

**COMMENTS OF THE AMERICAN BAR ASSOCIATION’S SECTIONS  
OF ANTITRUST LAW AND INTERNATIONAL LAW TO THE  
NATIONAL PEOPLE’S CONGRESS OF THE PEOPLE’S REPUBLIC OF  
CHINA ON THE DRAFT AMENDMENT OF CHINA’S PATENT LAW**

*The views stated in these Comments are presented on behalf of the  
Sections of Antitrust Law and International Law. They have not  
been approved by the House of Delegates or the Board of  
Governors of the American Bar Association and therefore may not  
be construed as representing the policy of the American Bar  
Association as a whole.*

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**I. Introduction**

The American Bar Association’s Sections of Antitrust Law and International Law (“Sections”) are pleased to offer these comments on the draft *Amendment of China Patent Law* (“the Draft Amendment”), published for public comment on January 4, 2019 by the Seventh Session of the Standing Committee of the 13th National People’s Congress of the People’s Republic of China (“NPC”). The Section of Antitrust Law joins these comments only as to Article 20 of the Draft Amendment as it addresses competition issues.

The Sections commend the NPC for committing to strengthen the protection and use of intellectual property (“IP”) rights for the purposes of protecting innovation and to act against infringements of IP rights. The Sections appreciate the opportunity to comment on the Draft Amendment and do so in the spirit of assisting the NPC to meet its laudable goals of: strengthening the protection of the legitimate rights and interests of patent owners; intensifying the punishment of patent infringement in order to give full play to the leading role of judicial protection; improving administrative law enforcement in order to enhance the effectiveness and efficiency of patent protection; promoting the implementation and application of patents; improving the incentive mechanisms of inventors, designers, and patent authorization systems; strengthening patent public services; providing more convenience for the acquisition and implementation of patent rights; stimulate innovation enthusiasm and promoting invention and creations; and raising the practice of proven maturity to legal norms.<sup>1</sup>

The Sections have substantial experience with IP laws and policy in the United States and internationally, and with competition law and economics.

**II. Executive Summary**

The Sections comment only on Articles 6, 20, 22, 26, 30, 31, 43, 49, 50, 70, 71, 72, 73, and 74 because of the limited scope of the remainder of the Draft Amendment, and in the

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<sup>1</sup> See Explanatory Notes on “Amendment of the Patent Law of the People’s Republic of China (Draft).”

interests of time given the deadline for the submission of comments. The Section of Antitrust Law joins only in the comments on Article 20.

### **III. Comments on Draft Amendments to China's Patent Law**

#### **Article 6**

An important reason for this revision is the practice of “mixed ownership” in the transformation of scientific and technological achievements, that is, the employer can bring forward the transformation rewards of service inventions. Before the transformation of service inventions, service inventions have been jointly owned by the employer and the inventors. But the Draft Amendment only refers to “equity, options, dividends, etc.”, without reference to “joint ownership”, which may result in legal disputes regarding “mixed ownership.” Therefore, it is recommended to make clear provisions on this issue.

At the same time, the essence of the Draft Amendment is to extend the employer's power in order that it has more autonomy to transform the scientific and technological achievements. However, the language of the Draft Amendment may lead to the misunderstanding that the employer must “adopt property incentives, such as equity, option, dividend, etc. to enable inventors or designers to reasonably share the profits brought by the invention-creation.”

Therefore, the Sections recommend amending this paragraph as follows:

“For an employment invention-creation, the entity may, at its discretion, dispose the right to apply for patents and the patent rights in accordance with laws and adopt property incentives, such as equity, option, dividend, or joint ownership, etc., to enable inventors or designers to reasonably share the profits brought by the invention-creation, and promote the implementation and application of relevant invention-creations.”

With respect to an invention-creation accomplished in the course of performing the duties of an employee, the Sections recommend that: (1) a percentage threshold be created to allocate some level of IP rights to an employee so long as they can prove more than 50% of the invention creation was not accomplished in the course of performing the duties of an employee; and (2) the duties of an employee be explicitly expressed in writing so as to minimize disputes between employees and employers when an invention-creation is accomplished in the place of employments but not within the course of performing the duties of an employee.

Additionally, for an employment invention creation where an entity does not exercise the right to apply for a patent, the Sections respectfully suggest that it may be worthwhile to clarify in the final amendments whether or not the entity retains the right or whether the employee after a certain period retains the right. The Sections also recommended there be clarification regarding entities whose patent applications are not granted. Does the employee now retain full rights if the entity application is not granted? Is there a timeline for reapplication? When does the entity lose the right to continue re-applying, is payment required for re-application?

## Article 20

The Explanatory Notes to the Draft Amendments indicate that the objective of new Article 20 is to introduce the “principle of good faith” and to “prevent the abusive use of patent rights.”

For the reasons set forth below, the Sections respectfully recommend that Article 20 be revised as follows:

The application for a patent ~~and exercising of patent rights~~ shall abide by the principle of good faith, which requires a duty to disclose to the China National Intellectual Property Administration all information known to that individual to be material to patentability. ~~Abuse of patents shall not be allowed to harm public interests and others’ lawful rights and interests or to exclude or restrict competition.~~

To the extent that Article 20 would allow patents to be deemed invalid or unenforceable<sup>2</sup> based upon post-grant conduct of patent holders, it risks harming incentives to innovate by depriving patent holders of the ability to recoup their investments and earn a profit to spur future innovation efforts. As Judge Douglas Ginsburg of the U.S. Court of Appeals for the D.C. Circuit has explained:

Though some individuals and firms may invest resources in innovation projects for philanthropic reasons, there is a wide consensus in economics that profits are the key driver of innovation. Firms and investors are generally willing to incur the large costs needed to obtain meaningful innovations only because they expect to obtain a significant return on those investments.<sup>3</sup>

Protecting innovation incentives is crucially important given that innovation enhances social welfare by, among other things, “allow[ing] society to produce the same quantity of goods at lower costs and increases the gains from trade by bringing new products and services to meet the needs of consumers.”<sup>4</sup> Indeed, Robert Solow won the Nobel Prize in economics for demonstrating that gains in wealth are due primarily to innovation—not to marginal improvements in the efficiency of what already exists.<sup>5</sup>

To avoid harming incentives to innovate, any restrictions on post-grant conduct should not be accompanied by penalties such as invalidity. Any such restrictions should also be clear

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<sup>2</sup> Under U.S. patent law, a patent that is misused may be unenforceable until a court concludes that the misuse has been purged. Such unenforceability is therefore by nature a temporary status.

<sup>3</sup> Jorge Padilla, Douglas H. Ginsburg & Koren Wong-Ervin, *Antitrust Analysis Involving Intellectual Property and Standards: Implications from Economics*, HARVARD J.L. & TECH. (forthcoming 2019) (manuscript at 4), [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3119034](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3119034) (internal footnotes omitted; citing SUZANNE SCOTCHMER, INNOVATION AND INCENTIVES (2006)).

<sup>4</sup> *Id.*

<sup>5</sup> See Press Release, The Nobel Prize, The Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel 1987 (Oct. 21, 1987), <https://www.nobelprize.org/prizes/economic-sciences/1987/press-release/>.

and provide predictable and objective standards that allow intellectual property right holders to easily comply with the restrictions.

Second, Article 20 would create jurisdictional and implementation issues, particularly given that it appears to be duplicative of the provisions set forth in China's Anti-Monopoly Law (AML). For example, how would Article 20 be implemented and by whom (e.g., patent law courts or the State Administration for Market Regulation)? To the extent that Article 20 seeks to address competition concerns, such concerns should properly be left to the sole jurisdiction of those with enforcement or judicial-adjudication authority under the AML. In addition, Article 48(2) of China's Patent Law already addresses the possible impact of abuse of patent rights that amount to an AML violation. The addition of Article 20's prohibition on specified post-grant conduct would therefore be duplicative in addressing and remedying the issue, and would create additional uncertainty with potentially inconsistent standards and remedies (i.e., should abuse of patent rights result in compulsory licenses or unenforceability?).

Should Article 20's prohibition on exclusionary or restrictive conduct involving patents be retained, it should, at the very least, be clarified to specify that the term "exclude or restrict" requires a showing of harm to the competitive process and consumers. As China recognized in the Sixth Meeting of the U.S-China Strategic and Economic Dialogue, "the objective of competition policy is to promote consumer welfare and economic efficiency rather than promote individual competitors or industries."<sup>6</sup> This recognition is consistent with mainstream competition analysis.

Consumer welfare refers to both harm to the competitive process (through exclusionary or predatory conduct that results in substantial market foreclosure) and harm to consumers. Conduct such as a refusal to license may "exclude or restrict [some] competition" (i.e., exclude a competitor from access to an input it would like, or even needs, to compete), yet does not necessarily result in the requisite harm to the competitive process or to consumers.

The U.S. approach may be informative because the United States has a long history of trying to reconcile the two seemingly inconsistent bodies of law—antitrust and intellectual property—and the U.S. approach has evolved from broad prohibitions and presumptions of illegality to an effects-based approach that is consistent with economic theory and empirical evidence. With respect to refusals to license in particular, the U.S. antitrust agencies have stated that "[a]ntitrust liability for mere unilateral, unconditional refusals to license will not play a meaningful part" in their enforcement efforts.<sup>7</sup> This approach recognizes that antitrust liability

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<sup>6</sup> Press Release, U.S. Dep't of Treasury, UPDATED: U.S.-China Joint Fact Sheet Sixth Meeting of the Strategic and Economic Dialogue (July 11, 2014), <https://www.treasury.gov/press-center/press-releases/Pages/jl2561.aspx>.

<sup>7</sup> U.S. DEP'T OF JUSTICE & FED. TRADE COMM'N., ANTITRUST ENFORCEMENT AND INTELLECTUAL PROPERTY RIGHTS: PROMOTING COMPETITION AND INNOVATION 6 (Apr. 2007), <https://www.ftc.gov/sites/default/files/documents/reports/antitrust-enforcement-and-intellectual-property-rights-promoting-innovation-and-competition-report.s.department-justice-and-federal-trade-commission/p040101promotinginnovationandcompetitionrpt0704.pdf>.

for refusals to license would impair an intellectual property right holder's core right to exclude, which is likely to lessen the incentive to innovate. In addition, as the U.S. antitrust agencies have explained, "liability for refusals to license competitors would compel firms to reach out and affirmatively assist their rivals, a result that is 'in some tension with the underlying purpose of antitrust law.'"<sup>8</sup>

Lastly, we note that U.S. patent law does provide a patent misuse defense that can result in a patent holder's loss of the right to enforce its patent(s). A patent misuse defense can only be used by an alleged infringer as a shield if and when a patent owner seeks to enforce its patent against the alleged infringer in a patent infringement suit; the defense cannot be used as a sword.

While the U.S. patent misuse doctrine was originally a broad concept, courts have severely limited its scope over the years to bring it more in line with, and make it more "coextensive" with, antitrust principles—i.e., to require a showing of harm to the competitive process.<sup>9</sup> Prior to this narrowing of the doctrine by the courts, the doctrine was severely criticized as economically irrational, and there were several legislative efforts to reform the doctrine.<sup>10</sup> In a series of cases beginning in 1986, the U.S. Court of Appeals for the Federal Circuit—which has nationwide jurisdiction over patent law disputes—limited the doctrine to only conduct that impermissibly broadens the scope of a patent "with anticompetitive effect."<sup>11</sup> In determining whether the conduct at issue caused an anticompetitive effect, the Federal Circuit applied traditional principles of U.S. antitrust law. In 2010, in *Princo Corp. v. ITC*, the Federal Circuit went further, restricting patent misuse to situations in which a patent holder uses a patent to leverage its power beyond the scope of the patent.<sup>12</sup>

## Article 22

The Sections recommend that Article 49 be merged into Article 22 and Article 22 be revised to:

"The patent administration department under the State Council shall strengthen the construction of the public service system of patent information, publish patent gazettes on a regular basis, release patent information in a complete, accurate and timely manner, provide basic data of patent information, and promote the dissemination and utilization of patent information.

"The administrative department for patent under the State Council and the administrative department for patent affairs under local people's governments

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<sup>8</sup> *Id.* (quoting *Verizon Commc'ns Inc. v. Law Offices of Curtis V. Trinko LLP*, 540 U.S. 398, 407-08 (2004) (setting forth three sources of that tension)).

<sup>9</sup> 1 HERBERT HOVENKAMP ET AL., *IP AND ANTITRUST: AN ANALYSIS OF ANTITRUST PRINCIPLES APPLIED TO INTELLECTUAL PROPERTY LAW* § 3.02 (3d ed. 2018).

<sup>10</sup> *See, e.g.*, Mark A. Lemley, *The Economic Irrationality of the Patent Misuse Doctrine*, 78 CALIF. L. REV. 1599 (1990).

<sup>11</sup> *See, e.g.*, *Virginia Panel Corp. v. MAC Panel Co.*, 133 F.3d 860, 868 (Fed. Cir. 1997) (citing *Windsurfing Int'l, Inc. v. AMF, Inc.*, 782 F.2d 995, 1001 (Fed. Cir. 1986)).

<sup>12</sup> *Princo Corp. v. ITC*, 616 F.3d 1318, 1334 (Fed. Cir. 2010).

shall, together with the relevant departments at the same level, take measures to strengthen the public service for patent and promote the exploitation and utilization of patent.”

First, the Explanatory Notes indicate that the objective of Article 22 and the newly-added Article 48 is to strengthen patent transformation service. Specifically, the patent information public service system construction and patent public services will be strengthened to promote the dissemination and utilization of patent information, and thus to promote the implementation and utilization of patents. Second, Article 22 is included in the general part of the Patent Law and is a fundamental provision for the implementation and application of the Patent Law. Therefore, the Sections recommend the merger Article 48 into Article 22.

In addition, if the “administrative authority” mentioned in Article 69 is not the State Council and its Patent Review Board, and/or the State Council and its Patent Review Board do not have authority to enforce patents in addition to their expressed authority under Article 22 to handle patent applications and requests, then the “administrative authority” referred to in Article 69 should be explicitly identified. Otherwise, the Sections recommend that Article 69 be merged into Article 22 since Article 69 refers to the “administrative authority,” which under Article 22 is identified to be the patent administrative department under the State Council and its Patent Review Board.

## **Article 26**

This article takes careful consideration to outline the items excluded from the grant of a patent right. The Sections recommend that each item be carefully defined so as to limit disputes on the matter, and to provide patent holders with the ability to comply with the law.

## **Article 30**

This article takes careful consideration to outline when an applicant for an invention or utility model and/or design patent may enjoy the right of priority. The Sections recommend that Article 30 be organized: (1) define “right of priority”;<sup>13</sup> (2) set the application date parameters based on an application filed in China for both a design patent and invention or utility model; (3) set the application date parameters based on an application filed outside of China; and (4) set the parameters of the right of priority. An example of language for Article 30 is:

*This article outlines when an applicant filing for IP rights for an invention or utility model and/or design patent may enjoy the right of priority. The right of priority is [define here].*

*An applicant may enjoy the right of priority when he files a patent application in China with the patent administration department under the State council for the same subject matter for an:*

- a. Invention or utility model patent*
  - i. If, within twelve months of first filing*

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<sup>13</sup> The Sections suggest that it may be helpful to include a glossary in the Patent Law.

- b. *Design patent*
  - ii. *If, within six months of first filing*

*An applicant may enjoy the right of priority when he files a patent application in a foreign country and files an application in China for the same subject matter for an:*

- a. *Invention or utility model patent*
  - i. *If, within twelve months of first filing*
- b. *Design patent*
  - ii. *If, within six months of first filing*

*The right of priority is only applicable to the applicant under the circumstances above in accordance with:*

- a. *The agreements concluded between the said foreign country and China; or*
- b. *The international treaties to which both countries have acceded; or*
- c. *The principle of mutual recognition of the right of priority (NOTE: The Sections recommend that “principle of mutual recognition” be defined here).*

Additional comments regarding this article are provided under Article 43.

### **Article 31**

This article identifies the documents to be submitted with patent applications, and what constitutes a waiver of the right of priority. The Sections recommend that Article 31 be revised to highlight the risk of waiver of the right of priority. Article 31 should specify the minimum requirements for the written declaration in support of the claim of the right of priority. An example of language for Article 31 is:

*An applicant will waive the right of priority if an applicant who requests the right of priority fail to submit duplicates of the patent application documents and a written declaration at the time of application for a patent for:*

- b. *Invention or utility model patent*
  - i. *If, within sixteen months from the date of first filing*
- c. *Design patent*
  - ii. *If, within three months from the date of first filing*

Additional comments regarding this article are provided under Article 43.

### **Article 43**

Pursuant to China’s accession to the Hague Agreement Concerning the International Registration of Industrial Designs, the duration of design patents is extended from the ten years specified in the current Patent Law to fifteen years, which may attract more potential

international applicants. The Draft Amendment also adds the right of priority for design patents to enhance the protection of such patents.

The Sections commend the introduction in paragraph 2 of Article 43 a Drug Patent Term Compensation System. In practice, the review of drug patent applications is lengthy and the approval process is complicated and burdensome. It may take 3 to 7 years from patent application to listing. Establishing the drug patent term compensation system in China may be of great significance for encouraging the development of innovative drugs, protecting the rights of innovators and promoting the development of pharmaceutical industry of China. The drug patent protection system and practical experience in the United States, Europe and Japan provide many references and recommendations for China in implementing such a system.

#### **Article 49**

Comments regarding this article are provided under the Sections' comments on Article 22.

#### **Article 50**

The Sections recommend that Article 50 be revised as follows.

“Where the patentee has made a written declaration to the administrative department for patent under the State Council that it is willing to license any entity or individual to exploit its or his patent, and has made clear the method and standard of payment for the licensing fee, the administrative department for patent under the State Council shall make a public announcement and issue an open license. Where an announcement of an open license is made for a patent for utility model or design, an evaluation report of the patent right shall be provided.

“Where the patentee withdraws the declaration of open license, it shall do so in writing and the declaration shall be published by the patent administration department under the state council. The announcement of withdrawal of an open license shall not affect the effectiveness of the open license previously granted.  
The annual fee for patents can be halved during the period of open license.”

Without an incentive policy, the patentee usually has no interest in opening the license. At the same time, the halving of annual fees for open licenses does not necessarily mean a reduction in the annual fee income of the China National Intellectual Property Administration (CNIPA). This is because many patents for open licenses are patents that the patentee wants to give up. If the annual fee for patents can be halved during the period of open license, the economic pressure on the right holders will be reduced, and patents may continue to be maintained through open licensing. Therefore, from this perspective, the annual fee system for halving the open license may also lead to an increase in the annual fee income of CNIPA in the long run.



## **Article 70**

Article 70 allows CNIPA, at the request of the patentee or an interested party, to handle patent infringement that has a significant influence throughout the country. This revision provides administrative authorities the power to investigate and resolve patent disputes. However, in China, unlike patent agencies, the people's courts have established procedures for and experience in litigation and are better suited to make infringement determinations. This particular expertise is why such complex determinations are universally entrusted to the judiciary. And China's courts now have three decades of patent adjudication experience and have developed significant guidelines in several areas of patent law. CNIPA and the local CNIPAs lack substantial experience in patent adjudication, especially for significant or complicated cases. The expansion of administrative enforcement power in patent infringement disputes may run counter to the international practice that emphasizes judicial protection of patent rights. The Sections urge that the responsibility of making infringement determinations and imposing remedies for infringement be retained solely by China's courts, and not be delegated to any administrative agency.

## **Article 71**

Article 71 provides for protection of patent rights. It should include a definition "online service provider." Article 71 should also specify the liability and specific penalty an online service provider will face if it fails to take timely action after receiving notice from the responsible authority of an infringement.

## **Article 72**

The Draft Amendment retains the current language for reviewing statutory compensation, and increases the statutory minimum patent infringement compensation amount from 10,000 RMB to 100,000 RMB and the maximum amount from 1 to 5 million RMB, if it is hard to calculate the actual compensation amount. In addition, the Draft Amendment increases the maximum multiple of punitive damages for willful infringements from three times the normal compensation amount to five times, and revised the condition of punitive compensation from "according to the circumstances, scale, consequences of the damage, etc." to "where the circumstance is serious."

These Draft Amendment provisions are consistent with China's further strengthening of intellectual property protection. Especially, punitive damages up to five times exceed the international mainstream practice of three times, fully demonstrating China's determination to strengthen intellectual property protection. If these provisions are adopted, it may significantly enhance the enforceability of judicial decisions and administrative decisions in patent infringement cases, and deter infringers from refusing to stop infringement or repeated infringement. In litigation, higher punitive damages will also motivate the parties to litigate vigorously the issue of subjective intention of infringement, and even indirectly increase the value of infringement warnings such as lawyers' cease and desist letters.

However, the Sections are concerned about -- and recommend against -- these revisions due to the significant number of unexamined Chinese patents. For example, utility method patents do not undergo substantive examination prior to the issuance of a patent grant. The Sections respectfully submit that the punishment of 1 to 5 times of the assessed damages is too high. The purpose of the Patent Law also is to encourage creativity and innovation. While a large penalty may more efficiently deter infringement, it may also deter innovation. Comparing other experiences, the punishment of 1 to 3 times seems to keep the two interests in a more appropriate balance.

Moreover, the Sections have significant concerns with this provision due to concerns about protection of confidential information, particularly competitively sensitive information. Therefore, the Sections recommend that this provision be omitted in its entirety until such a time that China amends its confidentiality rules to: (1) allow for in camera review (i.e., a process under which a judge privately looks at confidential, sensitive, or private information); and (2) provide for the imposition of penalties against parties that violate confidentiality orders or agreements.

Should this provision be retained then, in the alternative, and at the very least, the Sections respectfully recommend the following revisions:

In order to determine the amount for compensation, under the circumstances in which the right holder has endeavored to present evidence, and the related account books or materials are mainly controlled by the accused infringer, the people's court may issue a narrowly-tailored order to require the accused infringer to provide any necessary account books and materials relating to the infringing conduct; if the accused infringer does not provide or provides false account books or materials, the people's court may refer to the right holder's claims and evidence to rule on the amount of compensation. Any court order for information must be narrowly tailored to cover only necessary information and must include sufficient confidentiality protections.

### **Article 73**

Article 73 of the Draft Amendment could undermine the protection of patentee or interested parties. It deletes the requirement of providing a guarantee when a patentee or interested party applies to the people's court for such measures as ordering the cessation of the relevant act. This could lead to a flood of applications for preliminary injunctions and unfair competition determinations. The patentee or interested party may take advantage of Article 73 and adversely interfere with competitors' ordinary course of business.

The Draft Amendment also deletes the requirement that the court will make a decision in a fixed time, which weakens the protection of the patent rights in two ways. First, unreasonable delay occurs a lot in practice due to the high volume of caseloads, and short staff. Second, the main benefit of a preliminary injunction or temporary restraining order is to stop ongoing infringement to avoid unrecoverable damages.

## **Article 74**

Article 74 provides a basis to entitle patent right holders to file a motion for evidence preservation before formally bringing a civil court action. The Sections understand that it is difficult for patent right holders to be granted a motion for evidence preservation by the people's courts. Article 74 appears to offer little change to the *status quo*. The Sections respectfully suggest that Article 74 be augmented to set forth standards for granting such motions and sanctions for violations of preservation orders.

## **IV. Conclusion**

The Sections appreciate the opportunity to comment on the Draft Amendment, and would be pleased to respond to any questions the NPC or other enforcement authorities may have.