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Contents

SUMMARY	1
PREFACE	3
ABBREVIATIONS	4
1 INTRODUCTION	6
1.1 Methodology and material	7
1.2 Problem and purpose	8
1.3 Limitations and delimitation	9
1.4 Structure	9
2 THE PATENT LAW	11
2.1 The history of the Patent law	11
2.2 Purpose and structure of the Patent Law	12
2.3 Requirements for grant of patent	14
2.3.1 <i>Application right</i>	16
2.3.2 <i>Unity and division</i>	17
2.4 “Invention-Creations”	19
2.5 Non-patentable items	20
2.6 Applications process	20
2.6.1 <i>Employed inventors</i>	22
2.7 Extent of Protection	23
2.8 Patent infringement	23
2.8.1 <i>Exhaustion of rights</i>	25
2.9 Future changes in the Patent Law	26
3 PATENT PROTECTION IN CHINA	28
3.1 History of Chinese Patent protection	28
3.2 The IP system in China	30
3.2.1 <i>Administrative Control</i>	31
3.2.2 <i>Judicial Enforcement</i>	33
3.2.2.1 Chinese court system	33
3.2.2.2 Chinese lawyers and judges	36
3.2.2.3 Chinese dispute settlement	36
3.3 Protection Through the Courts	37

4	CRITICAL REVIEW OF THE PATENT SYSTEM	41
4.1	Problems with legislation	41
4.2	Problems with Administration	43
4.3	Problems with Enforcement	44
5	STRATEGIES FOR PROTECTING PATENT RIGHTS	47
5.1	Problems and Solutions	47
5.1.1	<i>Supplier contact</i>	48
5.1.2	<i>Employee relations</i>	51
6	HOW TO PROTECT IP-RIGHTS IN CHINA - THE CONCLUSIONS	53

Summary

“Is it necessary for a steel worker to put his name on a steel ingot that he produces in the course of his duty? If not, why should a member of the intelligentsia enjoy the privilege of putting his name on what he produces?”

Popular saying in China during the Cultural Revolution.

This popular saying shows the history of patent in China. Patent was not for the common worker; why should it be available for the elite?

Since 1979, the People's Republic of China, in an effort to develop its economy, has embarked on a path of economic reform and open-door policy toward the world. Along this path, China has worked hard to establish a modern system of IP protection that meets international standards of protecting patents and other intangible property rights. After two decades of efforts, China has accomplished this goal, although its present system is far from perfect and enforcement of the law still has a long way to go. Meanwhile, the fact that China has established a modern system of IPP in a rather short period has had a lot to do with the fact that China wanted to attract foreign investment to the country and be able to conduct business with the rest of the world.

China adheres to the principle in its legal system that “there shall be laws to abide by, everyone shall abide by the law, enforcement shall be strict and violations shall be punished”. However, as IP protection has been a relatively recent introduction to China, certain segments of the population have only a rather vague understanding of the concept. In order to better implement IP rights, and at same time improve the country’s legal system, the Chinese government has published and provided education about IP rights to the public and has accelerated the training of professionals in this field.

Given the huge Chinese market: the cross border trades and technology transfers: and the enormous international investments in the country, it is very important to examine the system that rules this market and its activities.

The first Chinese Patent law was enacted in 1984 after years of drafting and of wide-ranging discussions among officials, scholars and law practitioners. With the continuing liberalization of the economy in the People's Republic of China, patent infringement has become increasingly common. Penalties imposed on and compensation awarded against infringers has been low and have lacked deterrent value. Reform of the enforcement regime has been considered a priority and significant legislative and regulatory changes have consequently been introduced.

The current Patent law and the Implementing regulations were enacted in 2001. The changes that were done made the law more aligned with the international conventions and treaties China had joined.

Unlike its international equivalents, the Chinese Patent law protects three different types of rights; inventions, utility models and designs. Whether or not this element is debilitating the law is currently under debate.

The protection of Patent rights in China can be difficult. Therefore, companies considering entering China must assess the environment they are introducing their patent into, and which patents they should bring.

One of the problems facing patent protection is the difficulty with implementation of the Patent law. The difficulties come from lack of experience, power and the substantial amounts of “local protectionism” (Guanxi).

Other difficulties that can be noticed are how to actually cope with infringement when it occurs. Should patent owners seek judicial or administrative relief? The different options have their advantages and disadvantages and sometimes the patent owner should seek both in order to maximize results.

Preface

Firstly, I want to thank my husband, whose support I could not have been without. He was there in every step of this thesis, guiding and supporting me through the rough times.

In addition, I would like to show my gratitude towards everyone who has helped and encouraged me in the process of writing my master thesis.

I would like especially to thank the persons in Shanghai who guided me through this challenging period. One of them is Mr. Ulf Öhrling, resident partner of Advokatfirman Vinge in Shanghai who guided me more than his schedule should allow. Furthermore, I would like to thank the members of the organisation called QBPC, who allowed me to participate in their meetings, which gave me great insight to the IP world in China.

I would also like to thank my family and friends who supported me from Sweden and helped me stay focused. In addition, I want to send a special thanks to my friend Hanna Hjalmarsson who proofread my thesis.

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Abbreviations

AAPA	Administrative Authorities for Patent Affairs
Chapt.	Chapter
CPO	China patent Office
FI	Foreign Investment
FIE	Foreign Investment Enterprise
Inventions	Invention-Creation
IP	Intellectual Property
IPC	Intermediate People's Court
IPR	Intellectual Property Right
IPP	Intellectual Property Protection
IRPL	Implementing Regulations of the Patent Law of the People's Republic of China (2001)
NPC	National People's Congress
PAO	Patent Administrative Office
Para	Paragraph
PCT	Patent Cooperation Treaty
PL	The Patent Law of the People's Republic of China (2001)
PO	Patent Office
PRB	Patent Re-examination Board
PRC	The People's Republic of China
SIPO	State Intellectual Property Office
SPC	Supreme People's Court
SPO	State Patent Office
RMB	Chinese Ren Min Bi

WIPO World Intellectual Property Organisation

WTO World Trade Organisation

1 Introduction

When setting out to write this thesis it was clear that many companies faced problems with their IPR when operating in China. The problems foreign investors met in China were diverse, everything from the existing local protectionism to not being able to protect their rights.

One problem that caught my interest was the issue of protecting patent rights, even though sufficient legislation appeared to be present. Companies seemed not being able to control the information about their rights and infringement occurred time after time. It seemed there could be some problems with the present legislation in China.

China is today a production factory on its way to become a consumption country. This fact will make China an even more attractive country for companies to have a presence in. This country, though a wonderful production/consumption country, has its shares of problems; what you produce in China can be copied and what you put into the Chinese market can be copied.

China has done much to eliminate one of the biggest fears of foreign investors in China: the fear that advanced patented technology brought into China would not be sufficiently protected. This elimination was achieved by introducing a legal infrastructure for protection of patents registered in China in line with international standards and by becoming a party of the Paris Convention.¹

The contribution of a typical investor in China to its foreign investment enterprise, or its business entity formed in China, can be divided into a capital and knowledge –based component. The core of China investment for many foreign investors is the knowledge-based contribution, which consists of intellectual property of all kinds: trademarks, patents, copyrights, trade secrets and knowledge, to mention some. The focus of this thesis will be on patent rights.

In today's global economy, the value of technology, IP etc are more important than ever to the success or failure of a business venture everywhere, including China. If companies with well-known brands fail to do business in China, it will only have an effect on their revenues and earnings, but if the IPs are infringed, the companies will lose more than just revenue. Major international corporations such as Procter and Gamble, Nike and Johnson and Johnson, have more than 80 % of their company value allocated in their intellectual property.² Infringement can be devastating for them if, for instance, the consumer cannot be sure if the product is original or fake, nor of its quality.

¹ Lagerqvist, T. Patent Rights in China, p 610.

² Berman, B. Hidden value: Profiting from Intellectual Property economy.

It has been widely discussed in media about China being an especially risky environment for intellectual property rights. Nevertheless, companies see the value of being present in China.

As mentioned above, the subject of this thesis will be patent protection in China.

Patent rights give companies important incentives to continue investing money and work force in order to create new inventions. The regulations protecting patent rights give the owner the right to exclusively use the invention and license the use of the invention to others. The revenue from the license and being able to sell/use a product exclusively is the incentive. Therefore, if infringement occurs it is usually followed by loss of revenue for the owner.

A type of patent infringement can be counterfeiting goods. It can be described as a deliberate attempt to confuse consumers by copying a well-known packaging or product configuration, in a way that the product looks like one produced by a renowned producer, when in fact it is not and maybe of inferior quality. Other definitions might include “the making of a product which so closely imitates the appearance of the product of another as to appear to be the product of another”.³ One of the rights infringed during the process can be patent right.

Some of the problems relating to patent infringement can be traced to the history and culture of China. Throughout the history of patent in China, patent system development has been limited. This can have its roots in the traditional ethics and culture in China. In history Confucianism, an ethical code rather than religion guiding people’s behaviour, which had its root between the sixth and third century B.C. Confucius’ philosophical impact on intellectual property protection is a reflection of this cultural tradition. He believed that people should learn by copying and imitation. Confucius himself claimed that he “never created or wrote anything original”.⁴ Though the tradition is slowly changing, there are still problems impending from this tradition.

1.1 Methodology and material

Being located in Shanghai, China when writing this thesis one would believe that vast amount of material and information should be available. This was partly true, information in the way of people present in China providing “insider” information was available, but relevant literature was hard to find.

³ Riley, M.L. Protecting Intellectual Property Rights, p 11.

⁴ Yang, D. Intellectual Property and doing Business in China, p 21.

Consequently, this text is written based on the material found from the Shanghai Library, on the Internet, the library of Fudan University and books ordered from Europe.

The accuracy of the information gathered from Internet can be challenged; therefore, only Internet sources from universities and international organisations have been used.

The terminology used in this text is well known in English IP literature.

This thesis is based on a traditional legal method, in part descriptive and in part analytical; in order to derive an answer to the posed problems de lege lata was examined.

In the first part of the thesis, the method has a descriptive angle where de lege lata for patent rights in China is presented. There will also be a small comparison with Swedish Patent law, to make it easier to grasp the content for the Swedish readers. In the second part where some problems that a fictive company has faced in China are presented, the method is more analytic. Analytic in a sense that the presented problems and regulations will be analyzed, in order to give solutions for the posed problems. It is in this part where the conclusions are covered as well.

The empirical part of this thesis is based on research through personal interviews with key persons in China. A questionnaire was used and sent by E-mail. Furthermore, during the research period the writer participated in various conferences covering the subject. During these conferences some frequently occurring problems were recognized, which will be basis for the fictive company's case.

1.2 Problem and purpose

The purpose of this thesis is to examine how companies outsourcing in China, can go about to protect their Patent rights. To be able to answer this question there will firstly be a presentation of the protection catalogue available in China. To get a good idea of the reality surrounding the protection catalogue, a further look into the implementation of the protection catalogue will be done.

There are both judicial and administrative options regarding patent protection in China. Thus, the following problem can be posed:

1) What is the content of the judicial and administrative options and when can the above-mentioned options be used to protect?

Of course China has a great deal of acts and regulations that are designed to protect patent rights but, as it is now, there are too many violations of patent rights. The following problem can be posed:

2) Are there any faults with the Patent law or the implementation of it, if there are, how can one cope with them?

1.3 Limitations and delimitation

Certain limitations are made to narrow down the rather big area of patent in China. There are other ways to protect the patent rights of a company, than only the legal way. For an example, one of the possibilities is to establish a business strategy with intellectual property awareness. This could be policies within the company regarding how to treat IP rights, patent being a part of it. Furthermore, establishing the meaning of IP for the company, guiding employees to recognize IP as an important business body.

Historically it has not been easy for the outside world to study Chinese patent system. There are three major barriers to overcome in the process of understanding the Chinese patent regime: the language barrier, the cultural barrier, and the information barrier.

This thesis is delimited because of the lack of knowledge in the Chinese language. Due to this, access to literature in the subject was narrowed. Although Chinese scholars and experts have produced a considerable amount of research on the Patent law, the research is done mainly in the Chinese language. Furthermore, there is a problem with relying on translations from the Chinese language to English, without certainty about the accuracy. However, mostly official translations given by different governmental bodies were used.

The cultural barrier is also evident since the approach to this subject is from a western point of view. This can lead to failure of consideration regarding the unique characteristics of the Chinese history, development and society, under which the legal system finds its roots. It may not be possible to grasp all the aspects of the reality, which the law is functioning in.

The information barrier is two-fold: On one hand, China has not developed a mature system to publish, organize, and retrieve legal information in a meaningful fashion, which by itself poses great difficulties of access. On the other hand, the publication of Chinese legal information has not been available long enough to become a reliable source of information.

This thesis does not attempt to reflect upon other aspects that can ease companies' presence in China like strategic business awareness. This thesis will strictly display the protection possibilities from a legal point of view.

1.4 Structure

The thesis consists of two parts. The first part consists of the chapters 2 to 5. In this first part the reader can find a presentation of the legal framework protecting Patent in China.

Chapter 2 gives an introduction and describes the Chinese Patent law. In *chapter 3*, the reader can read about patent protection in China, first a short

history and then a presentation of the different alternative ways available to gain protection.

Chapter 4 outlines the implementation strategies. *Chapter 5* presents the different areas of problems with patent enforcement.

Part 2 consists of chapter 6 and 7. *Chapter 6* is where the problems and the solutions of the fictive company are given. *Chapter 7* contains the conclusions of this thesis.

2 The Patent Law

This chapter will present the scope of the Patent law (PL) and present the near history of the Patent law.

2.1 The history of the Patent law

As mentioned earlier, the socialistic China had a faltering attitude towards the monopoly that comes together with the IPR protection. Therefore, when the Provisional Regulation for Protecting Inventions and Patent rights was introduced in 1950 and followed by the supplementary laws in 1963⁵ the protection was not there⁶. The remedy came in 1982 when a state committee attacked the situation, as following:

“[...] As it neither conform(s) to the principle of distribution according to work, nor encourages competition, nor generates enthusiasm of the research departments or scientist and technicians for better efforts, the practise is not in the interest of the country’s economic and technological development. Now many scientific and technological departments and production enterprises are making positive efforts to find ways of making transfers of new techniques and scientific achievements with compensation.”⁷

It was after this statement that the new Chinese Patent law⁸ was introduced in 1984 and became effective in April 1985.⁹ Together with this law came the Implementing Regulation of the Patent law of the PRC (IRPL). This was only four years after China announced its open door policy to attract foreign investment.¹⁰

The 1985 Patent law underwent a substantial revision in 1992 and came into effect from 1 January 1993. The amendments that where made, enlarged both the scope of patent protection to also cover chemicals, food, beverages, pharmaceuticals and condiments, and extended the patent protection terms.¹¹ The “Implementing Regulations of the Patent law of the PRC” was also revised according to the amendments in 1992. This catalogue provided protection by stipulating patent rights for “invention-creations”, which are

⁵“Regulations on Awards for Inventions” and “Regulations on Awards for Technical Improvements”.

⁶ Lidgard, H. H. De nya patent- och varumärkeslagarna, p 8.

⁷ State Science and technology Commission in the report from October 1982 cited by Theroux, E., and Peele, B.T, China’s Coming Patent Law, p 8.

⁸ Patent Law of the People’s Republic of China, enacted 12th of March 1984.

⁹ Lidgard, H. H. De nya patent- och varumärkeslagarna, p 8.

¹⁰ Lagerqvist, T. Patent Rights in China, p 609.

¹¹ Lagerqvist, T. Patent Rights in China, p 609.

defined in Article 2 of the Patent law as “inventions, utility models and designs”¹².

Even though the Patent law was revised in 1992 to correspond to the international intellectual property conventions and treaties, it needed to be developed and revised again.

The current Patent law was adopted on August 25, 2000. The Patent law Implementing Regulations was revised and reissued in 2001. This new law and regulation strengthened patent protection for inventors and simplified patent examination and issuance procedures.¹³

While China examined the national regulations, the Chinese legislators also studied the international regulations in this matter.

China’s participation in the international intellectual property protection catalogue began in 1984, when the country became a party to the Paris Convention on the Protection of Industrial Property.¹⁴ The provisions of the Paris convention became incorporated into the Chinese Patent law. A good example on this is how international treaties have simplified issuance procedures. The Paris Conventions article 4 A (1) offers any person who has duly filed an application for; patent, the registration of a utility model patent, an industrial design patent or of a trademark in one of the states where the Paris Convention is applicable, a priority right for the purpose of filing in the other contracting states.

2.2 Purpose and structure of the Patent Law

The general structure of the Patent law is very similar to its equivalents in other countries, except that it protects three different rights at the same time.¹⁵

The Patent law regulates patents for utility models, inventions, designs and the right to employee’s invention. The purpose of the law is to protect, stimulate and develop patent so that the scientific and technical knowledge in China improves and with that contribute to the structure of the socialistic community.¹⁶

The Patent law consists of eight chapters and contains 69 Articles. As it is common in China, the law itself is drafted in terms, which are not specific

¹² The expression “invention-creation” as used in the Patent Law and Implementing Regulations will hereafter be referred to as “inventions”.

¹³ Chow, D.C.K. *The Legal System of the People’s Republic of China*, p 424.

¹⁴ Of March 20, 1883, as revised at Brussels on December 14, 1900, at Washington on June 2, 1911, at the Hague on November 6, 1925, at London on June 2, 1934, at Lisbon on October 31, 1958, and at Stockholm on July 14, 1967 and as amended on September 28, 1979.

¹⁵ Lagerqvist, T. *Patent Rights in China*, p 612.

¹⁶ Lidgard, H.H. *De nya patent- och varumärkeslagarna*, p 9.

enough to lead the reader into a more complete understanding of how to interpret the law. The Patent law has therefore the Implementing Regulations to help the reader to understand the articles.¹⁷ It is in the implementing catalogue where the reader can find detailed instructions on many of the practical matters that have to be addressed.

The Implementing Regulations are divided into eleven chapters covering 122 Articles. Each chapter in the Patent law has an equivalent chapter in the IRPL.

The **Patent law** includes the following chapters:

Chapter 1 (General provisions)

- Setting out in a broad term the general principles of the PL. The definition of term “invention-creation” can be found here.

Chapter 2 (Requirements for grant of patent)

- The requirements for patentability, i.e., novelty, inventiveness and practical applicability. The rules about priority can also be found here.

Chapter 3 (Applications for patent)

- The time limits and procedures for applications and examinations.

Chapter 4 (Examination and approval of an application for patent right)

- Examination procedure (preliminary and as to substance).

Chapter 5 (Duration, cessation and invalidation of patent right)

- Provisions for the duration, cessations, renewal and invalidation of patent rights. The procedure for re-examination of patent rights in case of invalidation requests is also stated here.

Chapter 6 (Compulsory license for exploitation of patents)

- The rules for consideration and granting of compulsory licenses.

Chapter 7 (Protection of patent right)

- The extent of protection, limitation of patentee’s right to claim infringement, and time bars for instituting legal proceedings concerning patent infringement.

Chapter 8 (Supplementary provisions)

To get an even better understanding of the Patent law in specific issues the reader can look into the “case-law“ or published reports on the matter.¹⁸

¹⁷ The Implementing Regulations of the Patent Law of PRC.

¹⁸ Lagerqvist, T. Patent Rights in China, p 614

2.3 Requirements for grant of patent

The requirements for grant of patent are novelty, inventiveness and practical applicability. The definition of the requirements is stated in Article 22 of the Patent law.

Novelty means that, before the date of filing, no identical invention or utility model has been publicly disclosed in publications in the country or abroad or has been publicly used or made known to the public by any other means in the country. Nor has any other person filed previously with the patent administrative organ under the State Council an application that described the identical invention or utility model and was published after the said date of filing. The Patent law stipulates some exceptions to the rules governing novelty. An invention for which a patent is applied for does not lose its novelty if, within the six-month period before the filing date the invention or utility model was:

- 1) Exhibited at an international exhibition sponsored or recognized by the Chinese Government;
- 2) First made public at a prescribed academic or technological meeting;
- 3) Disclosed by any person without the consent of the applicant.

Where any of these events occurs in a foreign country, such disclosure will only be taken into consideration if such disclosure is made in publications. The Implementing Regulations define “academic and technological meeting” as any academic and technological meeting organized by a relevant competent department of the State Council or by a national academic or technological association.

The Implementing Regulations further provide that if an application falls under the provisions of item 1 or item 2, the applicant, when filing the application, must provide a declaration. The applicant must then within the time frame of two months submit a certificate issued by the entity which organized the international exhibition or academic or technological meeting, stating that the invention was in fact exhibited or made public there and also the date of its exhibition or making public.

If the application falls under item 3, then the Patent Administrative Organ (PAO) may, when it deems it necessary, require the applicant to submit proof that the disclosure was made without his consent. If the applicant fails to submit proof or the certificate within the period (two month from the date of filing), the provisions in Article 24 shall not be applicable.¹⁹

Novelty may be affected by disclosure in a magazine or other publications, by importing or exporting the products, or by some other producer’s

¹⁹ Article 31 IRPL.

manufacturing of the same or similar products. For instance, a publication made by the inventor himself prior to the filing date will clearly affect the novelty of the invention. In order to interpret “publicly disclosed in the country or abroad”, as stated in Article 22 PL, a closer look into the actual publication date was made by the Patent Re-examination Board (PRB) in application referred to in *China Patents & Trademarks*.²⁰

The inventor stated that the actual publication was made after the date of filing. The Boards interpretation was that though the publication was made, no one outside of the people who were qualified with special conditions, had access to the information. The people qualified with special conditions were not to be defined as public. Therefore, even though the publication was done before the date of filing; the actual “public disclosure” was made after the date of filing.

Novelty may also be affected by public use of an invention before the date of filing the patent application. Novelty will be lost if an invention is used in such a way that it leads to a disclosure of one or more technical solutions, or if the invention is at public state where anyone may use the invention.

In a case handled by the PRB, invalidation of a patent right because of lack of novelty was not approved, even though others had used the invention before the date of filing of application. In this case, an invention very similar in structure to the patented invention was used in a remote area of the country, prior to the date of filing for the patent. Based on that the invention was made for private use and not in a line of business, the PRB concluded that the prior use of the similar invention was not made in public and therefore it could not affect the novelty.

The requirements for **inventiveness** is that as compared with the technology existing before the date of filing, the invention or the utility model has prominent substantive features and represents a notable progress.

The level of inventiveness required is lower for creation patents than invention patents: also seen in Swedish regulations.

The lower requirement of inventiveness for creation patents does not mean that inventiveness is not required. Even though two utility models are designed differently, if they are solving the same technical problems, then the requirement for inventiveness is not fulfilled.

The last requirement is that the invention or utility shall have **practical application**, which means that the invention or utility model can be made or used and can produce effective results.

“Application” is further explained as that the application must be capable of being produced in industrial scale. If the patent is for a product or a process, then the product or process must be capable of being manufactured in an industrial scale and respectively used industrially.²¹

²⁰ *China Patents & Trademarks*, No 2, 1998, pp 62-63 and No 1, 1991, pp 59-60.

²¹ Lagerqvist, T. Patent Rights in China, pp 629-630.

The requirements for approval of a design patent are defined in Article 23 PL. It seems that there are lower requirements for obtaining design patent, for instance; there is no requirement for inventiveness and practical application. On the other hand the design for which a patent right may be granted must not collide with any legal prior rights obtained by any other person. This means that any contractual agreements prior the date of filing could hinder patent grant.

Moreover, the design must possess novelty, as defined above.

The requirements for invention patents are more similar to the requirements spelt out in European regulations, than to the American Patent law, where novelty, usefulness and non-obviousness are required.

Regarding the examination of the level of inventiveness there is a difference between Chinese Patent law and Swedish Patent law. The Swedish PL allows old received applications be excepted when the examining of inventiveness is carried out.²²

2.3.1 Application right

The Chinese patent system is a “first to file” system as mentioned above. According to this principle, when two or more applicants file applications for a patent for identical inventions, the patent right is granted to the applicant whose application was filed first.²³

However, the Chinese PL provides a right of priority as its European equals. If an applicant files an application in China within twelve months from the date he first filed in a foreign country for an identical invention or utility model, or within six months from the date he filed a patent for an identical design, he may enjoy a right of priority for the Chinese application from the date of filing of the first application.²⁴

An applicant may enjoy a domestic right of priority if he files with the China Patent Office (CPO) within twelve months from the date on which he first filed a patent for an invention or utility model in a foreign country (the earlier application), a patent for utility model or invention regarding the same subject matter as the earlier application (the later application).²⁵

In claiming domestic priority, the earlier application, which forms the base for the right of priority, must be an application that really exist and is effective, although it should not be approved or rejected. This is the reason when the later application is filed; the earlier application cannot form the basis for claiming domestic or foreign priority if any of the following events occurred:

²² Chapter 1 § 2 section 2 Swedish Patent Law.

²³ Article 9 PL.

²⁴ Article 29, section 1 PL.

²⁵ Article 29, section 2 PL.

- 1) A foreign or domestic priority right has already been claimed;
- 2) The earlier application has been rejected, withdrawn or deemed to have been withdrawn;
- 3) The earlier application has been granted patent rights; and
- 4) The earlier application has been divided as provided by the relevant provisions in the PL.²⁶

In addition to this, an earlier application will automatically be withdrawn from the date when a later application is filed if domestic priority rights are being claimed for such later application. This to avoid having patent rights granted repetitiously for the same patent application for an invention or utility model if domestic priority have already been claimed for the earlier patent application.²⁷

Once the earlier application is withdrawn, it may no longer form the basis for claiming domestic priority rights, nor can it be restored even if it is later established during the examination procedure for the later application that its claim for priority rights are not in conformity with the relevant provisions in the PL.

If a claim for domestic priority rights is only a part of the earlier application, then once the later application is filed, that part of the earlier application, which does not claim priority, will also be deemed to be withdrawn. The only solution to avoid this effect is to file a divided application first and separate that part from the rest of the application.

There is also a requirement for complete identity between the applicant in the later application and the applicant for the earlier one, including also the applicant's successor or any person or entity to which the patent application has been assigned, as long as such successors or assignees are in their own right entitled to enjoy priority rights under the PL.

It is important to note that domestic priority rights can only be enjoyed in relation to inventions or utility models. Patent rights for design may not enjoy such priority rights.²⁸

2.3.2 Unity and division

The PL clearly provides that a patent application for an invention or utility model must be limited to one invention or utility model. However, the PL gives room for so-called unity, i.e. if two or more inventions or utility models belong to a single general inventive concept then they may be filed as one application. These inventions shall be technically inter-related and

²⁶ Rule 33, section 2 IRPL.

²⁷ Lagerqvist, T. Patent Rights in China, p 617.

²⁸ Article 29, section 2 PL.

contain one or more of the same or corresponding special technical features. The expression “technical features” refers to those technical features that define a contribution which each of those inventions or utility models, considered as whole, makes over the prior art, i.e. as compared to the state-of-the-art technical solutions²⁹

The possibility of unity is also available in applications for design patents. Two or more designs, which are incorporated in products belonging to the same class and are sold or used in sets, may be filed as one application.³⁰

The expression “the same class” means that the product incorporating the designs belongs to the same subclass in the classification of products for designs. The expression “be sold or used in sets” refers to that, the products incorporating the designs have the same designing concept and are customarily sold and used at the same time according to Rule 36 IRPL.

However, this is an area where the applicant has to pay much attention to the problem of how to judge the unity in a patent application containing two or more inventions. Rules 35 and 36 of the IRPL are of great guidance in the judging procedure. If the application fails conforming to the requirement of belonging to a single general inventive concept, even though such failure is not grounds for revocation or invalidation, the application will be rejected.

The claim in one application for a patent regarding two or more inventions may be any of the following combinations:

- 1) Independent claims of the same category for two or more products or processes;
- 2) An independent claim for a product and an independent claim for a process specially adapted for the producing of the product;
- 3) An independent claim for a product and an independent claim for a use of the product;
- 4) A combination of the examples given in 2 to 3;
- 5) An independent claim for a product, an independent claim for a process specially adapted for the producing of the product, an independent claim for an apparatus specially designed for carrying out the process; and
- 6) An independent claim for a process and an independent claim for an apparatus specially designed for carrying out the process.³¹

A division of the application is possible within the time provided in Rule 54 of the IRPL, but a division must be applied before the date of rejection or withdrawal.

If the Patent Administration finds that the application is not in conformity with the provisions of Article 31 of PL or Rules 35 and 36 of IRPL, it shall allow for amendments of the application. However, the amendments shall

²⁹ Rule 35 IRPL.

³⁰ Article 31, section 1 for inventions and utility models and section 2 for designs PL.

³¹ Lagerqvist, T. Patent Rights in China, p 619.

not go beyond the scope of disclosure contained in the initial application according to Rules 43 and 43 IRPL.

2.4 “Invention-Creations”

The Patent law is among the few domestic patent laws in the world, which protects three kinds of inventions in a single specific law. Art. 2 of the Patent law define “inventions-creations” as inventions; utility models; and designs. There is no legal distinction made when the term “inventions” is used in the Patent law and the Implementation regulations.³² The distinction is made in the level of inventiveness required for granting patent. The definition of the above-mentioned terms is to be found in the Implementing regulations as follows;

- 1) “Invention” means any new technical solution relating to a product or a process or an improvement thereof.³³
- 2) “Utility models” means any new technical solutions relating to the shape, the structure or their combination, of a product, which is fit for practical use.³⁴
- 3) “Design” means any new design of the shape, pattern, colour, or their combination, of a product, which creates an aesthetic feeling and is fit for industrial applications.³⁵

Utility models relate to the shape, structure or the combination of these, of a product that has practical utility. There are differences and similarities between utility models and designs. The difference lies in the purpose. One of the similarities between utility models and design is that both include geometric design of products.³⁶ Whereas the requirement for patent of a design is that it must be “fit for industrial application”, the purpose of utility model is it should involve technical solutions, which improves the product and makes it easier to use.³⁷

Therefore, when the inventor who wants to make a utility model, has to consider the technical effects of the product, while an inventor making a design has to consider the aesthetic effects of the product.

The confusing part is that a change in the shape of the product may produce both aesthetic and technical effects. For instance, improvements in shapes of the bristles and the handle of a toothbrush may produce the technical effects

³² Lagerqvist, T. Patent Rights in China, p 614 ff.

³³ Rule 2, section 1 IRPL.

³⁴ Rule 2, section 2 IRPL.

³⁵ Rule 2, section 3 IRPL.

³⁶ Lagerqvist, T. Patent Rights in China, p 615.

³⁷ Rule 2, section 3 IRPL.

of both enlarging the area of contact with the teeth and saving efforts and the aesthetic effect of making the toothbrush look better. In this case, both a patent for utility model, protecting the change of the technical concept in order to enlarge the contact area, and a patent for design, protecting the specific shape and appearance of the toothbrush, is needed.³⁸

Inventions on the other hand relate to a process, a product or an improvement thereof, as mentioned above. This means that not just any abstract, intellectual, and non-technical idea will be recognized as an invention or a utility model.³⁹

2.5 Non-patentable items

Subjects that are not patentable include:

- 1) Scientific discoveries;
- 2) Rules and methods for mental activities;
- 3) Methods for the diagnosis or treatment of diseases;
- 4) Animal and plant varieties; and
- 5) Substances obtained by means of nuclear transformation.

However, processes used in producing animal and plant varieties are patentable.⁴⁰

Additionally, an invention that violates the laws of the State, goes against social morals, or is detrimental to the public interest will not be granted patent rights.⁴¹ This broadly drafted limitation restricts the transparency and predictability of the patent law as well as it leaves plenty of room for exercise of the State's discretionary powers.

2.6 Applications process

Executive authority is the Patent Administrative Organ (PAO), which is subordinate the State Council.⁴²

Owners of patent rights can be individuals or organisations. Foreign individuals and corporations will be granted patent rights in China according to the law: **a)** if the there is any agreement between China and the

³⁸ Qingfen, Hao. On the mechanism of the utility model protection system and the necessity of practicing the patent system for utility model in China, pp20-21.

³⁹ Lagerqvist, T. Patent Rights in China, p 615.

⁴⁰ Article 25 PL.

⁴¹ Article 5 PL.

⁴² Article 3, section 1 PL.

home country of the applicant: **b)** according to international agreements or **c)** if reciprocity is to be expected in the process. Reciprocity is applicable between Sweden and China and Swedish companies can rely on total protection according to the Chinese Patent law.⁴³

As mentioned earlier, the Chinese patent system is a “first- to-file” system. Where two or more applicants file applications on the same day for identical inventions they must therefore hold consultation amongst themselves to decide which of them will be entitled to file the application.⁴⁴ If the parties do not come to a resolution, no patent will be granted to either of them according to Article 13, sec.1-Implementing regulations.

To be able to apply for patent or to initiate legal proceedings in this matter, the foreign applicant with no habitual residence or business of in China “shall” employ a Chinese patent agent designated by the PAO to act as his or its agent.⁴⁵ This does not apply for the Chinese applicant. The Chinese applicant “may” appoint a patent agency to act as its or his agent.⁴⁶

After an application for patent has been submitted, the PAO will conduct a preliminary examination of the application to determine whether all required documents have been submitted, and whether the application falls within any of the proscribed areas of the Patent law. If the application passes this initial examination, the PAO will publish the application at the end of eighteen months from the filing date. Within three years from filing date, the applicant may request a substantive examination of the application; failure to do so within three years without proper reason will result in the cancellation of the application. If there is no justified opposition to the application and it otherwise meets all of the requirements of the Patent law, the patent will be approved.⁴⁷

The 2000 revision imposes new confidentiality obligations during the patent application and review process upon patent agents and state patent officials. Strict confidentiality is required.⁴⁸

After the announcement of the patent by the State Patent Office, any person or entity may submit a request in writing to the PAO for the revocation of the patent according to article 45, PL. A decision on revocation is subject to judicial review in a people's court.⁴⁹

However, before there are any announcements there is also a possibility for the applicant to ask for a review of outcome in case of rejection. The

⁴³ Lidgard, H.H. De nya patent- och varumärkeslagarna, p 9.

⁴⁴ Rule 13, section 2 IRPL.

⁴⁵ Article 19, section 1 PL.

⁴⁶ Article 19, section 2 PL.

⁴⁷ Articles 34 - 39 PL

⁴⁸ Articles 19 & 2 PL.

⁴⁹ Article 46 PL.

applicant can, if he is not satisfied with the outcome, raise a complaint to the Patent Re-examination Board.⁵⁰

The Re-examination Board is a body within the PAO, therefore is it possible that the unsatisfied applicant feels that the board could have been partial. Then there is the option for the unsatisfied applicant to initiate legal proceedings at the public court to get insurance of the objectivity of the decision.⁵¹ This gives the applicant two instances for raising complaints.

When and if a patent is granted, the term for the patent varies depending on what kind of patent is granted. The term of an invention patent is 20 years and the terms for utility model and design patents are 10 years, starting from the date of filing.⁵² However, the term of the patent can end sooner if the annual fees are not paid as required or if the owner abandons the patent in writing.⁵³

2.6.1 Employed inventors

In Chinese PL there is a distinction made between service invention-creation and non-service invention-creation. This is the same as the Swedish distinction between A- and B inventions.

A service invention-creation is made by a person in execution of the task of the entity to which he belongs, or is made by him by mainly using the material and technical means of the entity.

A non-service invention-creation is made independent from the entity. This distinction leads to different owners of the right to apply for a patent. The owner of an application for a service invention-creation is the entity, and when the patent is granted, the entity becomes the owner of the patent right. According to Article 16 of the Chinese PL, the inventor or creator of a service invention-creation is to be rewarded if the patent is exploited. The reward should be based on the extent of dissemination and application and the economic benefits yielded. The law does not state how to solve a disagreement in this matter, but comparing to how the law stipulates infringement disagreements, it seems reasonable that reward matters should be solved at the same authorities.

When it comes to non-service invention-creations, the rightful owner of the application is the inventor or creator. If the non-service invention-creation is made by using the material and technical means of an entity, the ownership can be agreed upon otherwise between the owner and the entity.⁵⁴

⁵⁰ Article 41, section 1 PL.

⁵¹ Article 41, section 2 PL.

⁵² Article 42 PL.

⁵³ Article 44 PL.

⁵⁴ Article 6 PL.

Another case is if an invention-creation is jointly made by two or more entities or individuals, or is made in an execution of a commission for another entity or individual. The right to apply for a patent belongs, unless otherwise agreed upon, to the entity or individual that made, or to the entity/individual that jointly made, the invention-creation. After the application is approved, the entity/individual that applied for it shall be the patentee according to Article 8 PL.

The general rule is that whether or not the inventor/creator applies for the patent himself, he is has the right to be named as the inventor/creator in the patent documents.⁵⁵

2.7 Extent of Protection

Once a patent for an invention or utility model has been granted, the PL provides for protection against any unauthorized manufacture, use, sale or import the product. This protection catalogue is the same for the patented process and the products directly obtained by the patented process according to Article 11, section 1 PL.

Patents for designs cover the manufacture and sale of products incorporating the patented design for production or business purpose according to Article 11, section 2 PL.

There is also protection to seek within the Criminal Law of PRC. Article 216 of the Criminal Law provides that when another person's registered patent is passed off under serious circumstances, the perpetrator may be sentenced to up to three years imprisonment or detention and may be fined.

2.8 Patent infringement

Patent infringement consists of any act exploiting the patent, including sale, manufacture or use of the patent without authorisation from the patent owner. Furthermore, passing off the patent of another person, as one's own is an act of infringement.

Following acts are regarded as passing off if someone without authorization:

- 1) Indicates the patent number of another person on the product or on the package of that product made or sold by him or it;
- 2) Uses the patent number of another person in the advertisement or in any other promotional materials of his or its product, so as to

⁵⁵ Article 17 PL.

- mislead other persons to regard the technology concerned as the patented technology of another person;
- 3) Uses the patent number of another person in the contract entered into by him or it, so as to mislead other persons to regard the technology referred to in the contract as the patented technology of another person;
 - 4) Counterfeits or transforms any patent certificate, patent document or patent application document of another person.⁵⁶

An act of unauthorized exploitation of others patent rights can be counterfeiting. Counterfeiting can be described as “the unauthorized reproduction of and distribution of products that are protected by intellectual property legislation”.⁵⁷

When an infringement of a patent occurs, the Patent law provides for a mediation procedure under Article 57. Where mediation is unsuccessful or the patent owner does not seek mediation, the patent owner can file a suit directly in a people's court or request the local patent administrative authority to handle the matter. The local patent authority is empowered to order the infringers to cease the infringing activity if a violation of the patent is found.⁵⁸ Article 60 provides that the patent owner can recover compensation based upon the economic loss caused by the infringement, the gain to the infringer, or, where the loss or gain is difficult to determine, based upon some reasonable multiple of the licensing fee for the patent. Further, the Article 61 provides for pre-trial injunctions or property preservation before filing suit. The PL provides for both civil and criminal liability for the counterfeiting of patents.⁵⁹

However, there are a number of uses that do not qualify as an infringement, such as:

- 1) Where, after the sale of a patented product that was made or imported by the patentee or with the authorization of the patentee, or was directly obtained by using the patented process, any other person uses, offers to sell or sells that product;
- 2) Where, before the date of filing of the application for patent, any person who already has made the identical product, used the identical process, or made necessary preparation for its making or using, continues to make or use it within the original scope only;
- 3) Where any foreign means of transport which temporarily passes through the territorial lands, water or airspace of China uses the patent concerned, in accordance with any agreements concluded, international treaties or on basis of reciprocity;
- 4) Where any person uses the patent concerned, solely for the purpose of scientific research and experimentation

⁵⁶ Rule 84 IRPL.

⁵⁷ Riley, M.L. Protecting Intellectual Property Rights in China, p 12.

⁵⁸ Article 57 PL.

⁵⁹ Article 58 PL.

Furthermore, any person who, for production and business purposes, uses or sells a patented product without knowledge of that the product has been manufactured or sold without the authorisation of the patentee, shall not be responsible for the damages caused as long as he provides that he obtained the product from legitimate channels of distribution.⁶⁰

The statute of limitations for patent infringement suits is stipulated in Article 62 of the Patent law. The period of two years is calculated from the time the patent owner or the interested party should have known about the infringing activities. If the patent owner commences proceedings after the two-year limit but the infringing activities persist at the time of commencement of proceedings, the court should order an injunction to be implemented during the period of validity of the patent. Compensation for the two-year period prior to the commencement of the proceedings should also be awarded.⁶¹

The general rule on presentation of evidence is that the party asserting an allegation bears the burden of proof. The plaintiff in a patent infringement case needs to collect sufficient evidence for discharging the burden of proof. It should be noted that evidentiary requirements in lawsuits are stricter than those in administrative proceedings. The exception to this rule is the reverse burden of proof under article 57 PL. Article 57 stipulates that in infringement cases relating to invention patents for production processes for new products, manufacturers of identical products must furnish proof that their production processes are different from the patented process.

2.8.1 Exhaustion of rights

There are potential risks of losing the right to a patent prior to the termination date. As mentioned earlier, if the annual retainer fee is not paid as required or the patentee renounces the patent right by a written statement.⁶²

Another way of exhaustion of right is the compulsory license for exploitation. In the following circumstances, the Patent Office may act in accordance with Articles 48 to 55 of the Patent law and issue a compulsory license for the exploitation of a patent:

- 1) Where any entity or individual which is qualified to exploit the invention has made request for authorization from the patentee of an

⁶⁰ Article 63 PL.

⁶¹ Intellectual Property Guide: China, Baker & McKenzie. www.bakernet.com.

⁶² Article 44 PL.

- invention to exploit its or his patent on a reasonable terms and such efforts have not been successful within a reasonable period of time;
- 2) Where a national emergency or any extraordinary state of affairs occurs, or where the public interest so requires;
 - 3) Where the invention for which the patent right was granted for, is technically more advanced than another invention for which an earlier patent right has been granted and the exploitation of the alter invention depends upon the exploitation of the earlier invention.

A compulsory license is applied only in connection with a patent right for an invention and a utility model. No compulsory license may be granted for a design patent.

2.9 Future changes in the Patent Law

China has launched a process to consider amendments to its Patent law. The law is being reviewed at the moment and any draft amendments will be presented to the Standing Committee of the National People's Congress for the committee members to discuss and pass into law. It could take at least three years for the legislative changes to come into force. If the changes go through, it could be easier to protect patent rights.

Changes are expected to be made in the following areas:

- **Patent application and examination procedures:**
The amendments are expected to simplify application procedures and payment of official fees, deal with cases where applications for invention patents relate to the same subject matter as applications for utility model patents, and implement the Patent Law Treaty.
- **The substantive requirements for grant of patents:**
The reforms are expected to address criteria for novelty and inventive step, scope of non-prejudicial disclosure, patentable subject matter such as software-related inventions and cloning, disclosure regarding genetic resources and design protection for article parts.
- **Patent protection and enforcement:**
The new law could address the application of the doctrine of equivalents, prosecution history estoppels, indirect infringement, and the powers and duties of the patent administrative bureau.
- **Others:**
Miscellaneous provisions are expected to deal with the ownership of patents and the procedures for assigning patents from a Chinese

party to a foreign one, including setting out the circumstances in which Ministry of Commerce approval is necessary.⁶³

⁶³ www.managingip.com.

3 Patent protection in China

The purpose of this chapter is to introduce the history of patent rights in China and the present patent system of today in China.⁶⁴

3.1 History of Chinese Patent protection

Although China remained for many years an exception to the introduction of a patent system that matched to that prevailing in most major industrial countries, the concept of patent is nevertheless not novel to China. About 2,300 years ago, in the Western Han Dynasty, a famous debate took place. The debate that occurred in the Imperial Court concerned the question whether or not a royal monopoly over production and trade in salt and iron would be proper and legal. Such a monopoly would be similar to the privileges granted to merchants by various monarchs in European countries.⁶⁵

The origins of IPP in China can be traced back to the westernisation movement in late 19th century.⁶⁶ This movement refers to the Qing Dynasty's introduction of technologies and techniques from foreign countries into China. As a result, many companies were established, and a large number of technicians were trained. In order for this process to evolve, incentives and motivation were needed. The first regulation relating to technology was enacted in 1898, entitled "Reward Regulations on the Development of Technology". This regulation could be called the first patent law in China, but this law was a failure because of its ineffectiveness and lack of concept of invention and no process of examination.⁶⁷

It was not until during the 20th century and China's reformation and industrialization programme, that the patent system became an important part of the progress in China. When the Communist Party took over China and founded the People's Republic of China in 1949, aim to start with a clean slate, the Party abolished all previous regulations and laws. This was followed by a period of nationalism, all privately owned land and enterprises were nationalised. Under such circumstances, IP laws could not exist.⁶⁸

During this period, law was not particularly important. For instance, there were only institutional law, marriage law and civil law in China from 1949 to

⁶⁴ The detailed introduction to different patent related laws and regulations in China can be found on State Intellectual Property Office of the People's Republic of China (SIPO) website. www.sipo.gov.cn

⁶⁵ Zheng, C et al. Chinese Intellectual Property and Technology Transfer Law, p 51.

⁶⁶ Liu, M. Economic analysis of Intellectual Property Rights law, p 169.

⁶⁷ Yang, D. Intellectual Property and doing Business in China, p 18.

⁶⁸ Yang, D, Intellectual Property and doing Business in China, p 22.

1978. The economic law and laws relating to foreign business matters were only introduced after 1979. Prior to that, social and economic behaviour was guided by the government regulations not laws.

However, the regulations that were in force and developed in the beginning of the century, ceased to be effective upon the outbreak of the Cultural Revolution in 1965. When the Cultural Revolution ended in 1978, parts of the old regulations from 1963 were reissued after some revisions were made.⁶⁹

It has been argued that China first encountered IPR issues when the Chinese government was negotiating the Sino-USA “High Energy Physics Agreement” and the “Sino-US Trade Agreement” in 1979.⁷⁰

Negotiations between the two parties were hindered because of differences over IPP. The US side wanted the IPP to be an integral part of any bilateral agreements on science, technology and trade. The Chinese side were very reluctant to sign agreements with these clauses, which they had little knowledge or experience of. Zheng describes this as the first “IPR fever”. The “IPR fever” referred to the period after these negotiations when China commenced its research in this area very intensively.⁷¹

The open door policy was initiated in 1978 by the Chinese government after they realised the need to access new information and technology. This was necessary in order to improve China's international competitiveness and thereby making it attractive for foreign companies to enter China.⁷²

China has since then made a transformation from a country without any IPR protection, to the one with a broad and systematic system. China became a member of the World Intellectual Property Organisation (WIPO) in 1980. In the following period, China was very busy with promulgation of a wide range of IP laws and ratification of a series of world IP treaties and conventions. By mid 1990s, it could be argued that a systematic IPP framework with the judicial organs for IPP and legislative guidance was in place.⁷³

The last 10-15 years have witnessed a systematic improvement of IPP in China. China has demonstrated to the world its intention to improve the IPP environment by ratifying more IP treaties and conventions. They include the Berne Convention (1992), the Universal Copyrights Convention (1993), Patent Cooperation Treaty (1994) and the Budapest Treaty (1994). TRIPS became a part of this catalogue in 1995 and after that came the World Trade Organisation (WTO) in 2001. As far as patent goes, China has adopted many of the important international treaties; additionally, it has concluded bilateral agreements with a number of Western countries. Because China has recently joined the WTO, they undoubtedly will make a further

⁶⁹ Lagerqvist, T. Patent Rights in China, p 611.

⁷⁰ Zheng, C. The World Trade Organisation and Trips, p 7.

⁷¹ Zheng, C. The World Trade Organisation and Trips, p 7.

⁷² Yang, D, Intellectual Property and doing Business in China, p 27.

⁷³ Yang, D. Intellectual Property and doing Business in China, p 26.

commitment to change their Patent law to meet international standards in order to comply with the treaties they have signed and to ease the international pressure.⁷⁴

The influence of international organisations and treaties has and will continue to harmonise relationships between China and other countries in the future. To give an example, during the TRIPS negotiation a very important progress occurred. China established its Special People's Court to enhance judicial enforcement of IPP.⁷⁵

3.2 The IP system in China

There is a triple IP system in China, regarding patent — legislation guidance, administrative control and judicial enforcement.

Legislative guidance means the “Chinese legislative system and mechanism in guiding the IP activities and protecting IPRs”. Administrative control refers to “the administrative organs and their function in IP applications, examinations, approval and protection”. Judicial enforcement refers to “the court system and its function in dealing with IP disputes”.⁷⁶

The functions of these different organisations will be shown as the “triple system” is elaborated.

China’s legislative system consists of two layers. Both the central government and its ministerial and governmental organisations have the power to introduce legislation and regulations.⁷⁷

The IP mechanism, being the body of IP laws and regulation, began taking shape in China in 1982.⁷⁸ China has until now adopted a series of laws protection of the different IP areas. The different adopted laws will not be further exposed here. Largely, China has established “an ultra-modern patent system”.⁷⁹ “Its parallel adoption of the PCT brings China’s Patent laws to the front of all nations, and helps compromise a system incorporating most of the best features of the “Basic Proposal” that emerged in Geneva”.⁸⁰

In another word, China has established a comprehensive mechanism for patent protection. However, the result of its implementation remains to be seen. Will the improvement of materiel aspects of the protection catalogue

⁷⁴ Moga, T. T. China’s Patent law considered and compared, pp 335-449.

⁷⁵ Yang, D. Intellectual Property and doing Business in China, p 36 ff.

⁷⁶ Yang, D. Intellectual Property and doing Business in China, p 83.

⁷⁷ The Constitution of the PRC.

⁷⁸ Yang, D. Intellectual Property and doing Business in China, p 87.

⁷⁹ Wegner, H. C. Patent harmonisation on the Pacific rim, p 38.

⁸⁰ Wegner, H. C. Patent harmonisation on the Pacific rim, p 38.

also improve the implementation of the substance law? The answer is to see in the future.

3.2.1 Administrative Control

Victims of patent infringement in the PRC have two separate options available to combat that infringement: administrative complaints are lodged with the local Patent Administrative Office or lawsuits commenced with the People's Court.

Administrative control has been established to govern the implementation of IPP in China, in accordance to the legislative guidance. Administrative control refers to the administrative organs and their function in IPP applications, examinations, approval and protection. The administrative organs function as a support to implementation of the Patent law.

Three separate organisations subordinate the State Council currently manages different IP forms.⁸¹

Only the State Intellectual Property Office (SIPO) will be covered below. The other organisations are not relevant to the subject of this thesis, this because they mainly deal with other IP rights.

There are two Administrative Authorities for Patent Affairs (AAPA) under the law. On the national level is the SIPO, which is responsible for the nationwide patent administration. On the provincial levels and local levels, there are specific agencies or departments, which are responsible for carrying out patent administration within their respective regions.⁸²

With the approval of the State Council, the Patent Office of the People's Republic of China (CPO, the predecessor of SIPO) was founded in 1980 to protect intellectual property, encourage invention and creation, help popularize inventions and their exploitation, promote the progress and innovation in science and technology. In 1998, with the restructuring of the government agencies, CPO was renamed SIPO and became a government institution directly under the control of the State Council. It is the authority in charge of patent affairs and the coordinating authority for foreign-related intellectual property issues. The SIPO is the most important body for patent affairs in the nation.⁸³

Directly under the guidance of SIPO is the Patent Office (PO), an institution that carries out the actual work along the guidelines of SIPO. The Patent Office is divided into different department handling different areas of patent. For example, there are special departments for chemical patents, mechanical patents and so on. Among the Patent Office's responsibilities lies the preliminary examination and approval of patent applications, and

⁸¹ Yang, D. Intellectual Property and doing Business in China, p 93.

⁸² Hu, H. R. Research guide to Chinese Law and Practice, p 13.

⁸³ Hu, H.R. Research guide to the Chinese law and Practice, p 11.

interpretation of patent law and regulations. Educating about patent regulations is also an important part of what the PO does. The PO is also responsible for examining requests for re-examination. It is also responsible for international patent applications, interpretation and other international patent issues.⁸⁴

Another institution, which is a subject under the SIPO, is The Patent Re-examination Board (PRB). The Patent Re-examination Board is responsible for the re-examination of rejected applications, when the applicants have requested re-examination.

The PRB is also the authority to turn to with an application for invalidation for a patent granted. Anybody who considers that the grant of the said patent right is not in conformity with the relevant provisions of the PL can apply for invalidation of the patent grant from the date it was granted.⁸⁵

The procedure of the re-examination is described in chapter 4 of the Implementing Regulations of the Patent law (IRPL). When a request for re-examination has been raised, the PRB shall gather all relevant documents and remit them to the examination department of PO that originally made the patent examination and ruled. If that examination department agrees to revoke the former decision, the PRB shall make a decision accordingly and notify the requesting person.⁸⁶ However, if the examination department at the PO rejects the application, the PRB can conduct a new examination to see if the decision is according to the PL or the IRPL. If that is not the case, the PRB can make a decision to revoke the decision rejecting the application, and ask for continuance of the examination procedure.⁸⁷ This two-layer examination can give a better chance of impartial judgement of the application.

In case of application of invalidation, the PRB will collect all the evidence the applicator wants to present and then ask the patentee if he or it wants to amend. Amendments are allowed, but the patentee may not broaden the scope of the patent.⁸⁸

Rule 58 in the IRPL states that the PRB shall consist of technical and legal experts, this in order to get a better understanding of the issues concerning the patents. This is not required for the PO according to the IRPL.

There are also provincial organisations under the same names, which co-operates with the central SIPO and PRB and supervise the provincial patenting activities.

Besides these above-mentioned responsibilities, SIPO and PRB have also an important role in the supervision of patent activities and settlement of administrative disputes.⁸⁹ According to the guidelines of PO, the PRB

⁸⁴ www.sipo.gov.cn.

⁸⁵ Article 45 PL.

⁸⁶ Rule 61 IRPL.

⁸⁷ Rule 62, section 2 IRPL.

⁸⁸ Rule 68 IRPL.

⁸⁹ Yang, D. Intellectual Property and doing Business in China, p 93.

should provide for expert advices to the People's Court and the patent administrative authorities to ease settlement of infringement cases.⁹⁰

The administrative organs are also available for help against infringers. They have the authority to stop any kind of patent infringement. They may also mediate in patent disputes at the request of the parties concerned. The disputes include:

- 1) Any dispute over the ownership of the right to apply for patent and the patent right;
- 2) Any dispute over the qualification of the inventor or creator;
- 3) Any dispute over the award an remuneration of the inventor or creator of a service invention-creation;
- 4) Any dispute over the appropriate fee to be paid for the exploitation of an invention after the publication of the application for patent but before the grant of patent right.⁹¹

They also have the ability to impose and order for correction, charge a fine and oblige that compensation be paid. If the patent owner is not pleased with the order, he/it may, within 15 days after receiving the notification of the order, turn to the people's court for legal proceedings.⁹²

If mediation fails or if the parties are not willing to consult with each other, the patentee or any interested party may proceed to legal proceedings.

3.2.2 Judicial Enforcement

The judicial system in China had no power until it was restored in 1979.⁹³ With the changes that have occurred from 1979 until now, the results can be seen in the increasing importance the judicial system has enjoyed within the judicial enforcement.

The judicial system that exists in China today can be viewed from three aspects; the court system, judges and lawyers, and dispute settlement.⁹⁴

3.2.2.1 Chinese court system

Article 123 of the PRC Constitution provides that the people's courts are the judicial organs of the state and are vested with the state's adjudicative powers. Article 126 of the Constitution provides that the "People's Court

⁹⁰ www.sipo.gov.cn.

⁹¹ Rule 79 IRPL.

⁹² Art 57 PL.

⁹³ Worden et al. China: a country study.

⁹⁴ Yang, D. Intellectual Property and doing Business in China, p 96.

exercise judicial power independently, in accordance with the provisions of the law, and are not subject to interference by any administrative organ, public organisation or individual.” The ability of the courts to operate independently must be evaluated against a number of other provisions of the law and realities of the PRC government power structure.⁹⁵

The National People's Congress (NPC) controls the funding and staffing of the Supreme People's Court (SPC); similar structure also exists at lower levels where people's congress also controls key appointments and funding for courts. The prescription to exercise judicial powers independently must be understood against the political and practical realities of the government system, in which the people's courts are beholden to the people's congresses or governments for funding, staffing, and appointments.⁹⁶

The Chinese Court is a people's court system with four tiers with at most two trials to complete a case. The first instance can occur at any level in the system with a final appeal to a court at the next higher level. Where in the system the first instance occurs depends on the gravity of the offence.⁹⁷

At the top is the single Supreme People's Court, who is responsible to the NPC and its Standing Committee, it has powerful jurisdiction over the lower courts.⁹⁸ Judicial interpretations issued by the Supreme People's Court are generally binding on the lower courts.⁹⁹

Such interpretations are published regularly and they are expected to be followed by all lower courts in the nation. Additionally, the highest court publishes the *Gazette of the supreme People's Court*, in which it routinely selects, issues, and distributes a small number of controversial or important cases, which either are decided by the court or reported to it for instructions, by a lower court. Those decisions issued in the *Gazette* are recommended as exemplary rulings to all lower courts for reference. Therefore, de facto “legal precedents” do exist under the Chinese legal regime.¹⁰⁰

Next, there are about 33 Higher People's Courts at provincial levels. Just below in the hierarchy are approximately 390 Intermediate People's Courts. Finally, at the lowest level are more than 3000 Basic-Level People's Courts.

Figure 1. Court tiers.¹⁰¹

⁹⁵ Chow, D.C.K. The legal system of the People's Republic of China, p 196.

⁹⁶ Chow, D.C.K. The legal system of the People's Republic of China, p 197.

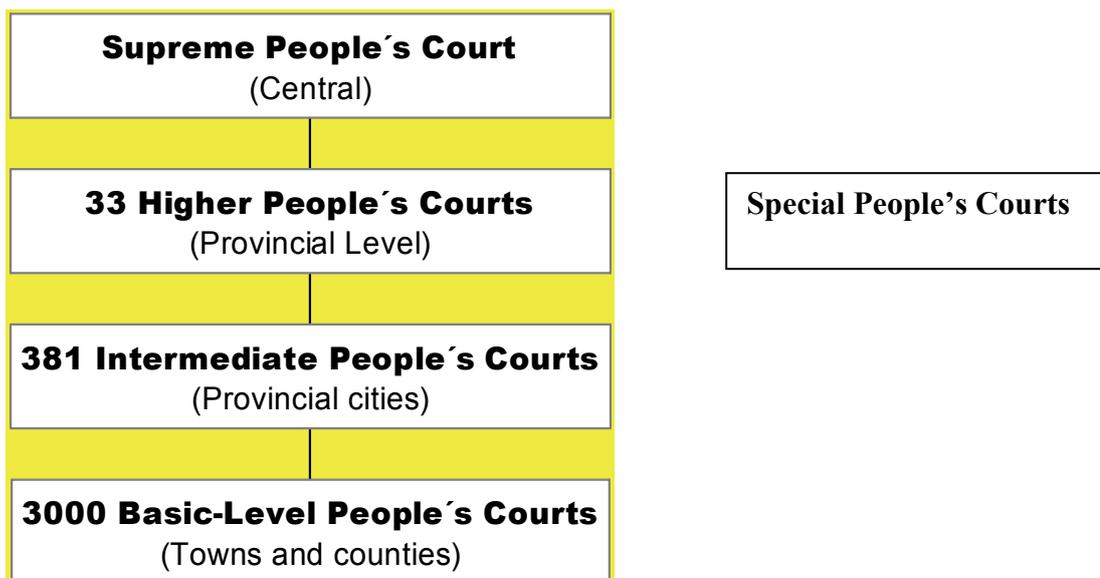
⁹⁷ Chow, D.C.K. The legal system of the People's Republic of China, p 199.

⁹⁸ Article 128 PRC Constitution.

⁹⁹ Baker MaKenzie p 3.

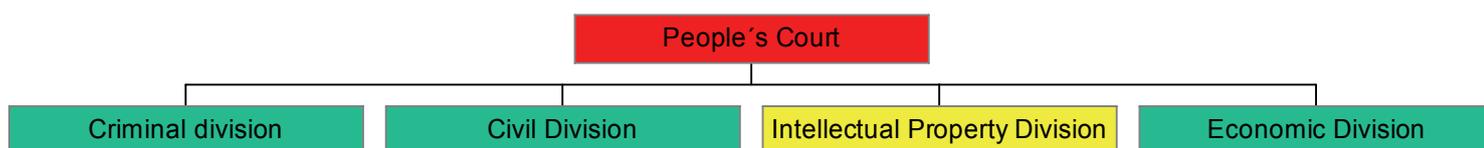
¹⁰⁰ Feng, P. Intellectual Property Law in China, pp 27-31.

¹⁰¹ Based on O'Connor&Lowe (1996).



The people's courts are normally divided into four divisions: criminal, economic, civil and administrative. IP cases are normally heard in the civil division. In addition, specialised IPP divisions or special people's courts within and above the Intermediate People's Courts (IPC) have been established to deal with IP disputes. These have been called the IP adjudication divisions since 1992.¹⁰² For an example the high people's court of Beijing, Guangdong, Fujian and Hainan have established divisions for IP cases.¹⁰³

Figure 2. The Organisation of Chinese Courts



IP litigation should be first brought to the IPC in provisional cities where the alleged infringers reside or where the infringement has occurred. Any individual or organisation can bring a lawsuit to a people's court.¹⁰⁴

¹⁰² State Council 1994: 13.

¹⁰³ Chow, D.C.K. The legal System of the People's Republic of China, p 201.

¹⁰⁴ Yang, D. Intellectual Property and doing Business in China, p 97.

3.2.2.2 Chinese lawyers and judges

The role of the Chinese lawyers and judges has changed tremendously since the Provisional Regulation of the PRC on Lawyers came in 1980. After the judicial system was restored in 1979, they have gained significant role, status and power. Judges are elected or appointed by the People's Congresses at national and local levels. They usually serve a maximum of two terms of 10 years.¹⁰⁵ Usually one to three judges and three to five assessors administer trials. The assessors can either be elected by local residents or People's Congresses, or appointed by the court for their expertise. It shall be noted that the assessors appointed for their expertise, are not used as expert witnesses are used in Swedish courts. In Chinese courts, the assessors are only there for guidance, their opinion is only guiding the court.

In Western courts the judge administers the trials impartially between two contending attorneys; this is not the case in Chinese courts. The judges and assessors in the Chinese courts play an active role in trials; they take part in questioning all witnesses very actively.¹⁰⁶

The number of lawyers has increased and with that the competency of them. They have increased the quality of the legal services and more and more people are using legal advisors. In 2001 there was 9,691 law firms and 117,600 lawyers available for a population of 1.2 billion people.¹⁰⁷

Regarding IPP, there has been extensive IP training. For instance, after the patent law was revised at the first time, more than one million people received formal training from the government.¹⁰⁸ Since China joined WIPO, it has had more than 30 jointly organised training and workshop sessions with WIPO, with over 3000 participants for each training course.¹⁰⁹

3.2.2.3 Chinese dispute settlement

Foreign enterprises operating within Chinese territory should abide by the Chinese laws for contract dispute settlement.¹¹⁰ Any issues absent from the Chinese law should be settled by following international practice. There are four main ways to settle disputes amongst contract parties: consultation, mediation, arbitration and litigation, in the order preferably used. Article 57 of the Patent law states that any dispute resulted from infringement of patent right should firstly be solved by consultation. The parties should try to contact each other on the matter. The infringing party

¹⁰⁵ Yang, D. Intellectual Property and doing Business in China, p 98.

¹⁰⁶ Yang, D. Intellectual Property and doing Business in China, p 98.

¹⁰⁷ Chow, D.C.K. The legal System of the People's Republic of China, p 229.

¹⁰⁸ State Council 1994: 6.

¹⁰⁹ State Council 1994: 6.

¹¹⁰ Economic Contract Law, 1993.

may not even realize he is infringing on someone else's right. If the parties do not want to solve the dispute by consultation or are not able to, they can seek legal proceedings. They can either try to stop the infringing through the court or through the administrative organs. As mentioned above, the administrative organisation can facilitate consultation and mediation between the partners.

3.3 Protection Through the Courts

For a variety of reasons, there are an increasing number of foreign as well as Chinese companies enforcing their Patent rights in the Chinese courts. Unfortunately, statistics are not available to provide a good illustration of this.

There are a variety of factors to consider in deciding to go to court. Among the factors to consider is whether administrative enforcement will accomplish the same goals. Each route has its strengths; foreign companies can sometimes use both. However, patent owners, with the support of PRC authorities, are increasingly using civil litigation, especially in patent cases involving complex technology. Civil court procedures are more suited for these complex issues, as they are more specialized.¹¹¹

The China Patent Office itself does not handle the infringement cases; it is the regional patent administration offices that deal with them. They are located in provinces, larger cities and special economic zones. However, the problem with the patent administrative authorities is that they are not experienced. Furthermore, they are not authorized to confiscate infringing products and equipment used for making such products. What they are empowered to do is give order of cease of infringing activity and compensation to the infringed party.¹¹²

An additional factor to consider is cost. Going to court will involve court fees, assessed as a percentage of the amount in dispute, as well as lawyer's fees. Administrative action generally requires low or no fees to the administrative agency itself, although in pursuing their cases, most major multinationals will involve lawyers. However, infringers will often challenge any unfavourable decision made by an administrative body, so the matter will frequently land in court anyway.¹¹³

The quality and the structure of the local courts is also an issue to look into. Chinese courts vary in the quality of their personnel. As said above, unlike many other jurisdictions, most judges are not university graduates in law.

¹¹¹ Clark, D. Intellectual Property litigation in China, p 25.

¹¹² Finder, S. The protection of IPR through the courts, p 257 ff.

¹¹³ Clark, D. Intellectual Property litigation in China, p 25.

Many judges learned law on the job and through court-sponsored training programs. Generally, judges in the intermediate or higher courts and in larger cities tend to be better educated, and the general level of competence has risen over the past years. Patent cases are usually brought up in intermediate or higher courts as first level. Moreover, several of these lower courts have established intellectual property divisions, where the judges only handle IP cases and therefore have more experience.

The environment of a Chinese court is also a factor to consider. The Chinese judiciary is an institution with a unique culture. Traditionally the courts have been regarded as an organ of the Communist Party and of the State, and their personnel as Communist cadres. This tradition is changing as younger judges are developing a sense of professionalism.

The background of the disputing parties and the social, political and economic implications of their decisions are factors to which Chinese judges are particularly sensitive. This means often that local judges favour the local party; this is called “local protectionism” in China. A reason for this phenomenon is that Chinese society places a high value on proper relations. This may lead to Chinese judges accommodating their decisions to maintain good relations with influential persons. On this note, it must be said that it is important where the litigation will take place. Litigation in the infringer’s home base may be a disadvantage, as protectionism may exist. Rules concerning court jurisdiction in patent infringement cases are found in the Civil Procedure law of the People's Republic of China. In general, it provides that the court in the place where the infringing products are manufactured shall have jurisdiction for patent infringement cases.¹¹⁴

If it has been decided to litigate, it is of value to know the availability and extent of interim relief. Before a case has been filed, an interested person or entity may also apply for property preservation measures within the period provided. After a case has been filed, a Chinese court may issue an order to preserve evidence or property, either on its own initiative or upon the application of a party according to Article 61, PL. However, the party must provide security to the court in an amount comparable to the property preserved.¹¹⁵

Furthermore, the Chinese procedure law provides for procedures for suing multiple parties and for including third parties in litigation either with or without an independent claim of action. This opportunity to sue multiple infringing parties at the same time can be used to decrease the costs of the litigation. In addition, if a third party, without an independent claim, but whose interests will be affected by the outcome, wants to be a party, may petition the court to be a party to the case.¹¹⁶

¹¹⁴Finder, S. The protection of IPR through the courts, p 261ff.

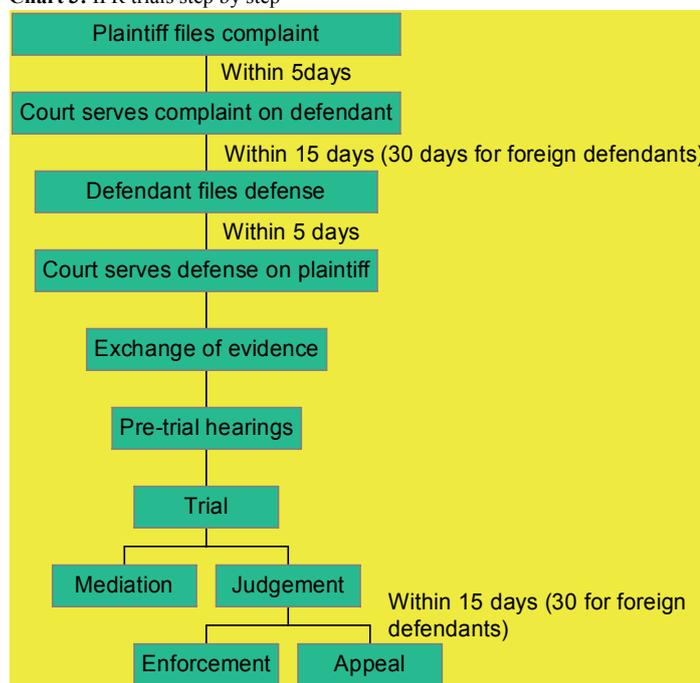
¹¹⁵ Articles 93 to 96 and Article 99, Civil Procedure Law of the PRC.

¹¹⁶ Finder, S. The protection of IPR through the courts, p 265.

There are three principal remedies available to the plaintiff in infringement cases. They are compensation for economic losses, cessation of infringement and an apology. In addition, a court may confiscate illegal gains and equipment and impose fines. Compensation may be made based on economic losses or illegal gains. The two does not necessarily reach the same result because the infringer generally has lower costs than the party being infringed does.¹¹⁷ Complicating the matter is that often courts want proof of actual economic losses that may be difficult for a plaintiff to provide. Moreover, Chinese courts are often reluctant to award compensation for damages to goodwill and reputation.¹¹⁸ Court fees, but generally not lawyer's fees, are usually borne by the losing party.

If the judgement of the first instance is not pleasing, the plaintiff (and the defendant) may appeal to the next highest court. An appeal requires the payment of court fees, which as in first instance proceedings, are assessed as a percentage of the amount in dispute. A party faces time limits for appeal that vary depending upon whether he has a domicile in China. A party without domicile in Mainland China, Hong Kong or Macau, has to appeal within 30 days from the date of judgement and the party with a domicile in above-mentioned region has 15 days to appeal.¹¹⁹ The appellate court can review both the relevant facts and the application of law and may review additional evidence.¹²⁰

Chart 3: IPR trials step by step¹²¹



¹¹⁷ Feng, P. Intellectual Property in China, p 32.

¹¹⁸ Feng, P. Intellectual Property in China, p 35.

¹¹⁹ Articles 249 and 147 Civil Procedure Law.

¹²⁰ Finder, S. The protection of IPR through the courts, p 268.

¹²¹ Source: Clark, D. Intellectual Property litigation in China, p 26.

Litigation in Chinese courts remains, in conclusion, difficult both for domestic and foreign litigants. However, as the education level of the judges and the lawyers continue to improve, the difficulties facing the litigants will diminish. The increase in patent infringement litigation is likely linked to the increase in infringement activity rather than a leap in faith in the Chinese courts. As the strength of the law is dependent upon the extent to which it is upheld by the courts, these difficulties are central to many of the problems faced by foreigners and Chinese alike in enforcing their patent rights in China.

4 Critical review of the Patent System

The purpose of this chapter is to critically review the current Patent system and reveal the disparities existing in legislation, administration and enforcement of Patent law in China.

The Chinese government have made a great progress with improving the Patent system and the patent environment in China; however, it is inevitable for such a young system to contain disparities.

4.1 Problems with legislation

The first problem to observe about the PL is that it protects three different forms of “patent rights”, i.e. invention patents, utility model patents and design patents. Mr. Yang argues that separate forms of protection for the three rights would be more appropriate.¹²²

He means that separate protection in separate laws would better motivate right holders. As shown above, inventions represent more advanced progress than utility models and designs in term of the level of technology. Inventions and utility models require novelty, inventiveness and practical applicability to obtain protection rights.¹²³ However, as it is shown, the requirement concerning extent of the inventiveness for inventions is much higher than for utility models. Inventions represent “prominent substantive features” and “notable progress” according to Article 22, PL. The distinctive requirement for granting these rights suggests that separate protection would make inventions more distinctive than utility models. Perhaps this would lead to that invention holders get better motivated towards higher level of technical contribution.

Above mentioned type of argument can be extended to industrial designs, which have even more distinctive features vis a vis utility models and inventions. Industrial designs are associated with artistic features, shape, configuration and industrial application, for which only novelty is needed for a grant according to Article 23, PL.

This further substantiates the argument that the three rights should be protected under separate laws.

The problem with three different patent rights under the same law could also lead to misled consumers. When a patent is granted in China, it is called a

¹²² Yang, D. Intellectual Property and doing Business in China p 145.

¹²³ Yang, D. Intellectual Property and doing Business in China, p 146.

patent right, no matter if it is granted for inventions, utility models or designs. Consequently when a manufacturer indicates the patent right on a product, consumers may assume that the product represents a significantly greater technological advance than is in fact the case, if the patent right is actually granted for a design.

Another area to further investigate is the two-tier legislative system. The two-tier legislative system causes inconsistencies although it has its upsides too. The two-tier system gives the second-tier organisations flexibility to adjust their policies based on the special situations in their own areas to better tackle their situation.

There are two obvious disadvantages. First, there is the lack of a specific code of practice to guide the rules and regulations stipulated by the second-tier provincial and ministerial government. Consequently, there will be inconsistency in the rules between the first and second tiers. Second, the system also lacks a co-ordinating organ to deal with conflicting rules and regulations stipulated at the same level across provinces or ministerial governments. These problems are specially shown when dealing with inter-provincial or inter-ministerial issues as the rules are not aligned.¹²⁴

It is essential that the central government stipulate specific regulations to regulate and harmonise the inconsistencies and conflicts that result from the two-tier legislative system.¹²⁵ Although there is a general policy in the Chinese Constitution that “(...) no laws or administrative or local rules and regulations may contravene the constitution” according to Article 5, this general policy does not provide specific guidelines on how to operate consistently with the first-tier of policy. Furthermore, the ministerial and provincial governments only need to send their regulations to the central government for record according to Article 100 Chinese Constitution. This entails that the central government carries out little or no supervision of the consistency of the second-tier regulations. As a result, some of the second-tier regulations, which are consistent with the first-tier policy, might specifically contradict another one amongst the second-tier government organisations.¹²⁶

Another problem with the two-tier system is that laws and regulations promulgated by different tiers are often given different names in Chinese, with the same confusing English version. This inevitably causes misunderstandings by foreigners, and even more confusing is when two regulations are inconsistent.

¹²⁴ Yang, D. Intellectual Property and doing Business in China, p 147.

¹²⁵ Yang, D. Conflicts and dispute resolution on Equity Joint Ventures, p 82.

¹²⁶ Yang, D. Intellectual Property and doing Business in China, p 147.

4.2 Problems with Administration

The lack of co-ordination and co-operation between different administrative organisations, especially the ones at the same level have caused patent protection problems in China. As mentioned above that patent applications and registrations are processed in SIPO. However, relating to patent protection there is a far more complex bureaucratic network operating at different levels. There are different layers of sub-organs dealing with patent administration and protection at provincial and city levels such as provincial and city IP offices. Additionally there is also different ministerial government involved in the IP administration.

On the other hand, there are grounds for believing that it is correct to establish such a complex setup to deal with IP problems in different provinces or ministries. Though decentralization is needed, the layers and the relationships between them are complicated and this often leads to conflicts amongst administrative organisations at the same level, especially the agencies from ministerial and provincial levels. The need to increase the degree of co-ordination, harmonisation and rationalisation is apparent.¹²⁷

Below are examples of where administrative management can be enforced:

- 1) Administrative regulations should be specified in order to have clearer guidance. For instance, the PL has broadly stipulated in Articles 57, 58 as follows “(...) Where the authorities for the patent work considers the infringement well found, it has the power to order the infringer to stop infringement acts immediately”. See Article 57 PL.
“...He may be coupled with a fine of no more than three times of his illegal income and, where there is no illegal income, he may be imposed with a fine of no more than 50,000 RMB.” See Article 58 PL.

However, there are no specific articles to guide the administrative punishment and without specific administrative guidance, it is impossible to exert unified and effective administrative enforcement.

- 2) Administrative enforcement is required under TRIPS. See Articles 46 and 49.
- 3) Administrative enforcement needs highly qualified administrative workers. This means that administrative workers should not only

¹²⁷ Yang, D. Intellectual Property and doing Business in China, p 154.

have knowledge of the IP laws, but also have experience of handling administrative disputes.¹²⁸

Mr. Yang has studied some cases where problems have appeared because of the lack of co-operation and co-organisation between the different organisations. The studies mainly display that the different organisations needs to co-operate in order to work more effectively. This mainly was shown in the lack of exchange of information between organisations.¹²⁹

One of the cases is called “Zhu Ye Qing”, hereafter ZYQ and is trademark dispute, even though trademark is not within the scope of this thesis, this case is interesting in this context because it shows some of the effects of lack of co-operation amongst organisations. The case will not be displayed in detail. The dispute concerned whether ZYQ was a generic name for a spirit or a trademark. The case was at first brought up in court, but the court refused the case because it was itself uncertain whether ZYQ was a trademark or a generic name. It believed it was the responsibility of the administrative organs to deal with the case. The administrative organs decided that the ZYQ was a trademark and a brand name, which should be protected nationwide.

4.3 Problems with Enforcement

The problems in judicial organs are similar to the problems in the administrative organs. Different tiers have independent judicial powers. Some might argue that independence makes different judicial organs judge cases more efficiently. Some degree of independency is necessary, but co-ordination is also essential if the independency leads to inconsistencies in the judgements reached.

Co-ordination and harmonized judicial proceedings are crucial when cases are handled across provincial borders in order to reach efficiency while resolving patent (and IP) infringement cases to achieve transparency.¹³⁰

Another problem is the quality and quantity of lawyers and judges in China. The lack of legal workers has caused severe problems with implementing patent rights. Though the numbers of Chinese lawyers have increased, it is not nearly enough for the population in China.

Besides the question of quantity, the quality of Chinese judges and lawyers is another problem. The Chinese legal enforcement was only restored in 1980; therefore, it is impossible to build up a large group of experienced lawyers and judges in such a short space of time.

¹²⁸ Yang, D. Intellectual Property and doing Business in China, p 154.

¹²⁹ Yang, D. Intellectual Property and doing Business in China, pp 155-157.

¹³⁰ Yang, D. Intellectual Property and doing Business in China, p 159.

In order to "... protect the legitimate rights and interest of litigants, safeguard the correct enforcements of law, and bring into full play the positive role of lawyers"¹³¹ in the Chinese legal system it is crucial to increase the quality of lawyers and judges.

A serious problem in the enforcement system involves local protectionism. As noted above, courts are beholden to local people's congresses and governments for funding, salaries and continuing employment. In addition, some local governments put pressure on the courts to protect local economic interests.

Local protectionism is one widespread form of corruption, but there are many others. Accepting bribes and improper contact with the parties has also been a widespread problem with the courts in China.

Local protectionism is usually seen in one of two ways. First, parties that seek relief in local court against a local defender may find the local court acting unfavourable towards the "outside" party. It does not matter whether if the "outside" party is a foreign party or a Chinese party, the local protectionism is seen anyways. The local court tends act favourable towards the local party where the defendant is a state owned enterprise or a private enterprise that is important to the local economy, even at the expense of the law.

The second way local protectionism is seen can be when a party has obtained a judgement against a defendant in one court but has to travel to the defendant's home in another location in order to enforce the judgement. Then the plaintiff and the enforcement authorities from the issuing court may find that the local authorities have no interest in aiding the enforcement, to the contrary, they may even find that the local authorities obstructing the judgement and opposing its enforcement.

Judges and judicial personnel have also been known for accepting bribes. Parties with pending cases have been known to bribe and to have ex parte contacts with judges outside of the courts. Law enforcement has therefore intensified their efforts to punish judicial corruption. According to the Supreme People's court, officials investigated and punished 995 judicial personnel and judges in 2001.¹³²

The enforcement of judgements in China is not only obstructed by local protectionism, there are also structural issues. Courts have no recourse to effective sanction against other state or government organs that do not obey court orders. Some government organs have even said that they are of equal or greater bureaucratic rank to courts and see no reason to obey court orders. This shows the lack of power the courts have in bureaucratic China. Although parties are required by law to abide by all court judgements, recent reports indicate that 25 to 40% of all civil judgements are not enforced.¹³³

¹³¹ Article 1 of the Provisional Regulations of the PRC on Lawyers (1982).

¹³² Chow, D. C.K. The legal System of the People's Republic of China, p 221 ff.

¹³³ Chow, D.C.K. The legal System of the People's Republic of China, p 223.

Courts generally rely on enforcement officers to enforce judgements. Moreover, even though actions have been taken, e.g. the Supreme Court has strengthen its division of enforcement and other courts have trained more enforcement personnel, the problems in enforcement of judgements continues as local protectionism persists to create obstacles and as enforcement officers fail to perform due to lack of funding, professional training and corruption.

5 Strategies for protecting Patent Rights

This chapter will present the fictive company (A), and two problems it has encountered in China regarding its Patent rights. The problems A encounters in China are the most common problem areas when it comes to Patent protection according to the interviewed persons and the writer's experience.

5.1 Problems and Solutions

A is a multinational company present in China. A has outsourced some of the production of its products to local Chinese manufacturers. The majority of the employees in A's Chinese organisation are Chinese. A has some patents that are also registered in China.

The risks of counterfeiting or dissemination of one's patent technology is greater in all situations where the rights owner may voluntarily or involuntarily come to disclose the content of his rights. Following situations are those detected as most "risky":

- 1) Supplier relations, especially when outsourcing manufacturing as this includes the disclosure of some confidential information;
- 2) Customer relations, as there may be temptation to impress a potential customer by "showing off", for example by inviting them to the plant;
- 3) Employee relations, as the employees become privy to sensitive information in the normal course of employment.

Just as medicine, prevention is always better than cure. In China, counterfeiting is also much easier to prevent than to punish. Patent rights that are blatantly infringed and cannot be enforced are worthless. Therefore, it is far more important for a business to prevent or limit the incidence of infringement than seek to deal with it later on when it becomes more complex and costly, and the outcome of the enforcement efforts become more uncertain. Even if all the usual measures are taken to protect patent rights, infringement may still occur. When infringement occurs, it is important to take action to stop infringement and to demonstrate to possible infringers that action will be taken against them as well. Enforcement need not always be taken as formal proceedings. Ordinary private efforts can be attempted first. However, before deciding how to react, a patent owner

should do a cost-benefit analysis of the possible options.¹³⁴ A cost-benefit analysis is when you compare the possible costs with the possible benefits with an action.

The following considerations given in “preventive actions” suit the circumstances prevailing in China and the solutions given below are conclusions from what has been gathered during the research and interviews.

5.1.1 Supplier contact

Problem:

In a supplier relationship, A notices that B is producing the same products after regular business hours and selling the products to A’s customers. The product is patented in China. The product is in an early phase of its Patent Life Cycle (PLC).

Preventive actions:

First A should recognize the risk posed by counterfeiting, and be vigilant and take active preparations to protect its rights.

Although most products are exposed to the threat of being counterfeited, A needs to calculate the risk, the potential damage and the probability of problems occurring. A product in the beginning of its PLC is likely to be more important to protect than a product in the end of its PLC. This is because it is less likely that A has been able to regain his investment into the development of the product. It is not wise to produce all kinds of products in China, since some products are more sensitive to infringement, careful decisions should be made during the selections process.

If the production of the product is outsourced to B, A must be aware of the risks involved. A should first, when initiating contact with B, have confidentiality agreement. A should only disclose needed material.

Secondly, all the material transfers, such as drawings, documents, manuals and general know-how from A to B should be recorded. This is good in case of future disagreements. The contract should include obligations to return all material provided by A at the end of the contract.

Due diligence is of importance. A should undertake a due diligence of both B and the people behind B. Many companies forget to investigate the people behind the companies they are investigating. This could be a very dire mistake. The people involved in B can be part of a big counterfeiting group. They may have very good relationships with local authorities, which could both be helpful and dreadful in a co-operation. Some of the questions that should be answered before any form of co-operation are;

¹³⁴ Dealing with violators of Intellectual Property Rights. WIPO magazine Jan-Feb 2004.

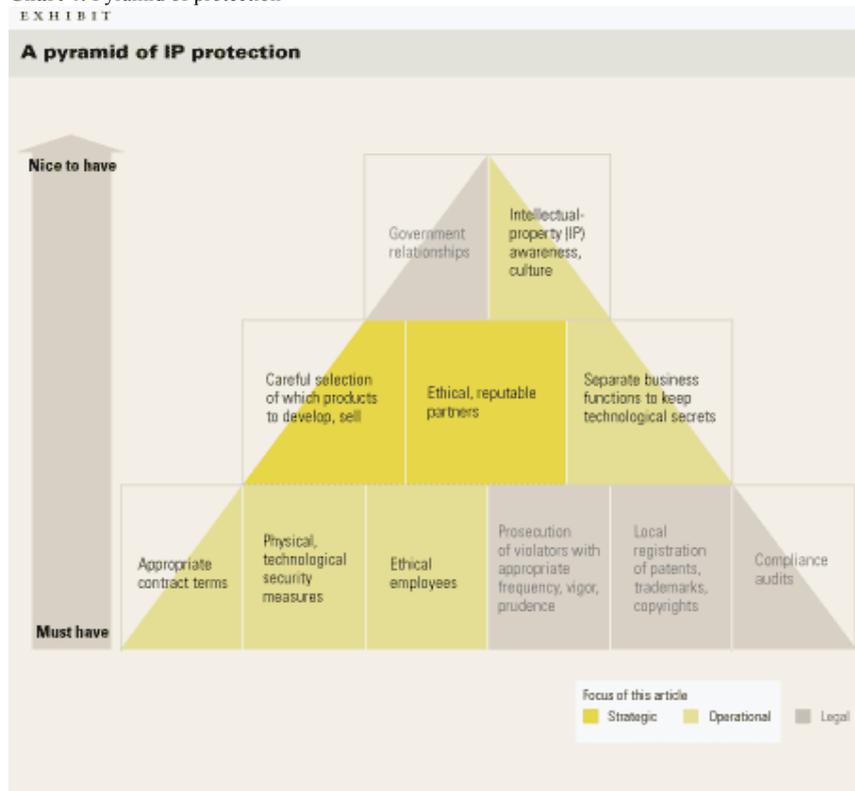
Who are the people in the management team? - Are there any previous actions that may lead to suspicion? -What are the experiences from other companies dealing with B? - Are the people in the management group involved in other business, competing with A?

Doing a proper due diligence may save A from the problems that they are facing now.

After A has approved B for co-operation, it should invest time and money into training and improving both its own and B's internal information process. Develop different security processes, for instance a log on; log off system for B, when handling material and information from A. A log on, log off system is preferably used in information processes. The person accessing the information must log on and off and this will be recorded for future needs. It will be very helpful if you can follow the information flow in case of leakage.

A pyramid of protection¹³⁵ is needed both in A, as well as in B. The pyramid of protection presents different strategic, operational and legal bricks that A should build on towards a sustainable protection of IP. A will attain profit if A helps B to work towards the same goals.

Chart 4: Pyramid of protection¹³⁶
EXHIBIT



¹³⁵ See chart 4.

¹³⁶ Source: Dietz, C.Meagan,et.al. Protecting Intellectual Property in China.

Solution of the problem:

The first thing to do is to collect evidence. If the evidence is not available, private investigators may be hired to assist in collecting information about the copying operations. Information gathering may take a while. Useful information may come from discussions with customers of the party making the copies, photographs of the copier's plant and equipment, and investigations into the incorporation, financing and ownership of the copier, as well as its political affiliations. An in-depth investigation, including the purchase of large quantities of infringing products to create an overwhelming paper trail of correspondence, obtain supply, and invoice documents should take place. In 2001, the Supreme People's Court issued an opinion making the use of audio and videotapes that are taken without the consent of the other party acceptable in court. This provided they were obtained lawfully.¹³⁷

Next step is to prove infringement with the gathered evidence. For patent, A must prove that the product falls within the scope of the patent's protection. If the evidence is there, then A may consider sending a letter (commonly known as a "cease and desist letter") to B, informing him of possible existence of a conflict between A's patent rights and B's business activities and suggesting that a possible solution to the problem be discussed.¹³⁸

This procedure is often more effective in case of non-intentional infringement. In this A and B case, it appears, as it is intentional infringement. If A does not wish to continue to have business relationship with B, it is more appropriate to go to court without giving notice to B and ask for an "interim injunction" in order to surprise B by a raid, often with the help of the police. This makes it possible for A to gather evidence that otherwise could be destroyed or hidden. The court may also order that B stop his infringing activities pending the outcome of a trial.

Bringing legal proceedings against B will only be advisable if:

- 1) A can prove the existence and ownership of the patent right;
- 2) A can prove there is an infringement of its right;
- 3) The value of the succeeding in the infringement action outweighs the costs of the proceedings.

Administrative proceedings are also available. Sometimes both legal and administrative proceeding should be engaged. The administrative organs can help in the evidence collecting work and when making a raid is needed.

¹³⁷ Clark, D. Intellectual Property litigation in China p 28.

¹³⁸ Dealing with violators of Intellectual Property Rights, WIPO magazine Jan-Feb 2004.

5.1.2 Employee relations

Problem:

A is suspecting that an employee (C) is copying patented drawings from A and sending them to his own company. C is using the drawing to make copies of A's products.

Preventive measure:

The proper control and training of employees is a first line of defence against business secret theft. If there is a proper code of conduct when managing information within the company, inappropriate use of information will be more difficult. Sensitive information should be distributed with caution.

Employees do not have the right to use technology transferred to their employer for their own purposes, not even if the employee has participated in the developing of the technology. Employees do not necessarily know this; however, A should spell out these basic principles. The Shenzhen Regulations require enterprises to enter into confidentiality agreements with employees and to make sure that employees know that company secrets must be kept confidential.¹³⁹ A confidentiality agreement simplifies future disagreements. The employee knows who he allowed to use the information provided from the employer.

Next, A should have control of intellectual property, not make it available to those whom access is not necessary. This can be feasible if there is a log on, log off system with a limited group of persons with access. A must be able to track all the activity around the sensitive information.

Solution of the problem:

The first thing to do is to collect evidence, see 6.1.

However, sometimes the collected information does not disclose any wrongdoings. This may occur when the activity is only reverse engineering, or copying a product.

In China, reverse engineering is legal, if it is undertaken by legal means. A completely legal reverse engineering might be the case if a machine is purchased and taken apart, its parts studied to ascertain their function, and then copied bit by bit, so that a new machine is built with similar shaped parts.¹⁴⁰ The machine may look like the old machine, but as long as the process does not constitute a violence of A's Chinese Patent, then the activity of reversal engineering does not infringe the rights of A.

However, it is sometimes the case that information used to assist the reverse engineering was obtained improperly. In this case, C stole drawings of the machine to assist the reverse engineering. This will constitute infringement.

¹³⁹ Riley, M. Protecting Intellectual Property Rights in China, p 45.

¹⁴⁰ Riley, M. Protecting Intellectual Property Rights in China, p 66.

A has some different steps it may take. Firstly, terminating the employee's contract. Then, within the scope of this thesis, A has the following steps available.

When sufficient evidence is gathered, C and his company can be confronted and asked to make amendments. If they fail to co-operate, the case can be taken to court. Instead of conducting a confrontation, it may sometimes be economically preferable to simply buy out the copying operation. This is preferable in situations where A believes that C and his company will not go back into same business again. Anti-competition agreements can be used to create a legal obligation that C will not continue in the same business for a certain period. Problems with enforcement may occur, but the process of negotiating a settlement is troublesome enough to prevent C and his company from repeating the infringement. It might be helpful to get individual principals as well as corporate infringers to join a settlement agreement.

The terms of the agreement will depend on the relative strengths of the parties. The settlement agreement should clarify the nature of the infringement, and, if possible, it should include an admission of infringement from the C and other parties. In order to keep the availability of further actions against new infringement, the agreement should only cover past misdeeds, which are fully disclosed by the date of agreement. In conclusion, the more specific the agreement worked out through detailed negotiations, the more likely it is that it will be followed.

If a settlement agreement has been signed and C continues his infringing activities, it is now time to approach the administrative authorities for help. The administrative authorities can be of help. They can try to persuade C to stop his activities. The patent Office may:

- 1) Enter and search premises;
- 2) Review books and records for evidence of infringement and damages;
- 3) Seal up suspected goods and materials or equipment used to make infringed goods; or
- 4) Take other appropriate measures, including criminal prosecution where warranted.
- 5)

If enforcement of A's rights is not feasible with the help of the administrative authorities, A can take the matter further to court. Even so, the previous contact with the administrative authorities can be of value.

6 How to protect IP-rights in China - the conclusions

The Chinese legislators have recognized the need of better protection, both in order to widen the “open door policy” for foreign investors and to encourage local Chinese companies to invent more.

There have been some changes to the Patent law in order to conform to the international requirements, but further efforts needs to be done. While finalizing this thesis, the current Patent law is up for review. It remains to see what will be the result.

Nevertheless, patent protection in China is a problem that will be easier to cope with in the future.

When foreign companies come to China they need to be prepared to deal with circumstances, which they might never have dealt with before. An example of this is “Guanxi”, meaning relationships, or in other words, local protectionism.

Legislators and those who are well familiar with the PL might argue that the PL provides good protection. It does if you only examine the substantial law. When taking a closer look, the substantial law appears to be resilient; however, the implementation of it is not. Local protectionism is one of the reasons why the implementation of the law is not sufficient. Even though “Guanxi” has bad effects, it also has benefits. When establishing a presence in China, relationships with the local central government officials are of importance. These relationships will be a great help in case of problems and function as a door opener, when lobbying is needed.

Furthermore, the companies who wish to be present in China must invest more in security than they would have otherwise. It does not necessary mean that they need to invest in new technology in order to obtain security. It could be sufficient to have good control on the suppliers and the employees, furthermore, it is very important to monitor and investigate your business partners in China.

Patent protection can definitely be effective, but the extent of protection lies firstly in the hands of the rights owner. It is the owner of the patent right that must be aware, recognize possible infringements, and react fast when infringements occur. The administrative bodies and the legal proceedings will only be of help if the owner has done his job properly. The owner must collect evidence, track down who the infringer is and pursue implementation of the protection he is entitled to.

Patent protection can be reached either through the administrative bodies or through the courts. The conclusion from this research is that, the first action to be taken when infringement has occurred, is to contact the local administrative body and present the facts and evidence. In this phase, it helps if governmental level Guanxi was previously established. That will

make the process much smoother. If the action of the local administrative organ is not sufficient, then it is time to file the case to the court. The administrative bodies can be of help in this phase as well. Subsequently, contact should be taken with the administrative bodies as early as possible.

The most developed areas of the country, such as Shanghai, Beijing and its surroundings, has in the recent shown the most rapid progress and is likely to continue on this path. Therefore, it is recommended to try to seek protection from the courts and administrative bodies in these areas.

Upon rulings from the courts and local officers will carry out enforcement. Controlling this procedure in such a vast country is difficult and China has a long to go before reaching international standard. However, given China's determination to become an internationally respected and reliable actor, patent protection is likely to improve in the future.

Supplement A

Questions to Peter Humphrey and Ulf Öhrling

Following persons were interviewed:

Peter Humphrey, Managing Director of China Whys Risk Management & Investigations, Shanghai.

Mr Humphrey is the founder of China Whys, a risk management consultancy that provides creative approaches to critical business problems in China. China Why offers discreet risk mitigation solutions, consulting and commercial investigation services to corporate clients in important and sensitive matters. Mr. Humphrey has spent 25 years working towards China and Eastern European countries.

Mr. Humphrey has a thorough knowledge of the China operating environment and is an authority on fraud and supply chain risks. He holds an Honors degree in Oriental Studies from Durham University England and has been a fellow of Harvard University. He is a member of the American Society for Industrial Security and the Association of Certified Fraud Examiners.

Ulf Öhrling, Resident Partner Advokatfirman Vinge, Shanghai.

Mr. Öhrling is the resident partner of the Swedish law firm Vinge in Shanghai. He has been in Shanghai since 2004. He specializes in Mergers and Acquisitions, Corporate Finance and Capital Markets, Intellectual Property Right, IT-law and China Practice.

I need to specify 3- 4 most common problems that companies face regarding their Patent rights. How do the infringements happen? Can you give some typical examples?

- Not following the local regulations and taking cautions?
- Too loose information transfers?
- Not applying for Patent in China?
- Personnel lost
- Personnel giving out information
- Re- engineering (product bought on the market and copied)

Can you describe the typical company structure of the companies seeking your help?

- Size
- Old/new patents
- Registered Patent in China
- Local staff/foreign staff
- Outsourced production (regarding patent infringement)

- Did they have any IP strategy in the company
- IP awareness in the company?

What is your suggestion on how companies should act in order to protect the Patent rights, a list of things they should do when they entering China.

Preventive actions.

A short to do list after infringement has occurred.

- Which authorities to contact
- What to do within the company
- Get an intermediate order?
- How to fight the infringers

What have your experience been with the judicial implementation of the Patent Law?

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