Trials Serving the General Situation under Current Economic Situation (21 Apr, 2009)
- Notice on Printing and Distributing Key Points of the Work of People’s Court in 2009 (8 Jan, 2009)
- Notice of the Supreme People’s Court on Carefully Study and Implement the ‘Outline of National IP strategy’ (1 Aug, 2008)
Key Bodies and Policies

State Council

- Outline of National Medium/Long Term Plan for Science and Technology Development (7 Feb, 2009)
  - Circular on Accelerating the Development of Bio-organic Industry (2 Jun, 2009)
  - Several Policies on Accelerating the Industrialization of Independent Innovation Product (15 Dec, 2008)
- Outline of National IP strategy (5 Jun, 2008)
  - Notice on Printing and Distributing the Division of Work on Implementing the Outline of National IP strategy (12 Dec, 2008)
China’s commitment to becoming an innovation-based economy

China commits to improved IP enforcement

Peter Oller and Jianlin Gu, Hong Kong

China’s Supreme People’s Court has issued guidelines for implementing the National IP Strategy that will lead to unified tribunals handling civil, criminal and administrative IP courts and may create a specialist IP appeal court.

The SPC gets in on the act...

1. Outline of National IPR Strategy Announced:
   Recently, the State Council issued “The Outlines of the National IPR Strategy.” This document seeks to bring China to a high level of intellectual property innovation, utilization, protection, and management by 2020, building towards a truly “innovative
   five strategic goals: promoting IPR innovation and nurturing an IPR culture.
   ment, the plan calls for
The Provinces and their Plans

Provincial Government Integration

Local government IP Plans
Subsidies for filings

Provincial Government Plans

Local government PCT subsidies

USD 7,321

USD 4,392

USD 1,464

USD 1,464

USD 1,464

USD 1,464

USD 7,321
Distribution of Annual Domestic Applications for Patents in 2007

- Guangdong: 102,449
- Jiangsu: 88,950
- Zhejiang: 68,933
- Shanghai: 47,205
- Shandong: 46,849
- Shenzhen: 35,808
- Beijing: 31,680
- Taiwan: 22,833
- Liaoning: 19,518
- Sichuan: 19,165

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The growing role of the NDRC

14. Pearl River Delta to Become “Technological Innovation Lab” for Asia: The National Development and Reform Commission has announced China intends to make the Pearl River Delta a "significant innovation center" in the Asia-Pacific region by 2020. The plan is as follows: By 2012, three to five high-technology industrial clusters will be established, generating more than RMB 100 billion (USD $14.62 billion) in aggregate industrial output. By 2012, the expectation is that the Pearl River Delta region will generate 600 patent applications per one million people annually, with priority given to independent technological innovation. In addition, it is projected that a high-tech industrial cluster encompassing biology, wireless telecommunications, and advanced internet networks will be established by 2012, generating more industrial momentum for the region. With the shift towards high-technology industries, the Commission predicts that inefficient, energy-consuming sectors, such as paper-making and manufacture of household appliances, textiles, garments, and Chinese herbal medicine, gradually will be phased out. The central and the local governments are to work together to create 100 provincial technology research-and-development alliances, and establish research institutes and units affiliated with universities, to help bring research results into the production line. (Source: Chinese Ministry of Commerce website, January 9, 2009, http://english.ipr.gov.cn/ipr/en/info/Article.jsp?a_no=261478&col_no=925&dir=200901.)
Due diligence on the regulatory and judicial environment for TT and R&D is critical.

- There are now widespread incentives for bringing technology to China – use them to your advantage
- The involvement of government is complex but necessary – seek advice early on how it impacts you
- Policies favour the promotion of certain domestic industries and technologies – understand these
- Anticipate that the courts are not independent – do your due diligence here as well
The Response From Industry?
Patents Granted in China

<table>
<thead>
<tr>
<th>Year</th>
<th>Domestic Invention</th>
<th>Domestic Utility Model</th>
<th>Domestic Design</th>
<th>Foreign Invention</th>
<th>Foreign Utility Model</th>
<th>Foreign Design</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>11,404</td>
<td>68,291</td>
<td>69,893</td>
<td>25,750</td>
<td>615</td>
<td>6,273</td>
</tr>
<tr>
<td>2004</td>
<td>18,241</td>
<td>70,019</td>
<td>63,068</td>
<td>31,119</td>
<td>604</td>
<td>7,187</td>
</tr>
<tr>
<td>2005</td>
<td>20,705</td>
<td>78,137</td>
<td>72,777</td>
<td>32,600</td>
<td>1,212</td>
<td>8,572</td>
</tr>
<tr>
<td>2006</td>
<td>25,077</td>
<td>106,312</td>
<td>92,471</td>
<td>32,709</td>
<td>1,343</td>
<td>10,090</td>
</tr>
<tr>
<td>2007</td>
<td>31,945</td>
<td>148,391</td>
<td>121,296</td>
<td>36,003</td>
<td>1,645</td>
<td>12,502</td>
</tr>
<tr>
<td>2008</td>
<td>46,590</td>
<td>175,169</td>
<td>130,647</td>
<td>47,116</td>
<td>1,506</td>
<td>10,954</td>
</tr>
<tr>
<td>Jan - July 2009</td>
<td>37,585</td>
<td>103,582</td>
<td>104,265</td>
<td>36,874</td>
<td>939</td>
<td>7,337</td>
</tr>
</tbody>
</table>
Changes to the Laws and Regulations

**Utility Model/Design Patent**
- Priority for utility models 12 months, designs 6 months
- No substantive examination
- Presumption of validity
- 10 years protection term
- Fast registration (9-12 months)

**Invention Patent**
- Priority 12 months
- File in US then PCT or local filing in China within 12 months
- Substantive examination
- Strong presumption of validity
- 20 years protection term
- Slow (approx. 3 years)
- Covers processes

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Huawei spends 10% of sales on R&D and became the top filer of PCT (1,737) applications worldwide in 2008.
The Response - Filings

PCT applications originating in China

- 2000: 784
- 2001: 1,731
- 2002: 1,018
- 2003: 1,295
- 2004: 1,706
- 2005: 2,493
- 2006: 3,910
- 2007: 5,401

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Six cities – Beijing, Guangzhou, Shanghai, Shenzhen, Shenyang, and Tianjin produce over 50% of all invention patents in China.

Will innovation spread to Western China?
The Response - FDI

Cash or High-tech?
The Response - FDI

Investment

Ministry of Commerce Guidance on the establishment of a comprehensive evaluation system for capital investment selection (22 December 2008)

Selection criteria gives great weight to the ability to innovate.

No. of high-new tech enterprises
No. of R&D centres
No. of enterprises engaging in tech activities
No. of persons involving in tech activities
No. of funds collected for tech activities
No. of enterprises engaging in R&D activities
No. of persons involving in R&D activities
No. of R&D projects
No. of enterprises with tech institutions
No. of tech projects
No. of patents filed
No. of invention patents filed
No. of invention patents granted
Expenditure on tech reform
Expenditure on tech introduction
The response - foreign filings

Foreign Grants for Invention Patents in 2007

JP 16,174
USA 6,891
KR 3,127
DE 2,913
NL 1,214
FR 1,171
CH 871
GB 500
SE 499
IT 458

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The Response - Foreign Filings

Foreign Companies filing China "Patents" in 2007

- Samsung Electronics: 3,725
- Panasonic Matsushita Electronic: 2,729
- Royal Philips Electronic: 2,452
- Sony Co.: 1,698
- LG Electrics: 1,527
- Toshiba: 1,497
- Toyota Motor Corporation: 1,484
- Canon Co.: 1,091
- Seiko Epson: 901
Some conclusions

• Despite huge government investment, domestic innovation is still dominated by incremental low cost innovation

• There is not yet a real migration of R&D West

• Foreign R&D is also dominated by low cost products for local market adaptation, especially in the electronics sector

• The connection between institutional & entrepreneurial innovation is critically under utilised
Recent Changes to Laws and Regulations
Patent Law

Key Changes

- 3rd Amendment to the Patent Law
- Amendment to the Implementing Regulations of the Patent Law
- The 3rd Amendment will come into force on October 1, 2009.
Background to the changes

- Supporting China’s drive for independent innovation
- Meeting the commercialisation objectives
Absolute Novelty

- Amendments will introduce an ‘absolute’ novelty standard for patentability: prior art includes publications and evidence of use or disclosure by other means from anywhere in the world.

- Positive development for foreign inventors that have disclosed inventions abroad by way of use or other means and had inventions patented by other person in China.

- Perhaps different result for Schneider Electric ($23 Million).

- Evidence from outside of China must be notarized and legalized for invalidation proceeding in China.
Double Patenting

- Without substantive examination, a utility model patent will be processed faster and will issue much earlier than an invention patent.

- Strategy: In practice, patent applicants looking to secure earlier patent rights for their product inventions in China will apply for both an invention patent and utility model patent directed towards the same invention.

- Currently invention patent and utility patent do not need to be filed on same day.
  - Amendments require that both applications be filed on the same day.
Double Patenting

- **Article 9.** provides that if the same applicant applies for both a patent for utility model and a patent for invention for the identical invention-creation on the same day, if a utility model patent right has been obtained and not yet terminated, and the applicant declares to abandon the obtained patent right for utility model, then the patent right for invention may be granted.

- **Rule 42** Draft Implementing Regulations - Where an applicant files an application for a utility model patent and invention patent for the same invention-creation on the same day, the applicant shall make a declaration each time.

- No ‘declaration’ filed means no election of invention patent.
Joint Ownership

- **Article 15** of the amended patent law provides that in the absence of an agreement by the joint owners of a patent, each joint owner may exploit the jointly owned patent alone or grant a non-exclusive license to a 3rd party to exploit the patent. However, licensing fees for the jointly owned patent are to be shared by all the joint owners.

- Implemented to avoid deadlock with jointly owned patent right.

- Especially relevant for JVs with no research agreement.

- No formula provided for how fees are to be divided.

- No restrictions to who 3rd party may be (i.e. competitor).

- Establish research agreements early.
Genetic Resources

- **Articles 5 and 26** of the Amended Patent Law requires that an applicant indicate in the patent application the direct and original source of any genetic resources that are necessary for the completion of an invention-creation.

- China is believed to be rich in genetic resources.

- Additional measure to measure inventions originating from China.

- If the original source of the genetic resources cannot be indicated, the applicant must provide an explanation for the omission.

- Consequences of failing to disclose the origin of genetic material in patent application results in loss of patent right.
Security Review

• Any applicant that wishes to file a patent application for an invention created in China in a foreign jurisdiction may do so **only after** completing a Security Review conducted by SIPO.

• **Rule 10 Implementing Regulations** - SIPO must inform the applicant within 3 months from the date of filing of the request for Security Review whether a national security review is necessary. If necessary, a Security Review decision must be provided within 5 months from the date of filing the request.

• If SIPO fails to comply with either deadline, it will be deemed as approval of the application.

• Failure to file for Security Review will result in loss of patent right.
Statutory Damages

• Statutory damages are not codified under patent law. Instead they are provided from a SPC judicial interpretation.

• **Article 65** of the amended patent law will codify the availability of statutory damages for patent infringement and will raise the maximum statutory damages from the current RMB 500,000 - as provided by the judicial interpretation - to RMB 1,000,000.
Prior Art Defense

- Bifuricated proceedings in China for patent infringement and patent validity

- If a defendant in a patent proceeding wishes to challenge the validity of a patent on the grounds that it is obvious or lacks novelty, a request for invalidation must be made with the PRB

- Amendments will allow a defendant to raise prior art as an affirmative defense to patent infringement

- In Schneider Electric case, Court refused to stay proceedings pending the outcome of the invalidity proceeding
Bolar-type Exemption

• Permit the manufacture of patented medications or patented medical apparatus’ for the purposes of obtaining regulatory approval in China

• Unlike the U.S. Bolar exemption, China’s Bolar-type exemption lacks pharmaceutical patent linkage and does not provide for an extension of the patent term

• State Food and Drug Administration can accept application for approval of a pharmaceutical product that is patented by another party within 2 years from the date which the patent is set to expire
  – Possible for a generic manufacturer to begin selling their generic version immediately after the patent has expired
International Exhaustion

- The amendments introduce a provision providing for the exhaustion of patent rights

- No infringement for any person who ‘uses, offers to sell, sells or imports a patented product or a product directly obtained from a patented process, which has been sold by the patentee or by an entity or individual authorized by the patentee.’

- Parallel imports may affect your China market

- Consider whether your distributors are permitted to sell or export goods to China
2 Dimensional Design Patents

- **Article 25, Clause 6** of the amended Patent Law provides that no patent rights shall be granted for “two-dimensional printed matter, whose pattern, or colors or their combination to be mainly used as a marker”

- Introduced to cut down on labels and two dimensional packaging as design patents.
Affiliated Designs

- **Article 31** of the amended patent law is one of the essential revisions to design patent law and is referred to as the ‘affiliated design’ clause

- Two or more similar designs for the same product, or two or more designs used on products belonging to a single category and sold or used in sets may be submitted together in one application

- **Rule 36 Implementing Regulations** - Maximum of 10 similar designs per application

- Will reduce costs and eliminate possibility of earlier application anticipating later application
Chint vs. Schneider

- April 2009, Zhejiang High Court

- Chint Group has reached a settlement with Schneider Electric. The settlement amounts to RMB157.50 million (approx. US$23 million) and that Schneider has agreed to pay the settlement within 15 days
The Draft Trade Mark Law

- Relative grounds examination retained
- Non-traditional trade marks expanded
- Application for multiple classes allowed
- Principle of good faith introduced
The Draft Trade Mark Law

- Mandatory license recordal
- Enterprise name vs prior trade mark right clarified
- Secondary liability expanded
- Statutory damages increased
The Copyright Law

- No publicly available draft yet
- China will amend Article 4 in line with its WTO obligations
- Likely to be a round of ‘soft amendments’ prior to March 2010
- Changes to Patent and Trade Mark law may provide some guidance on likely changes
7. China’s First Anti-Monopoly Law Takes Effect: Effective August 1, China's first Anti-Monopoly Law attempts to promote fair-market competition and curb monopolistic activities. Proposed fourteen years ago, the new law purportedly will build an open, transparent, and uniform market. The State Council recently established an Anti-Monopoly Committee to research relevant laws, monitor enterprises, assess competition in the market, and cooperate with other government bodies to enforce the law. The National Development and Reform Commission (NDRC), the Ministry of Commerce (MofCOM), and the State Administration for Industry and Commerce (SAIC) will coordinate to implement and enforce the law. The SAIC will investigate and punish those engaged in unfair competition, commercial bribery, smuggling and other economic offenses. The NDRC, China’s top economic regulator, has finished drafting an anti-price-monopoly regulation, which will be a component of the Anti-Monopoly Law. The draft regulation will punish those enterprises seeking to monopolize markets through price controls, product dumping, and market-price manipulation. (Source: Xinhua, August 4, 2008, http://english.ipr.gov.cn/ipr/en/info/Article.jsp?a_no=228494&col_no=925&dir=200808.)
Anti-Monopoly Law

- Landmark law: first anti-monopoly / antitrust law in China
- Effective August 1, 2008
- Joint enforcement: NDRC, MOFCOM, SAIC
- Abuse of IPRs – Article 55
Anti-Monopoly Law

‘This Law does not govern the conduct of business operators to exercise their intellectual property rights under laws and relevant administrative regulations on intellectual property rights; however, business operators’ conduct to eliminate or restrict market competition by abusing their intellectual property rights shall be governed by this Law.’

Article 55 (italics ours)
Coco Cola vs. Huiyuan

- Coco Cola announced its intention to acquire Huiyan @ US$24 billion in Sep 2008;
- The acquisition was refused by the Ministry of Commerce in March 2009 on the basis of the newly promulgated Anti-Monopoly Law.
Danone vs. Wahaha

Danone plot thickens
- 1987: Guangzhou Danone Yogurt Co Ltd was established.
- 1994: Danone forms joint venture with Wahaha Group. Danone holds 51% stake, Wahaha the rest.
- 2000: Danone purchases 92 percent of Wahaha. It also acquires 5 percent of Guangdong Dairy.
- April 2006: Danone increases share in Guangdong to 20.69 percent.
- June 2006: Danone takes 22.18 percent of Hainanland Dairy Group Ltd.
- December 2006: Danone establishes joint venture with Guangdong Dairy.
- 2007: Danone acquires stake in Hainanland to 24.13 percent.
Enforcement and The Courts
Enforcement and the People’s Courts

- A dual system of enforcement – administrative remedies chosen in more than 90% of cases
- Issue of deterrent vs attractiveness of a raid
- Criminal (public and private options) is possible but extremely challenging
- Filling the gap between civil and administrative action is the key to effective enforcement in China
Enforcement and the People’s Courts

- There is very little publicly available information in relation to court decisions in China.

- The evidentiary burden on the plaintiff combined with the public nature of civil proceedings means that foreign rights owners are reluctant to go to court.

- This has to change...
The People’s Courts

Number of IP Civil Actions by Type 2006-2008

- Patents: 2008 - 4,047, 2006 - 3,227
- Copyright: 2008 - 10,951, 2006 - 5,751
- Trade Marks: 2008 - 6,233, 2006 - 2,378
- U.C. / Other: 2008 - 3,148, 2006 - 2,700
Enforcement and the People’s Courts

- www.ciela.cn is a free to use website that has compiled over 7,600 judgments

- The data points allow you to compare and analyze by venue, type of IP in dispute, time frame, damages awarded, costs awarded as well as providing win loss ratios
CIELA Data Analysis -- Venue Comparison
(Average Damages Awarded)

Ratio = Average Damages Awarded / Average Damages Claimed

Beijing: 97,320 (5%)
Shanghai: 76,280 (11%)
Guangzhou: 49,769 (15%)
National Average

All Cities Damages Awarded (RMB 1,000s)
### CIELA Summary Report: City Ranking

**Venues: Top 5 Venues**
**IP Right: All**
**Sub-Category: All**
**Cause of Action: All**
**Industry: All**
**Outcome: All**
**Instance: All**

**Ranked by: Damages Awarded**
Total cases in top 5 cities: 2,744

Values in red indicate number of judgments with data used for the relevant calculation

<table>
<thead>
<tr>
<th>City</th>
<th>Damages Claimed</th>
<th>Damages Awarded</th>
<th>Ratio</th>
<th>Rulings</th>
<th>Trial Length (Months)</th>
<th>Outcome W</th>
<th>P</th>
<th>L</th>
</tr>
</thead>
<tbody>
<tr>
<td>Changsha (Hu'nan)</td>
<td>370,764</td>
<td>130,895</td>
<td>35%</td>
<td>95</td>
<td>6</td>
<td>13%</td>
<td>78%</td>
<td>9%</td>
</tr>
<tr>
<td>Chengdu (Sichuan)</td>
<td>202,544</td>
<td>104,198</td>
<td>51%</td>
<td>63</td>
<td>7</td>
<td>5%</td>
<td>79%</td>
<td>16%</td>
</tr>
<tr>
<td>Beijing</td>
<td>1,691,352</td>
<td>97,321</td>
<td>6%</td>
<td>2323</td>
<td>5</td>
<td>3%</td>
<td>81%</td>
<td>16%</td>
</tr>
<tr>
<td>Guangzhou (Guangdong)</td>
<td>326,152</td>
<td>49,770</td>
<td>15%</td>
<td>196</td>
<td>12</td>
<td>3%</td>
<td>84%</td>
<td>13%</td>
</tr>
<tr>
<td>Chongqing</td>
<td>235,287</td>
<td>43,069</td>
<td>18%</td>
<td>67</td>
<td>6</td>
<td>10%</td>
<td>78%</td>
<td>12%</td>
</tr>
</tbody>
</table>

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Conclusions

• The landscape is changing – China’s commitment to innovation is real and happening now

• Due diligence is critical

• The courts are not independent in the way that we are used to, but they are increasingly competent

• Rights owners need a robust civil litigation strategy in China
Thank you

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Amendments to China’s Patent Law

The value of patents to China may be measured by the number of amendments to China’s patent law since it was first promulgated 25 years ago. To date, the Patent Law has been amended twice in order to elevate China’s patent regime up to international standards. This year the Patent Law will see a third amendment as a response to domestic demands. The revised Patent Law will come into effect on 1 October 2009.

With a view to promoting development and domestic innovation, and implementation of a National IP Strategy, the amendments to the current patent law will impact the acquisition of patent rights, patent litigation, and enforcement of patent rights in China.

This fact sheet provides information relating to some of the major changes that the third amendment will bring to China’s current patent law (effective only until 30 September 2009) and also informs patent rights holders, IP practitioners and advisors of the issues that will need to be considered when devising a new China patent strategy.

Absolute Novelty

Currently, China’s patent law provides for a ‘relative novelty’ standard for patentability, which means that the Chinese Patent Office (CPO) and the Patent Re-examination Board (PRB), both within the State Intellectual Property Office (SIPO), may consider publications from anywhere in the world but only evidence of public use or disclosure by other means from within China as prior art.

With the amendments to China’s current patent law, an ‘absolute novelty’ standard for patentability will be adopted, thus allowing the CPO and the PRB to use publications and evidence of public use or disclosure by other means that originates from any part of the world as prior art for the purposes of assessing the novelty and inventiveness of an invention.

The introduction of an ‘absolute novelty’ standard is a welcome change to the current patent law that has allowed third parties to patent technology in China, which was developed by other persons or entities and that was made available to the third parties outside of China (e.g. by way of sale or by presentation in a trade show).

Prior Art Defence

In China, the validity of a patent and infringement of a patent are decided in separate proceedings. Infringement of a patent will be decided before a Chinese court, while the validity of a patent will be determined before the PRB.

If a defendant in a patent proceeding wishes to challenge the validity of a patent on the grounds that it is obvious or lacks novelty, a request for invalidation must be made with the PRB. In these cases, the Court has the discretion to decide whether to stay the infringement proceeding pending the PRB’s decision on the validity of the patent in question. In some cases where the Courts had refused to stay infringement hearings until the outcome of the invalidation hearings, defendants were found liable for infringing patents that were later held to be invalid by the PRB.

To limit the occurrences of invalid patents being successfully asserted against innocent parties, the amendments will introduce a prior art defence that will allow a defendant in a patent infringement lawsuit to argue that the patent at issue lacks novelty or is obvious by referencing the prior art, and
prevent the court from staying the infringement proceeding pending the PRB’s decision on the validity of the patent in question where the prior art defence is successful.

Although this codification of a prior art defence will provide a defendant in an infringement hearing an opportunity to raise prior art as part of an affirmative defence to infringement, without having to commit to an invalidity proceeding before the PRB, patentees may still opt to pursue invalidation proceedings before the PRB in cases involving complicated patents, due to the greater expertise of the PRB in dealing with sophisticated technology.

**Increased Statutory Damages**

Under current Chinese practice, a patentee may claim statutory damages against a patent infringer if they are unable to prove (i) damages suffered as a result of the infringement, (ii) determine the profits of the infringer arising from infringement of their patents, or (iii) they cannot refer to a pre-existing licence agreement executed for China to allow the court to calculate what fees the patentee would have been owed if the infringer had licensed their patented technology.

However, it is noteworthy that the legal basis for a patentee’s right to statutory damages for the infringement of their patent does not come from the current patent law and is instead provided by a Supreme People’s Court judicial interpretation.

Article 65 of the amended patent law will codify the availability of statutory damages for patent infringement and will raise the maximum statutory damages from the current RMB 500,000 (approximately US$75,000) - as provided for by the judicial interpretation - to RMB 1,000,000 (approximately US$150,000).

**First-filing Requirements Changed**

According to Article 20 of the current patent law, if a Chinese entity or individual wishes to obtain patent protection for an invention-creation created in China, the Chinese entity or individual must file an application for patent protection in China prior to filing in a foreign jurisdiction.

Due to gaps in the current patent law, foreign owned Chinese subsidiaries generating innovation in China have been able to circumvent China’s first filing requirement by having the parent company and the subsidiary agreed by way of contract that the rights to any invention-creation developed by the Chinese subsidiary would belong to the parent company, thus placing the invention-creation beyond the scope of Article 20 of the current patent law.

The third amendment will remove this China first-filing requirement for Chinese entities or individuals. Under the amended patent law, any applicant that wishes to obtain patent protection for an invention or utility model completed in China must pass a security review conducted by SIPO before filing a patent application for the invention or utility model patent in a foreign jurisdiction. The policy rationale behind the security review requirement is the protection of Chinese State secrets. Failure to comply with the new provision will result in the loss of the patent right in China and may also result in sanctions or criminal liability if a State secret is divulged.

The Draft Implementing Regulations for the Amended Patent Law (Draft Implementing Regulations) will require SIPO to inform the applicant within three months from the date of filing of the request for security examination whether a national security review is necessary, and if it is necessary, that a decision be provided within five months from the date of filing the request. If SIPO fails to comply with either deadline, it will be deemed as approval of the application.
It is worth noting that similar review processes have been adopted in other jurisdictions - most notably the United States where a patent applicant may not file a similar patent application abroad within six months of filing a US design, utility patent application for an invention made in the United States.

**Double Patenting**

Chinese patent law provides two types of patent protection for inventions related to products: utility model patents and invention patents. Both types of patents provide the patent holder with identical rights to exclude others from making, using, offering to sell, selling, or importing the patented technology, or the right to assign and license the above mentioned rights; however significant differences exist between invention patents and utility-model patents.

Invention patents cover both products and processes, and provide 20 years of patent protection from the date of filing, while utility model patents only protect products and provide a 10 year term of patent protection from the date of filing.

The two types of patent are also subject to different examination requirements. Both invention and utility model patents undergo preliminary examination upon filing but only the invention patent undergoes substantive examination before the patent issues. Without a need for substantive examination, a patent application for a utility model patent will be processed in a shorter period of time than an application for an invention patent and a utility model patent will issue much earlier than an invention patent.

The amended patent law changes the Guidelines for Examination to limit double patenting by requiring that, an applicant must file an application for an invention patent and application for a utility model patent for the same subject matter on the same day and make declaration of existence of other patent application on the same subject matter upon filing. The patent applicant needs to abandon the previously granted utility model patent if it has not yet lapsed in order for the invention patent to be granted.

**Conflicts with Prior Applications**

The amended patent law imposes a new basis for rejecting patent applications that prior applications for similar technology or designs filed by any party, including the same applicant, will in the future be deemed conflicting.

This amendment needs close attention by US patent owners that are accustomed to relying on continuation or continuation-in-part filing strategies. Under the new law, US patent owner may in certain situations no longer be able to file a second PCT application entering into China based on its US continuation or continuation-in-part patent application because its prior PCT application for similar technology or design will constitute a conflicting application to defeat its novelty.

**Genetic Resources**

Patent owners should note Articles 5 and 26 of the amended patent law, which requires that an applicant indicate in the patent application documents the direct source and the original source of any genetic resources that are necessary for the completion of an invention-creation.

This genetic disclosure requirement is not unique to China and similar requirements have been introduced in India, Peru, Brazil, and Switzerland.
If the original source of the genetic resources cannot be indicated, the applicant must provide an explanation for the omission. A patent application for an invention-creation that relies on a genetic resource that fails to disclose the original source of the genetic resources and does not provide a reason for the lack of a disclosure may be denied a patent right in China.

**Bolar-type Exemption**

The third amendment to China’s patent law will introduce a number of exemptions to infringement not found under the current patent law. Of particular interest to the pharmaceutical industry will be the introduction of a Bolar-type exemption under Article 74 of the amended patent law.

This amendment will permit the manufacture of patented medications or patented medical apparatus for the purposes of obtaining regulatory approval in China. Unlike the U.S. Bolar exemption, the amendment introducing the Bolar-type exemption to China’s patent law lacks pharmaceutical patent linkage and does not provide for an extension of the patent term.

It is also worth mentioning that the State Food and Drug Administration can accept a registration application of a pharmaceutical product that is patented by another party within two years from the date which the patent is set to expire. It may therefore be possible for a generic manufacture to receive approval of their generic version of a patented drug by the State Food and Drug Administration within two years and be able to begin selling their generic version immediately after the patent has expired.

For this reason, the exemption will likely favour the Chinese generic pharmaceutical industry.

**Parallel Imports Legalised**

Under Article 11 of the current patent law, the acts of using, offering to sell, selling or importing a patented product or a product directly obtained from a patented process is limited to the patentee or a party that has been authorised by the patentee to do so.

The amendments will introduce a provision providing for the exhaustion of patent rights such that it will no longer be an act of infringement for any person who ‘uses, offers to sell, sells or imports a patented product or a product directly obtained from a patented process, which has been sold by the patentee or by an entity or individual authorised by the patentee.’

This exemption introduces an international element to Chinese patent practice such that it covers acts of importation specifically, and will allow for the parallel importation into China of patented technology or products obtained from a patented process that was acquired legally in foreign jurisdictions.

**Technology Transfer Rules**

The current patent law requires that assignment of patents or patent applications (export) from a Chinese entity or individual to a foreign individual must obtain approvals from the relevant administrative authorities. The current Implementation Regulations of the Patent Law further specifies that the administrative authorities are Ministry of Commerce (MOFCOM) and Ministry of Science & Technology. However, this requirement is inconsistent with the later promulgated Technology Import & Export Regulations. Under the current Technology Import & Export Regulations, only technology prohibited or restricted for export will require approval from the provincial branches of the MOFCOM. Technology free for export will only require registration with the provincial branches of the MOFCOM.
The amended Article 10 of the patent law now specifies that assignment of patents or patent applications from Chinese entities or individuals to foreign entities or individuals must also follow the procedures of the relevant laws or regulations (i.e., Technology Import & Export Regulations). This amendment brings the assignment of patents in line with the provisions of technology transfer rules.

Foreign companies that wish to obtain assignment of a Chinese patent or patent application need to understand the Chinese technology transfer rules and determine first whether the Chinese patent or patent application belongs to a ‘prohibited’ or ‘restricted’ category. If so, approval from the relevant MOFCOM branch must be obtained first before any negotiation or conclusion of agreement for assigning the patent or patent application.

**Exploitation of Jointly Owned Patents**

Article 15 of the amended patent law provides that in the absence of an agreement by the joint owners of a patent, each joint owner may exploit the jointly owned patent alone or grant a non-exclusive licence to a third party to exploit the patent. However, licensing fees for the jointly owned patent are to be shared by all the joint owners. This amendment is set to help joint patent owners to exploit the patent in the absence of an agreement as Joint R&D agreement between Chinese companies may often lack provisions in relation to commercialisation of the jointly owned patents.

**Design Patents**

Several significant changes have been introduced in the amended patent law with respect to the filing and scope of protection of design patents.

- The amended patent law expands the scope of rights for designs by granting patent owners the power to prohibit ‘offers to sell’ infringing products.
- The two-dimensional designs are no longer patentable where the graphics or colours or their combination are mainly used as indications of source.
- To enjoy protection, designs must possess ‘obvious distinctions’ from either the prior art or combinations of prior art features.
- Applicants must submit a brief description of their designs together with their applications. This may help to explain the design of the product in the drawings or photographs. On the other hand, the description may limit the scope of the design.
- Currently a design patent application must be filed for each design. Under the new law, two or more similar designs (up to ten according to the draft Implementation Regulations) for the same product or a single category of products sold or used as a set may be submitted together in one application. This will reduce costs and eliminate possibility of earlier application anticipating later application.

**Summary**

The third amendment to China’s patent law will introduce significant changes to the current law and will affect many facets of Chinese patent practice.
Some of the changes will be welcomed on the basis that they address gaps in the legislation, streamline litigation, and provide for greater relief for patentees faced with the misappropriation of their technology.

It should also be noted that there has been much controversy surrounding the inclusion in the amended patent law of several exemptions to patent infringement, and more filing requirements for invention-creations created in China. The pharmaceutical and biotechnology industry has been especially vocal concerning the introduction of the Bolar-type exemption and the genetic resources disclosure requirements.

Patent rights holders, IP practitioners and advisors of the issues will be well-served by familiarising themselves with these changes to the patent law in order to formulate future strategies for the acquisition of patent rights, and the enforcement and litigation of patent rights in China.

Practice Notes

- US patent strategies need to change with the new law:
  - file in China unless there are strategic reasons not to;
  - increase use of utility model patents in China – easy to get, but very difficult to knock off;
  - set up good overseas systems for use/disclosure evidence because of the difficulties of presenting overseas evidence in China; and
  - consider the impact on patent strategies in China resulting from separation of invalidation and infringement proceedings and adopt a robust approach to invalidation.

- With the expansion in the definition of ‘prior art’, patent applicants need to expand the scope of their prior art search before filing. Patent applicants also need to take precautions to avoid public disclosure outside China of the technologies to be patented in China prior to filing. At the same time, parties trying to invalidate a patent should take advantage of this increased scope now that prior use, prior sale or distribution of related materials for marketing purposes that disclose all or part of the patented technologies anywhere in the world before the filing date will be available to challenge a patent.

- A defendant in an infringement hearing should raise, when applicable, prior art (with the expended scope as mentioned above) as part of an affirmative defence to infringement to obtain a speedy, favourable judgment.

- Multinational companies developing technologies of a sensitive nature which may be questioned in a Chinese security review may consider developing the technology outside of China. There is currently no guidance on the treatment of invention-creations jointly-made in China and other jurisdictions.

- Patent applicants looking to secure earlier patent rights for their product inventions in China should consider applying for both an invention patent and utility model patent directed towards the same invention, and eventually abandon the utility model when the 20-year invention patent is granted in order to prevent double-patenting. However, patent applicants should meet the requirements for filing in China and declaration on the same day for both invention and utility model applications.

- As generic version of a patented drug can enter the market right as patent and market exclusivity ends for popularly branded products, patentees must now consider product differentiation strategies far in advance of the patent expiration.
A patentee looking to restrict the parallel importation of their patented technology into China may consider incorporating contractual restrictions on their non-Chinese licensees in order to limit the territory where their patented technology may be sold. However, patentees looking to incorporate contractual restrictions on parallel importation of their products into China should consider whether these clauses run afoul of antitrust laws and the recently promulgated Chinese Anti-Monopoly Law which prohibits the abuse of IP rights.

The amendment of increasing conflicting patent applications to include any prior patent application filed by the same applicant needs close attention by US patent owners that are accustomed to relying on continuation or continuation-in-part filing strategies. Under the amended patent law, US patent owner may in certain situations no longer be able to file a second PCT application entering into China based on its US continuation or continuation-in-part patent application, because its prior PCT application for similar technology or design will constitute as a conflicting application to defeat its novelty.

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Significant Changes in European Patent Law: What you need to know

Boston Patent Law Association, 18 September 2009
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Topics to Cover

- EPC 2000
- EU Enforcement Directive
- EU litigation system and Community Patent - update
- changes to national patent litigation systems
EPC 2000

- what is it?
- what are its aims?
- main changes
- in force now (since 2007)
EPC 2000 – claim construction

- interpretation of claims
  - The extent of the protection conferred by a European patent or a European patent application shall be determined by the claims. Nevertheless, the description and drawings shall be used to interpret the claims.

- equivalents
  - For the purpose of determining the extent of protection conferred by a European patent, due account shall be taken of any element which is equivalent to an element specified in the claims.
EPC 2000 – Judicial Review by Enlarged Board of EPO

- EPO Board of Appeal
  - no further appeal
  - even if procedural violation or human rights abuse

- Enlarged Board
  - traditional role - questions of law
  - now **limited** scope for judicial review
EPC 2000 – Centralised Amendment

- ‘old’ system
  - amendments in each country

- ‘new’ system
  - patentee applies
  - EPO examines for added matter and excluded subject matter
    - *not* for novelty or inventive step

- national amendments still possible
EPC – further changes April 2010

- divisionals
  - post 1 April 2010 new system aimed at reducing divisional applications
  - time limit - 24 months after first office action of examining division
  - not extendable

- new time limits
  - response to opinion (6 months)
  - following supplementary search report (6 months)
  - if EPO is ISA or IPEA - (1 month)
EU Enforcement Directive

- aim - harmonised minimum standards for IP enforcement
- preservation of evidence, preliminary restraints, costs awards
- UK - limited effect
- Germany - more significant (no tradition of discovery)
- where ‘wilful infringement’ court must take into account:
  - negative economic consequences
  - moral prejudice to plaintiff
Cross-border injunctions

- now very limited following ECJ rulings
- but **not** dead
- possible to obtain where
  - validity not in issue
  - preliminary relief is sought
European Patent Litigation System

- Community Patent
  - the solution to multiple patent actions?
  - language

- various proposals for reform to European patent litigation system

- the latest proposal:
  - first instance - national courts
  - appeal - single central court
  - ECJ - rulings on questions of law
Changes at national court level

- **UK**
  - effective second tier IP court - Patents County Court
  - for SMEs, smaller, less complex cases
  - written procedure, no ‘live’ evidence, costs cap

- **Germany**
  - validity - limits to appeal process
Significant Changes in European Patent Law: What you need to know

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The European Patent Convention 2000

1.1 The EPC 2000 replaced the EPC 1973 (which came into force in 1977). The EPC 2000 was designed to bring the EPC into line with both the agreement on Trade Related aspects of Intellectual Property (TRIPS) which resulted from the Uruguay round of the World Trade Organisation in 1994 and the Patent Law Treaty. In addition it was intended to make good some of the perceived defects in the existing system, such as inconsistency in claim interpretation and the absence of a central procedure to amend the claims of a granted patent for all designated states. Finally it was aimed at modernising the Convention and making updating procedural requirements easier; by taking out some of the details from the articles of the convention itself and putting them into the implementing regulations (i.e. the rules).

1.3 The EPC 2000 came into force on 13 December 2007

2 The EPC 2000 Highlights

Unpublished novelty-destroying European/Euro PCTs.

2.1 The EPC 2000 changed slightly the prior art effect of European patent applications (or Euro-PCTs). The prior position was that when a particular contracting state was not designated in an unpublished European patent application, the disclosure in that application had a more limited prior art effect on future applications in that state. The position now under Article 79 of the EPC is that all contracting states are automatically designated on filing. Removal of any national designation before publication of the application will not affect the prior art status of the application. Therefore an application with an earlier priority date, although it was not published at the priority date of your application, will count for novelty-destroying purposes (but not inventive step challenges) for all EPC signatory states even if designation fees are not paid for some states.

Medical use claims

2.2 Methods of treatment or diagnosis remain unpatentable under the EPC 2000 as they did under old Article 52(4). However under the EPC 2000 such methods will no longer lack patentability due to lack of industrial applicability, but rather will be

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2 http://www.wto.org/english/docs_e/legal_e/27-trips_02_e.htm
un-patentable in their own right. This new exclusion still does not cover novel substances or compositions for such use.

2.3 Furthermore in the case of an invention consisting of a substance for use in a method of diagnosis or treatment, the fact that the substance forms part of the state of the art shall no longer prevent the invention from being new if the use (or specific use) of the substance is new. Rather than the current Swiss-type claim of “Use of X for the manufacture of medicament to treat Y” which was used beforehand to get around this issue, it is now possible to simply claim “Substance X for use in treatment of disease Y”.

New Article 2 to the Protocol on the interpretation of Article 69

2.4 The wording of Article 69 which determines the scope of protection to be granted to an EP remains substantially unchanged as:

(a) “The extent of the protection conferred by a European patent or a European patent application shall be determined by the claims. Nevertheless, the description and drawings shall be used to interpret the claims.

(b) For the period up to grant of the European patent, the extent of the protection conferred by the European patent application shall be determined by the claims contained in the application as published. However, the European patent as granted or as amended in opposition, limitation or revocation proceedings shall determine retroactively the protection conferred by the application, in so far as such protection is not thereby extended.

2.5 The Protocol to Article 69 (below) was intended to harmonise the approach to claim interpretation by the national courts by insisting on a halfway house between using claims as a mere guideline and a very strict, literal approach.

2.6 Unfortunately there remained at the national court level a wide disparity in approach. In order to try to encourage a consistent approach at the national court level, a further Article has been added to the Protocol which expressly refers to the need to take “equivalents” properly into account - see below at paragraph 2.7(ii). However the failure to agree and include a definition of “equivalents” has led many to speculate that the disparity in approach is likely to continue.

2.7 The Protocol on Interpretation of Article 69

General principles

(i) Article 69 should not be interpreted as meaning that the extent of the protection conferred by a European patent is to be understood as that defined by the strict, literal meaning of the wording used in the claims, the description and drawings being employed only for the purpose of resolving an ambiguity found in the claims. Nor should it be taken to mean that the claims serve only as a guideline and that the actual protection conferred may extend to what, from a consideration of the description and drawings by a person skilled in the art, the patent proprietor has contemplated. On the contrary, it is to be interpreted as defining a position between these extremes
which combines a fair protection for the patent proprietor with a reasonable degree of legal certainty for third parties.

Equivalents

(ii) For the purpose of determining the extent of protection conferred by a European patent, due account shall be taken of any element which is equivalent to an element specified in the claims.

Judicial review by the Enlarged Board

2.8 One criticism of the EPC 1973 was that it made no provision for appeal from a Board of Appeal decision (such as a refusal to grant) even where there was an allegation of a fundamental procedural violation or a breach of a human right (such as the right to be heard).

2.9 The EPC 2000 has introduced a new procedure in the form of a “petition for a review” to the Enlarged Board. This will meet some concerns but is clearly not intended to provide a means of having the substantive decision of the Board reviewed. To date, most petitions are being disallowed but some have met with success - for example recently in case R 0007/09 it was concluded that the petition for review was allowable as there had been a fundamental violation of Article 113 EPC in that the statement setting out the grounds of appeal had never been notified to the respondent/patent proprietor.

Priority claims from applications in any WTO member country

2.10 Under the EPC 2000 an application from any WTO member country can be used to establish priority. This change was made in order to make the EPC compliant with Trips. Under the EPC 1973 it was difficult or impossible to claim priority from an application which was not filed in a Convention country.

Central Post-Grant Limitation/Amendment

2.11 Perhaps one of the most practically useful changes introduced by the EPC 2000 is a central procedure (Article 105 a - c) enabling a patentee of a granted European patent to limit claims or revoke a patent in its entirety (ab initio) at the EPO for all designated states. Before this change the patentee had to file for amendment at each of the national Patent Offices in the states in which the European Patent was in force (where this was possible). The procedures involved varied from state to state and could be very time-consuming and expensive.

2.12 It is important to note however that opposition proceedings at the EPO take precedence over applications to limit/revoke. This means that an application to amend will be deemed not to have been made if an opposition is already pending. Furthermore validity proceedings in the national courts will not necessarily be stayed unless the national court so chooses.

2.13 The EPO will examine applications to amend in order to check that the amendments are clear and do not involve added subject matter or broaden the scope of the claims. Issues such as novelty and inventive step will not, however, be reconsidered.
The EPC Rule Changes Taking Effect in April 2010

3.1 This year the EPO’s Administrative Council made two decisions which will result in significant changes to the implementing regulations to the EPC. Perhaps the two most significant changes concern divisional applications and new time limits for the response to the search report.

3.2 The first change restricts the opportunities to file voluntary divisional applications - under amended rule 36 (which will apply to divisional applications filed on or after 1 April 2010). Such applications will be rejected if filed after 24 months from the first office action of the examining division (usually in practice the examination report) on the parent application or in the case of a sequence of divisionals, the first such action on any application of the sequence.

3.3 Where a non-unity objection is raised by the office a responsive application for a divisional will be rejected if made after 24 months from the office’s communication.

3.4 These deadlines are not extendable.

3.5 Secondly, there was a perception that many applicants preferred to delay any response to the opinion, which has accompanied the European search report since 2005. As a result, the second significant change is that it is now mandatory to respond to the opinion accompanying the search report within strict time limits. Failure to do so will result in the application being deemed withdrawn.

3.6 New rule 70a will require EPC direct applicants to submit a response to the extended European search report within six months after publication of the report (i.e. the period for filing the request for examination).

3.7 A mandatory response will also have to be filed within the time period for indicating the applicant’s intention to proceed further with the application in the case of a supplementary European search report for a Euro-PCT.

3.8 Also in Euro-PCT applications where the EPO acted as ISA or IPEA, applicants will be invited to reply to the objections raised in written opinions or International Preliminary Reports on Patentability issued by the EPO and will have to do so within a one month period from the EPO’s communication.

IP Enforcement in Europe

4.1 The intention of Directive 2004/48/EC of 29 April 2004 on the enforcement of intellectual property rights was to provide a harmonised minimum standard of enforcement of intellectual property rights throughout Europe ensuring that appropriate measures could be taken and remedies obtained in all Member States. It was due to be implemented by 29 April 2006 but most Member States missed this deadline. The UK implemented on the very last day! In fact several Member States had not passed their implementing measures until this year. However it has now finally been implemented (or at least measures aimed at its implementation have come into force) in all the Member States.

4.2 In the UK new regulations came into force on 29 April 2006. As was predicted they have made little change to the UK regime because most of the required measures (e.g. obtaining and preservation of evidence, preliminary restraints and costs awards) were already available from the UK courts. However they did in fact contain a few surprises relating to damages awards.

4.3 Paragraph 3 of the UK Regulations mirrors, almost word for word, Article 13 of the IP Enforcement Directive. This sets out the required basis for assessing damages for intellectual property infringement where “the defendant knew, or had reasonable grounds to know, that he engaged in infringing activity”. Now when a court is awarding damages:

(a) “all appropriate aspects shall be taken into account, including in particular

(i) the negative economic consequences, including any lost profits, which the claimant has suffered, and any unfair profits made by the defendant; and

(ii) elements other than economic factors, including the moral prejudice caused to the claimant by the infringement; or

(b) where appropriate, they may be awarded on the basis of the royalties or fees which would have been due had the defendant obtained a licence.”

4.4 The inclusion of this provision is interesting as the consultation document stated that no action was required to implement Article 13 into UK law as “The courts are already able to award damages to compensate for the actual prejudice suffered by the right-holder, and damages can cover both negative economic consequences and non-economic factors, including elements such as lost royalties or fees.” Therefore it must at some point have been concluded that there was at least a “risk” of non-compliance with the IP Enforcement Directive if paragraph 3 had not been included. However this paragraph does confirm “This regulation does not affect the operation of any enactment or rule of law relating to remedies for the infringement of intellectual property rights except to the extent that it is inconsistent with the provisions of this regulation (our emphasis).”

4.5 One possible inconsistency between the existing UK approach to damages and this provision is that until now “unfair profits” have not been taken into consideration when the claimant has elected for an enquiry into damages instead of an account of profits. The phrase “moral prejudice” is also new to UK law and the notes to the UK regulations admit that the meaning of this term is uncertain even in the context of the Directive. Accordingly no attempt has been made to define it further in the UK regulations for fear of non-compliance. In the UK (other than in respect of copyright infringement) damages are normally only awarded in respect of the actual financial losses occasioned in the UK. So far no guidance has been sought from the ECJ as to the scope of this head of damage. Such guidance is clearly needed.

4.6 A new remedy which was brought into the UK as a result of the IP Enforcement Directive, and which has been frequently requested and granted, is an order that the Court’s judgment be published. This can be useful when one wishes to alert the trade that a certain product has been found to be infringing.

5 The Intellectual Property (Enforcement etc) Regulations 2006 (SI 2006/1028)
4.7 Elsewhere in Europe implementation has been more problematic and controversial. For example Germany, where disclosure of documents has never been part of the usual system, has struggled somewhat with the obligations concerning the obtaining of evidence.

5 Cross-border injunctions

5.1 Trade and therefore patent infringement is international and does not respect jurisdictional borders. However as the European Patent is not a European-wide unitary right but rather a bundle of national rights, effective enforcement can be an issue. The European Court of Justice (ECJ) has ruled that in most cases a cross border injunction should not be available.

5.2 The ECJ, in GAT v Luk\(^6\) confirmed that, as a result of the exclusive jurisdiction (granted under the EU Brussels Regulation)\(^7\) to the national court to determine the validity of a registered IP right, that court would also have exclusive jurisdiction in any other claim concerning such a right if and as soon as validity was raised as an issue. It is, of course, rare for validity not to be raised as a defence or a counterclaim in an infringement action. This means, therefore, that a Dutch court cannot determine whether there has been infringement of an EP (UK) if the validity of that patent is challenged and hence could not grant an injunction restraining infringement of that UK patent.

5.3 In Roche Nederland BV v Primus and Goldenberg\(^8\) the ECJ concluded that the “spider in the web” doctrine (which suggested that a court with jurisdiction over an infringer in its jurisdiction could also have jurisdiction over another infringer elsewhere in Europe - if that company was associated with the first) did not enable the grant of cross border patent infringement injunctions because the subject matter of the respective disputes involved different questions of fact and law and would not therefore lead to irreconcilable judgments. This was partly because differences in the various national courts’ approaches to claim interpretation etc could legitimately lead to differing results.

5.4 As a result of these two cases cross-border patent injunctions are now somewhat rare. However the Brussels Regulation still allows for such injunctions at an interlocutory stage as an initial urgent and temporary measure. Further, they are potentially available where a defendant chooses not to challenge validity.

6 The European Patent Litigation System and the Community Patent?

6.1 The need for a unitary EU-wide patent (the Community Patent) was recognised as long ago as the EU Commission’s green paper in 1997. The inability to obtain a cross border injunction relating to equivalent EPs has increased this need.

6.2 However political difficulties (in particular relating to which languages the patent should be required to be translated into) have repeatedly derailed any progress made.

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\(^6\) Gessellschaft für Antriebstechnik mbH & Co. KG v Lamellen und Kupplungsbau Beteiligungs KG (C-4/03)


\(^8\) C-539/03
6.3 In parallel for some years attempts have been made to centralise the litigation system in respect of existing European Patents. This project was until recently known as the European Patent Litigation Agreement. Despite a good deal of stakeholder buy in this project met a legal hurdle when it was questioned whether the signatories to the EPC who where also EU member states legally had the power to enter into such an agreement which covered matters which were arguably now in the competence of the EU (i.e. enforcement measures as dealt with by the IP Enforcement Directive and jurisdictional issues as dealt with by the Brussels Regulation).

6.4 The project has now, in effect, been taken over by the EU Commission and renamed the European Unified Patent Litigation System. The intention is to provide a centralised patents court system which will deal with disputes concerning European Patents (infringement and validity) and, if and when they come into existence, Community Patents. What is envisaged is largely decentralised (i.e. national) courts of first instance, a single central specialised court of appeal and a role for the ECJ in providing consistent interpretation of the relevant community law.

6.5 A reference has been made to the European Court of Justice to determine the compatibility of the agreements that would be required with the main EC Treaty. This remains pending and the exact questions referred are not yet publicly available.

6.6 In the meantime the need for such a system has been heavily stressed by the EU Commission’s Pharmaceutical Sector Inquiry Report and “draft” rules of procedure have been produced for initial consideration. Although it does now appear this project will actually bear fruit, progress is still likely to be slow - we still have years rather than months to wait.

7 Changes To The National Patent Court Systems?

7.1 In the meantime, European national courts are making changes themselves. For example proposals have been put forward by the Working Group set up by the Intellectual Property Court Users Committee to reform the cost regime and procedures of the English Patents County Court.

7.2 The aim of these is to differentiate this specialist county court from the Patents Court and provide a real alternative for SMEs.

The main changes proposed are;

(a) The presentation of cases by sequential written arguments

(b) No experiments/factual evidence/expert evidence (unless a cost/benefit analysis)

(c) Trials limited to one/two days and no cross-examination (unless a cost/benefit analysis)

(d) Recovery of costs by the successful party limited to £50,000 in patent cases (unless the conduct of the losing party makes it appropriate to award higher costs)

(e) Rigorous case management to ensure the rapid progress of cases
The name of the court to be changed to the Intellectual Property County Court

7.3 In a similar vein and aimed at achieving similar objectives (in respect of patent validity proceedings) the Bundestag has this year passed measures to reform the system in Germany. The main changes include:

(a) Appeals before the Supreme Court to be limited to legal review of the first instance decision
(b) No fact finding or consideration of evidence at the Appeal stage (no need for court appointed expert)
(c) The first instance court will be obliged to give specific directions as to what it regards are the primary issues
(d) The first instance court will be empowered to set strict deadlines for evidence and submissions and exclude those received after.

8 Patent / Anti-Trust Interface

8.1 One trend coming increasingly to the foreground in patent disputes in Europe is the interface between patent enforcement and filing strategies and anti-trust law.

8.2 The EU Commission’s Pharmaceutical Inquiry Reports (interim and final) which were published on 28 November 2008 and 8 July 2009 respectively considered in detail how otherwise “legitimate” patent filing and enforcement strategies may be considered by it to be in breach of EU competition law. Although the tone of the final report was considerably less inflammatory than that of the interim report the EU Commission has made it clear that it is not wholly convinced that the patenting system is not being abusively manipulated by the pharmaceutical industry to the detriment of the consumer. In fact on the day the final report was published the EU Commission opened an investigation against Les Laboratoires Servier for suspected breaches of the EC Treaty’s rules on restrictive business practices (Article 81) and on abuse of a dominant market position (Article 82). These proceedings also concerned a number of generic companies in respect of a number of “possibly restrictive, agreements between each of them and Servier”.

8.3 The EU Commission has made it clear it intends to focus in particular on the possible anti-competitive effects of settlement agreements following a patent dispute between patentees and generic companies which involve reverse payments to the generic company to keep out of the market.

8.4 In addition Europe, and Germany in particular, has seen a great deal of litigation in its courts concerning patents which relate to standards and how this may involve anti-trust issues. In particular in May this year the German Supreme Federal court in the Orange Book case (which concerns patents and standards relating to CD-R technology) confirmed that an anti-trust defence could counter a patent infringement injunction claim. However this would only happen if an unconditional offer to take a licence had been made by the alleged infringer which could not have been refused without being discriminatory and the alleged infringer had made

9 http://ec.europa.eu/competition/sectors/pharmaceuticals/inquiry/
10 BHG “Orange-Book-Standard” (KZR 39/06) - appeal to the German Federal Supreme Court of 6th May 2009.
payments as if the licence had been agreed (e.g. into a trust account). Here however the offer made was not unconditional as it was subject to a finding of infringement by the court.

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