

## COMMENTS

31 July 2008

### **BUSINESSEUROPE COMMENTS ON PROPOSED AMENDMENTS TO CHINA'S PATENT LAW**

#### **1. INTRODUCTION**

BUSINESSEUROPE welcomes the opportunity to comment on the State Council Legislative Affairs Office's proposed amendments to China's Patent Law, dated February 28, 2008 (SCLAO amendments).

BUSINESSEUROPE appreciates China's efforts to harmonise its patent law with international practice and develop a coherent and TRIPs-compliant legal framework. Many of the SCLAO amendments help attain this goal. However, BUSINESSEUROPE would like to focus its comments on some specific areas where improvements are needed, such as provisions relating to compulsory licensing, protection of the patent right and competition law. These could further improve the patent and enforcement regimes and thereby attract R&D investment and foster innovation in China.

#### **2. GENERAL COMMENTS**

Certain of the SCLAO amendments contain overly broad compulsory licensing provisions that, if implemented, would fall foul of WTO TRIPs Agreement rules. TRIPs permits compulsory licensing of patents under only a narrowly defined set of conditions. While some of the SCLAO amendments would help bring China's rules on compulsory patent licensing into closer conformity with TRIPs, others go beyond what is permissible under TRIPs.

Some of the amendments, which are based on well-intentioned but ultimately misplaced competition-law concerns, render it likely that the current form of the SCLAO amendments would unfairly prejudice legitimate interests of patentees. For example, while abuse of patent monopoly rights is capable of damaging the competitive process and innovation, the laws of many developed countries address these concerns in competition law or case law rather than in patent law. Conflating these separate strands of law within Chinese patent law would potentially undermine the rights of patentees, render China's patent law confusing and inconsistent with international norms, and likely contravene the TRIPs Agreement.

The newly introduced provision in the SCLAO amendments that would require an applicant to indicate the source of genetic resources or traditional knowledge on which an invention depends would contravene the TRIPs Agreement and introduce substantial legal uncertainty for patent applicants given the lack of accepted definitions of the key terms.

It is also important to reiterate the requirement under TRIPS Article 1.3 that Members shall accord the treatment provided for in [the TRIPS Agreement] to the nationals of other Members. This provision, which applies not only to China but to all TRIPS signatories, sets forth the requirement that the legal rules governing intellectual property rights as well as their enforcement not discriminate between national companies and non-national companies.

### 3. DETAILED COMMENTS

A key element of China's efforts to harmonise its patent laws with international practice involves bringing them into compliance with the WTO TRIPS Agreement. Article 28(1) of TRIPS requires signatories to confer upon patent holders several exclusive rights, and permits limited exceptions to these rights when such exceptions do not conflict with a normal exploitation of the patent and do not unreasonably prejudice the legitimate interests of the patent owner, taking account of the legitimate interests of third parties.

As outlined above, the TRIPS Agreement also permits compulsory licensing of patents, but only if each of the conditions set out in Article 31 of TRIPS is satisfied.

The following SCLAO amendments would permit overly broad use of compulsory licensing, and/or would permit encroachment upon TRIPS-enshrined rights based on competition-law concerns, in a manner that would likely contravene TRIPS.

#### ARTICLE 49

The proposed amendment to Article 49 would permit compulsory licensing when, within three years of the patent grant, the patent owner has not sufficiently exploit[ed] the patent without any justified reason. Although similar provisions exist in some countries' patent laws, such provisions fail to take into account the modern realities of regulatory regimes and technology development. Many regulatory provisions of our time impede speedy commercialisation of new technologies. Furthermore, patent owners increasingly require years of technology development before proceeding to commercialisation and marketing. These considerations often underlie delays of at least a few years in commercialisation of technologies. The patent owner should not be penalised with an effective compulsory licence after three years because of delays arising from the modern regulatory and technology-development regimes.

Furthermore, China's patent law should provide that any importation of a product that incorporates the patented product or was manufactured with the patented process will constitute exploitation within China for purposes of Article 49. Otherwise, Article 49 would contravene Article 27(1) of the TRIPS Agreement, which states that patent rights [shall] be enjoyable without discrimination as to . . . whether products are imported or locally produced.

The proposed amendment to Article 49 would also permit compulsory licensing when the patent owner has been determined to have exercised the patent in a manner

intended to eliminate [or]<sup>1</sup> restrict competition. As discussed above, the patent laws of many developed countries are concerned solely with patent issues, and remedies for antitrust violations, including violations arising from abuse of patent rights, are usually specified in either antitrust law or through case law. Specifying antitrust remedies in the patent law of China would be potentially redundant and confusing, given that such issues are addressed, or addressable, in antitrust law or case law.

Finally, Article 49 as amended, in contravention of TRIPS, does not provide adequate restrictions on the scope of compulsory licences. Article 31(k) of the TRIPS Agreement permits compulsory patent licensing in cases of anti-competitive conduct; however, Article 31(c) restricts the scope of compulsory licences to measures that are strictly necessary to remedy violations of competition law. For that reason, we believe that the proposed amendment to Article 49 should be modified by adding, at the end of the relevant paragraph: but only to the extent that the compulsory licence is necessary to remedy the effects of such conduct.

#### **ARTICLE 53**

New Article 53 would exclude compulsory licences issued in the public interest under Article 50 from Article 53's requirement that the exploitation of compulsory licences shall be predominantly for the supply of the domestic market. This provision probably contravenes Articles 31(f) and 31 bis of the TRIPS Agreement, which provide that all compulsory licences, other than those relating to the production of pharmaceutical products on behalf of least-developed countries that lack adequate manufacturing capabilities (but otherwise including compulsory licences issued in the public interest) must be used predominantly for the supply of the domestic market.<sup>2</sup> For that reason, the proposed amendment to Article 53 should be revised to delete the reference to the first paragraph of Article 50, and to provide only a limited exception relating to the production of pharmaceutical products.

Additionally, the second paragraph of the proposed amendment to Article 53, which permits compulsory licensing of semiconductor technology in cases of anticompetitive conduct, should similarly be revised to permit compulsory licensing only to the extent necessary to remedy the anti-competitive conduct, consistent with the requirement of Article 31(c) of TRIPS.

#### **ARTICLE 54**

The proposed amendment to Article 54 is intended to implement the requirement in Article 31(b) of TRIPS that the intended beneficiary of the compulsory licence expend, before a compulsory licence can be issued, efforts to obtain authorisation from the right holder on reasonable terms. However, Article 54 does not require a prior request for a voluntary licence in connection with Article 52 to allow working of dependent patents

<sup>1</sup> We assume the bracketed word was intended to be *ōrō*, despite use of the word *ōandō* in the translation that was made available.

<sup>2</sup> Note, however, that Article 31(k) of the TRIPS Agreement provides that WTO members are not obliged to adhere to Article 31(f) when a compulsory licence is issued in order to remedy a practice that has been deemed anti-competitive.

which is contrary to Article 31(b) TRIPs. Article 54 should specifically include a reference to Article 52 in addition to Articles 49 and 51 to be consistent with TRIPs.

### **ARTICLE 72**

Under the new Article 72, when infringement proceedings are instituted more than two years after the patent owner or any interested party knew or should have obtained knowledge of the infringement, the infringer may continue exploiting the relevant patent subject to reasonable payment. This would constitute a compulsory licence of the patent without satisfying any of the requirements set forth in Article 31 of the TRIPs Agreement or Chapter VI of the Patent Law. This provision should therefore be deleted.

### **ARTICLE 73**

New Article 73 would limit infringement damages and permit continued exploitation of a patent by a putative infringer where such party had reasons to believe that the patentee . . . will not claim its or his rights over the exploitation. This language is ambiguous and poses a serious threat to the rights of patent owners. Moreover, the provision only sets forth a subjective standard of behaviour that is prone to abuse; as a consequence, patent owners could face unfounded challenges to enforcement of their patents. In our view, this provision should also be deleted.

### **ARTICLE 74**

Amended Articles 74(1) and 74(2) except from patent infringement liability all patents covering a product that is sold, even when the seller of the product is authorised under only one out of a plurality of patents.

It is common, however, for patents owned by different parties to cover the same product. Related to this, the same party may own two or more patents that exploit an invention in economically independent ways. The exceptions to infringement set forth in Articles 74(1) and 74(2) should only apply to the patents under which the first seller of the product was authorised, as limited by any restrictions in the agreement between the seller and buyer. Articles 74(1) and 74(2) should therefore be amended accordingly.

Additionally, amended Articles 74(1) and 74(2) would provide an exception to patent infringement for sales of a product that was directly produced by a patented process. The exception would apply regardless of whether the seller carrying out the patented process had been authorised by the patentee. For that reason, Articles 74(1) and 74(2) should be amended to limit the applicability of the exception to products directly obtained from authorised execution of the patented process.

Furthermore, Article 74(2) as amended would impose a rigid rule of international exhaustion. Most of the patent systems of developed countries either do not implement a rule of international exhaustion or allow the right holder to avoid the impact of international exhaustion by explicitly conditioning the sale of the relevant product on domestic use. Article 74(2) should be amended to provide at least an option to the right holder to avoid the impact of international exhaustion by making sales conditional on a requirement of domestic use.



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## **ARTICLE 75**

New Article 75 would bar the Patent Administrative Department or a court from ordering an infringer to cease infringing a patent if doing so would be detrimental to the society and the public, and would allow the infringer to continue exploitation of the patent subject to reasonable payment. The breadth of this exception to patentability likely contravenes the limitations set forth in Article 30 of the TRIPS Agreement on exceptions to patentability. Additionally, the provision is the equivalent of a compulsory licence, because it allows non-authorised use of the patent subject to payment of a reasonable royalty. As noted in response to Article 72, this compulsory licensing provision is inconsistent with China's obligations under Article 31 of the TRIPS Agreement and incompatible with the Chapter VI of the Patent Law. Article 75 should therefore be deleted.

Finally, Article 27 of the SCLAO Amendments would, among other things, require an applicant to disclose in his/her patent application the direct source and original source of genetic resources (as well as traditional knowledge) on which the corresponding invention depends. This provision likely constitutes an additional requirement of patentability beyond the permitted requirements listed in TRIPS Article 27.1. For this reason, we suggest that this subpart of Article 27 be deleted.