Patent Protection Under Chinese Law

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I. INTRODUCTION

When the People's Republic of China promulgated its Patent Law on March 12, 1984, it announced to other nations its willingness to accept and protect the notion of intellectual property. At the same time, China expressed its hope that a fully developed patent system would enable it to acquire technology from the rest of the world to enhance its modernization efforts.[1] Prior to enacting a patent law, China had taken preliminary steps to protect intellectual property by joining the World Intellectual Property Organization in March, 1983 and by signing the Paris Convention for the Protection of Industrial Property in December, 1984. The Patent Law itself took effect on April 1, 1985[2] and the first patents were granted at a meeting of the Chinese Patent Bureau on December 28, 1985.[3] Although the Patent Bureau had received thousands of applications,[4] it only granted 143 patents at that time.[5]

The strength of intellectual property protection under China's patent system is of great concern to foreign nationals interested in technology transfers to China. Patent applicants and patentees in China have both specifically protected rights and specific obligations under the Patent Law. Third parties also have the right to oppose the granting of a patent. After a brief summary of the application process

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1. Zhang Shangce, *Why We Were Taken In and Suffered Losses: On the Necessity of Implementing the Patent System as Seen From the Import of Several Technological Items*, Renmin Ribao (People's Daily) (hereinafter **RMRB**), Apr. 1, 1985, at 3, *translated in* Foreign Broadcast Information Service [hereinafter **FBIS**], Apr. 9, 1985, at K9. For a general discussion of the history of the patent law, see Lin, *The Patent Law of the People's Republic of China*, in LEGAL ASPECTS OF DOING BUSINESS WITH CHINA 1986 149 (E. Theroux ed.).

2. *Zhonghua Renmin Gongheguo Zhuanlifa* (Patent Law of the People's Republic of China) [hereinafter P.L.] Art. 69.

3. Xinhua [New China News Agency] report, *translated in* **FBIS**, Dec. 30, 1985, at K18.

4. *Id.*

5. Between April and December 1985, 14,372 patent applications were filed. Approximately one-third of these were filed by foreign applicants. **RMRB** (overseas ed.), Feb. 17, 1986, at 1.

and a discussion of the rights of the various parties that may be involved, this comment examines the statutory stipulations concerning infringements and the procedures and remedies available through the patent administrative system and the Chinese courts.

II. THE PATENT SYSTEM IN BRIEF

There are three types of patent under the Chinese Patent Law: "inventions," "utility models" and "designs."[6] The law requires all three types to fulfill a "novelty" requirement.[7] Inventions and utility models must further satisfy the "inventiveness" and "practical applicability" standards.[8] Because each class of patent has distinguishing characteristics and requirements under the law, it is important that a patent applicant determine which class best suits his needs.

Patent applicants under Chinese Patent Law may be either individuals or corporate entities. The inventor, foreign applicants and Chinese state and collective enterprises have a direct right of application, meaning that they may apply for a patent directly without the intervention of a third party. Assignees and devisees of those with direct rights must apply through parties with direct rights. Non-resident foreign applicants must appoint an official "patent agent" to represent them in any dealings before the Patent Office whether or not they have a direct right of application.[9] In addition, the extent of a foreign national's rights will generally depend on his country's participation with China in international treaties or bilateral agreements dealing with patent rights.

The initial procedural and substantive requirements of the patent application process are relatively straightforward. Invention and utility model patent applicants must submit in writing a request, a description and its abstract and a claim.[10] The law is silent as to whether design patent applicants must file a claim, but they clearly

6. P.L. Art. 2.

7. P.L. Art. 22. P.L. Art. 23 defines novelty for design patents.

8. P.L. Art. 22.

9. Under *Zhonghua Renmin Gongheguo Zhuanlifa Shishi Xize* (Implementing Regulations of the Patent Law of the People's Republic of China) [hereinafter P.Reg.] Rule 14 (1985), there are three primary patent agencies. The major national patent agency is the China Council for the Promotion of International Trade (CCPIT). The other two are the Shanghai Patent Office and the China Patent Agency (H.K.) Co., Ltd. The CCPIT has five sections responsible for handling patent applications on inventions in the machine building, electronics, power and chemical industries and for legal affairs and administration. For further information see Da Gong Bao weekly supplement, Apr. 5-11, 1984, at 5; **FBIS**, July 23, 1984, at K10; FBIS, Mar. 26, 1985, at O3.

10. Under P.L. Art. 26, a description must describe the invention or utility model clearly and completely enough that a person skilled in the technology of the pertinent field may carry out the patent. The claim simply states the extent of patent protection requested.

must file drawings or photographs of the design.[11] They must also indicate the design classification and the product incorporating the design.[12] All applications must include in the request the title of the invention-creation,[13] the name of the inventor and the name and address of the applicant. A fee must accompany each application.[14]

Rights attach on the date of filing. Protection of the invention-creation and, in the case of an ultimately successful application, the duration of the patent begin on this date. If the application is mailed, the date of filing is the date of mailing indicated by the postmark.[15] If two applicants file for essentially the same invention the first to file, rather than the first to invent, receives the patent.[16]

After the Patent Office receives a patent application, it conducts a preliminary examination to determine whether the application conforms to the proper procedure. If a utility model or design patent application does so conform, the Patent Office publishes the application in the Patent Gazette immediately and notifies the applicant.[17] Within three months of this publication, any opposition to the utility model or design patent must be filed. If there is no opposition or if the Patent Office determines that the opposition is unjustified, there is a second publication subsequent to which the patent should be granted automatically.[18]

The Patent Law requires a substantive examination of the patent application only for invention patents. A substantive examination can

11. P.L. Art. 27.

12. *Id.*

13. The Patent Law refers to inventions, utility models and designs collectively as "invention-creations." P.L. Art. 2.

14. P.L. Art. 67; P.Reg. Rule 82.

15. P.Reg. Rule 5. That is, if mailed within China. If the postmark is unclear, the date of actual receipt by the Patent Office becomes the date of filing unless the applicant can show the date on which the application was sent.

16. P.L. Art. 9. Two applicants who file on the same day are encouraged to reach an agreement between themselves. P.Reg. Rule 12.

17. P.L. Arts. 40-44; *see also* ZHONGGUO ZHUANLIJU FALU ZHENGCE CHU, ZHONGHUA RENMIN GONGHEGUO ZHUANLIFA WENDA [China Patent Office, Legal Policy Bureau, Questions and Answers on the Patent Law of the People's Republic of China] [hereinafter WENDA] 50 (1985).

18. P.L. Art. 44; P.Reg. Rule 81. The English translation of the statute states "the Patent Office *shall* make a decision to grant the patent right . . . ." In the Chinese version, however, the statute consistently uses "*yingdang*" for "shall." While the word *yingdang* is ordinarily translated as "should," a Chinese statute or contract drafter sometimes intends it to mean "shall." Nevertheless, it would at least seem notable that the Chinese version avoids the word "*bixu*" (must) in favor of "*yingdang*." This word choice could conceivably imply that, despite the satisfaction of all preconditions, the Patent Office has discretion in deciding whether to grant a patent. This would limit the scope of patent protection more than if the Patent Office had little discretionary power as implied in the English text. The choice of words creates ambiguities in the statute.

either be requested by the applicant or, in unusual cases, initiated by the Patent Office itself.[19] In general, an invention patent applicant must make a request for substantive examination within three years of the date of filing. The request must be accompanied by pre-filing date reference material.[20]

Unless the Patent Office has initiated a substantive examination on its own, an unjustified failure to request a substantive examination for an invention patent will result in constructive withdrawal of the application. A substantive examination initiated by the Patent Office may release the applicant from furnishing reference materials in support of the application. If the Patent Office does initiate the examination, it would appear to preclude either a constructive or voluntary withdrawal of the application by the applicant. This rule serves the purpose of precluding withdrawal of valuable technology from the public domain.[21] It is currently unclear whether a substantive examination initiated by the Patent Office allows opposition.

If the Patent Office rejects the application for an invention patent based on the substantive examination, it should inform the applicant and invite him to submit further documents or amendments to the application.[22] The patent will be rejected if the application, supplemented further by these materials, fails to conform with the law. Appeals are provided for within the administrative and, in some instances, the judicial system.[23]

Alternatively, a satisfactory substantive examination should lead to the publication of the invention patent application.[24] As with utility model and design patent applications, written opposition to the patent application may be filed within three months of the date of publication. The applicant has three months after he receives a copy of any opposition to respond to it in writing.[25]

The grant of a patent right is formalized by the issue of a certificate, registration of the patent, and public announcement. The Patent Re-examination Board[26] may invalidate any patent at any time upon

19. P.L. Art. 35.

20. P.L. Art. 36.

21. The rule appears to complement the policies behind compulsory licensing. *See infra* text accompanying notes 95 to 106.

22. P.L. Art. 37; *see supra* note 18.

23. *See infra* text accompanying notes 56-60.

24. P.L. Art. 39; *see supra* note 18.

25. P.L. Art. 41.

26. The Patent Re-examination Board is a separate unit within the Patent Office in charge of re-examinations of applications and examination of requests for the invalidation of patents. The Board consists of technical and legal experts and is headed by the Director General of the Patent Office. P.L. Arts. 43, 48; P.Reg. Rule 58.

the application of any individual or entity.[27] A patentee may appeal a decision by the Re-examination Board to invalidate an invention patent to the people's court. The Board's decision on requests to invalidate utility models and design patents is final.[28]

III. PATENT APPLICATION RIGHTS

A patent applicant may claim substantive rights of protection as soon as he files his application. As soon as the application is filed, the applicant receives the right of priority and the rights to assign his application rights, amend or withdraw the application, request re-examination of a rejected application, appeal adverse re-examination claims to the people's court and receive payment for unauthorized use during the application process. This section examines the scope of these rights and the concurrent protections Chinese law provides.

A. Right of Priority

The principle of priority established under the Paris Convention for the Protection of Industrial Property[29] grants a fundamental protection to applicants who file for patents in more than one country. Under the Convention, any person who properly files a patent application in a member country has priority over anyone who files during the subsequent year in another Convention country. As a signatory to the Paris Convention, China accepts both the novelty requirements and the priority dates established by the Convention.[30]

Under the Chinese Patent Law, there are three types of foreign applicants who can claim priority rights in China based on foreign applications.[31] The first comprises nationals of countries which have bilateral patent agreements with China. The second comprises nationals of countries which are parties to multilateral treaties to which China is also a party and the third, nationals of countries which extend recognition of priority rights to Chinese nationals on the basis of reciprocal recognition rather than formal treaty. Any member of one of these classes of foreign applicants is entitled to an automatic right of priority in China for an application filed elsewhere provided that the conditions described below are satisfied.

First, the application must conform to the procedural require-

27. P.L. Art. 48.

28. P.L. Art. 49.

29. Paris Convention for the Protection of Industrial Property [hereinafter Paris Convention] Art. 4, 21 U.S.T. 1629, 1631.

30. Articles 24 and 29 of the Patent Law affirm recognition of international treaties. China joined the Paris Convention on Nov. 14, 1984. FBIS, Nov. 15, 1984, at K3.

31. P.L. Art. 29.

ments of the country of first filing. Chinese law considers only the filing date and not the actual outcome of the application.[32] The subsequent filing in China must be made within the time limits fixed by Chinese law. Invention and utility model patents have a twelve-month time limit extending from the date of the earlier filing. Design patents have a shorter, six-month time limit.[33] Both time limits are the same as those stipulated in the Paris Convention.[34] At the time of filing in China, the applicant must make a written declaration of priority which indicates the date of the earlier application.[35] Finally, within three months of filing in China, the applicant must submit to the Chinese Patent Office a copy of the earlier application officially certified by the authorities of the country of prior filing.[36]

Failure to fulfill any of the above four requirements will result in loss of priority. Otherwise, the claim to priority will be accepted; that is, the foreign filing date qualifies as the date of filing in China. However, the duration of the patent begins from the actual Chinese filing date.[37] If two earlier foreign applications are claimed, the earliest application becomes the constructive date of filing in China and the applicable time limit extends from that date.[38]

The Patent Law has provisions to protect both priority and novelty concurrently in such a way as to allow greater ease of technology transfer into China. Article 24 specifically addresses the issue of novelty when there has been pre-filing disclosure of a patentable invention. If, within six months before the date of filing, an invention is disclosed at a Chinese government-approved exhibition, at an approved academic or technological meeting or without consent of the applicants, novelty is preserved.[39] Similarly, the application date for purposes of priority is pushed back to the date of whichever of these three events has taken place.[40] The same rule, therefore, applies to both novelty and priority contests in these particular circumstances. In order to take advantage of either the novelty or priority provision, the applicant has two months after the date of filing to demonstrate the occurrence of one of the above events.

Finally, while a single application describing two or more inventions is divisible, the date of filing to determine priority remains the

32. WENDA, *supra* note 17, at 45.
33. P.L. Art. 29.
34. Paris Convention, *supra* note 29, Art. 4(C)(1).
35. P.L. Art. 30.
36. *Id.*
37. P.L. Art. 45.
38. P.Reg. Rule 33.
39. P.L. Art. 24; *see also* P.Reg. Rule 30.
40. P.L. Art. 29.

same as the original application as long as the subsequent application does not exceed the scope of the initial description.[41]

B. Right of Assignment of Applications

A patent applicant may assign his right of application along with priority rights, where applicable,[42] to others. The right to assign an application is governed by both patent and contract law.[43] The Patent Law imposes some specific restrictions on the right to assign patent applications. If the assignor is a state entity or the assignee is foreign, such assignments must be approved by the appropriate Chinese authorities.[44] Conversely, there is no limitation on a foreign applicant who wishes to exercise his right to assign a patent right of application.

If an assignment is agreed to in China, the transaction is subject to Chinese law. Assignments of foreign patent applications which involve subsequent Chinese filings and priority rights accepted by Chinese law will probably be governed by the law of the country of foreign filing rather than by Chinese law. When Chinese law does apply, all assignments of the right to apply for a patent must be in the form of a written contract and registered with the Patent Office. The Patent Office will then make a public announcement of the assignment under the contract. The rights and duties of the assignor are assumed by the assignee. The risk of opposition or rejection of the patent application becomes the assignee's once the contract is registered with the Patent Office unless the contract stipulates otherwise.

C. Right to Amend an Application for a Patent

The applicant's right to amend his application for a patent has both time and content restrictions. An applicant for invention patents may amend both the description and claim within fifteen months of the date of filing. In addition, he has the right to make amendments when requesting a substantive examination or when responding to oppositions to his patent application. Utility model and design appli-

41. P.Reg. Rules 42-43.

42. WENDA, *supra* note 17, at 46.

43. Contractual assignments involving foreign parties are governed by Articles 12(7), 26 and 27 of *Zhonghua Renmin Gongheguo Shewai Jingji Hetongfa* (Foreign Economic Contract Law of the People's Republic of China) (1985). Under article 10 of the Patent Law, any assignment of patent application or patent rights to a foreign party must be approved by a department of the State Council. The Foreign Economic Contract Law has a similar requirement for assignment of contracts.

44. A state enterprise is an entity under the ownership of the whole people. *See* P.L. Art. 6; *see also Guoying Gongye Qiye Zhanxing Tiaoli* (Provisional Regulations of State-Owned Industrial Enterprises) (1983). Presumably, the approval required is that of the Chinese Patent Office.

cants may only make amendments between the date of filing and the date of announcement or as part of the response to an objection. The applicant can amend his application up to the time of publication of the application by the Patent Office. He can also amend his application as part of his answer to an opposition.[45]

There is no express limit on the number of amendments allowed, but the content must remain within the scope of the initial description.[46] In other words, an applicant is free either to substitute the initial claim with a new one or make liberal changes in his application documents,[47] but technological characteristics not included in the initial claim may not subsequently be added. Such an addition would lie beyond the original scope of disclosure.

The Patent Office may invite an applicant to amend his application when, after a substantive examination, the Office has decided the application fails to conform to legal requirements. It should be noted that in theory the Patent Office's invitation to amend does not require the applicant to amend his application. Under such circumstances, however, it seems likely an unamended application would be rejected. While at least one Chinese textual authority has described this process as a "passive amendment,"[48] the possibility that the Patent Office may effectively require an amendment in this manner should not be discounted.

D. Right to Withdraw an Application

The Patent Law provides for both voluntary and constructive withdrawal of patent applications. An applicant may withdraw voluntarily at any time prior to the grant of the patent right.[49] However, it is unclear whether voluntary withdrawal under article 32 is still permitted if the Patent Office undertakes a substantive examination on its own initiative under article 35.

An applicant may choose to allow a patent application to lapse through use of a constructive withdrawal. Four types of procedural irregularity may lead to such withdrawal. One is failure to make a request for substantive examination within the required time period.[50] A second type of fatal irregularity is the applicant's failure at the time he applies for a substantive examination of his application to furnish required documents and materials related to an earlier application for

45. P.L. Art. 52; P.Reg. Rules 51-52.
46. P.L. Art. 33; *see also* P.Reg. Rule 52.
47. WENDA, *supra* note 17, at 48.
48. *Id.*
49. P.L. Art. 32.
50. P.L. Art. 35.

the same invention in a foreign country.[51] Failure to respond to requests by the Patent Office to furnish either observations or amendments to the application within a specified time limit also leads to constructive withdrawal.[52] The Patent Office request in this instance is initiated when, during a substantive examination, the application is found not to conform with Chinese law.[53] The fourth and final means of constructive withdrawal is failure to respond to an opposition within three months.[54] Information contained in an application that is withdrawn either passively or actively receives the same protection from unauthorized disclosure under the Patent Law.[55]

E. Right to Request a Re-examination

An unsuccessful applicant may appeal to the Patent Re-examination Board within three months after he receives notice of rejection.[56] The appeal should state reasons why the re-examination should take place and include any documentation supporting the application.[57] Although the applicant is allowed to amend his application at this time, the amendment is restricted to material related to the rejection.[58]

The Re-examination Board's decision on utility model and design patents is final, but its decision on invention patents may be appealed to the people's court.[59] Proceedings in a civil court are governed by the law of civil procedure and are discussed in further detail below.[60]

F. Right to Request Payment for Unauthorized Use of Invention Prior to Patent Grant

In order to protect the applicant's exclusive right to use or license the patent, the Patent Law grants the applicant for an invention patent the right to require those who use the invention to pay an appropriate fee.[61] It appears from the law that the right may be exer-

51. P.L. Art. 36.

52. This includes an inexcused failure to respond to a request from the Patent Office to separate the elements of a proposed invention-creation into more than one application. P.Reg. Rule 42.

53. P.L. Art. 37.

54. P.L. Art. 41.

55. P.L. Art. 21.

56. P.L. Art. 43.

57. P.Reg. Rule 59.

58. *Id.*

59. P.L. Art. 43.

60. *See infra* text accompanying notes 120-21.

61. P.L. Art. 13.

cised once the invention patent application has been published but before the patent has been granted.[62] The right may not be enforceable by the courts, however, until after the patent is granted.[63] Article 13 grants the right to request a fee for exploitation of an invention patent application by another entity or individual. Article 60 allows for both an injunction and compensatory damages for infringement of a patent. Taken together, these two articles give retroactive protection to those patent applications which are successful. Patent applications which fail, however, remain unprotected. China has no trade secrets law which might provide an alternate source of protection and choice to the patent applicant when deciding whether or not to apply for a patent. For those who do apply, money damages are the only remedy provided for unauthorized exploitations which take place before the grant of the patent.[64] Legal action must be brought within a two year statute of limitation to request such damages.[65] This provision may well have the effect of limiting invention patent applications unless there is near certainty of success in obtaining a patent grant.

IV. Opposition: Protection of Other Parties' Interests

A procedure called "opposition" protects the interests of other patent applicants, patentees and anyone who believes that the application fails to meet the legal requirements. It also helps to ensure that information already in the public domain does not receive patent protection. A party may file an opposition with the Patent Office within three months of the announcement of the patent application.[66] An opposition may be based on one or more of the following grounds:[67]

1. the invention fails to meet the novelty, inventiveness or practical applicability requirements;
2. the invention contravenes state law or social morality, or is detrimental to the public interest;
3. essential elements of the application have been taken from another application without consent;[68]

62. *Id.*

63. P.L. Art. 60. This provision is similar to one found in Japanese law. Japanese Patent Law Art. 65(3).

64. P.L. Art. 60.

65. P.L. Art. 61.

66. P.L. Art. 41.

67. P.Reg. Rule 54.

68. *Id.* subsec. (3). The English translation published by the government reads "the essential elements of an application have been taken from . . . another *person* . . . without his consent," which is a much broader statement (emphasis added).

4. the description of the invention is too vague to be practically understood;
5. the claim goes beyond the scope of the disclosure contained in the initial description; and
6. the applicant is ineligible to apply for the patent.

If an opposition is found to be justified, the patent will not be granted.[69]

V. PATENT RIGHTS

As with many other countries which grant exclusive rights to the holders of patents, China offers patentees three basic areas of protection: the right to sole possession, the right of exploitation and the right of disposal. In many countries, all three of these rights accompany governmental grants of exclusive rights to patentees and their assignees. The limitations on these general rights under the Chinese Patent Law stem from China's particular economic system.

A unique limitation on patent ownership under Chinese law is based on a distinction between the holding and ownership of a patent. The patentee may be a state enterprise,[70] a collectively owned entity, an individual, a joint venture or a foreign individual enterprise. State enterprises may only be "holders" of a patent; all other categories of patentees may be owners.[71] A holder of a patent has fewer rights than a full owner. The concept of a patent holder is premised on the theory that state enterprises can not wholly own any of their property, including intellectual property. Rather, a state enterprise merely represents, as an agent, the whole people in the possession, use and disposition of property.[72]

Foreign patentees should not be affected by this distinction, unless there is a specific employment or joint ownership contract signed between the foreign individual or enterprise and a state entity where the patent is a product or part of that relationship. In this case, the rights may be more limited than those of an owner. Such limitation would largely depend on the terms of the contract and the likelihood that the Chinese party will be regarded as a holder of the patent. It is doubtful that a foreign patentee would ever be considered a patent holder.

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69. However, the absence of a properly filed, justified opposition does not preclude invalidation after the grant of the patent. *See supra* text accompanying note 28.

70. *See supra* note 44.

71. *Id.*

72. LI JIAHAO, ZHONGHUA RENMIN GONGHEGUO ZHUANLIFA JIESHAO (Introduction to the Patent Law of the People's Republic of China) 64 (1985).

A. Right of Sole Possession

A basic characteristic of a patent right is exclusive possession within certain boundaries of time and place. This principle of restricted monopoly exists in Chinese patent law, but is subject to some significant exceptions.

The Chinese Patent Law prohibits any non-owner entity or individual from exploiting a patent without the express authorization of the patentee. Patent exploitation is defined as the use, production or sale of a patented product, or the use of a patented process for production or other business purposes.[73] Unauthorized exploitation constitutes a patent infringement. However, the patentee's right of sole possession does not entirely outweigh the needs of central economic planning. Various units of the government are authorized by the Patent Law to permit the exploitation by third parties of patents held by state enterprises under their control.[74] The government also prescribes the appropriate fee to be paid to the patent holder. This restriction on a Chinese patent holder's monopoly is extended to Chinese patent owners, but with two differences. In the case of patent owners, the decision to allow exploitation without license must be approved by the State Council. Furthermore, the statute expresses the standard for involuntary dissemination of this type of patent differently. While state enterprises, as patent holders, might have "important" invention-creations distributed to others, individuals and collective enterprises, as patent owners, may only have a patent which is "of great significance to the interests of the State or to public interest, and is in need of spreading and application"[75] distributed to other designated entities. This standard is expressed in broad terms and seems to include any invention of significant economic importance. This feature of the Patent Law is at odds with the right of a patentee to sole possession as commonly understood, but is consistent with the policy of promoting the development of science and technology to meet the needs of socialist modernization.[76]

Patents held by foreigners may not be disseminated without the patentee's approval. In addition, Chinese-foreign joint ventures do not fall within the Patent Law definition of either a state entity or a collective enterprise. As a limited liability company, a joint venture should be able to own a patent independently and not be subject to the

73. P.L. Art. 11.

74. P.L. Art. 14. The government units designated by the law include the State Council and the people's governments of provinces, autonomous regions, and municipalities directly under the central government.

75. P.L. Art. 14.

76. P.L. Art. 1.

exploitation without license exception. Nevertheless, the exception may in rare cases be invoked against a joint venture on the grounds that one party to the joint venture is a Chinese state enterprise.

Hypothetically, the Chinese joint venture partner might contribute a patent to the venture which the State Council, under Article 14, then deems to be "of great significance to the interests of the State or to public interest, and is in need of spreading and application." It is unlikely that the State Council would take such a step, particularly where foreign investment and the continuation of a joint venture are at stake. However, joint venture agreements should anticipate the possibility of such an event.

The patentee has two further rights related to sole possession of the patent. The patentee may protect his product and give notice of his patent by affixing a mark and indicating the patent number either on the patented product itself or on its packaging.[77] The patentee also has the right to seek redress for infringement in both administrative and judicial proceedings.[78] The burden of proof in these proceedings is on the plaintiff to show an infringement unless a process patent is involved, in which case the burden of proof shifts to the defendant.[79]

The time and place restrictions on the scope of patent protection are within standard international practice. The duration of an invention patent is fifteen years from the date of application. Utility model and design patents last five years with the possibility of renewal for an additional three years.[80] Exploitation of an invention, utility model or design which takes place prior to the filing of an application does not constitute infringement.[81] A patent granted in China is protected only within Chinese territory. Patents filed in other countries will be protected under Chinese law only if there is an applicable bilateral treaty in force between the country of filing and China.

B. Right to Exploit the Patent

The patentee need not obtain government approval to exploit his patent. He may make, use, or sell his patented product or use his patented process according to his own judgment. He may not, however, refrain from use of the patent without government acquiescence. This aspect of the patentee's right to exploit the patent will be discussed further under the section on compulsory licensing.[82]

77. P.L. Art. 15.
78. P.L. Art. 60.
79. Li, *supra* note 72, at 84.
80. P.L. Art. 45.
81. P.L. Art. 62.
82. *See infra* text accompanying notes 99 to 103.

C. *Right of Disposal of Patent*

A patentee may assign, license or simply abandon his patent. However, the assignment of patent rights is restricted under the Chinese Patent Law.[83] Patent holders must first apply to the "competent authority at the higher level" to have the assignment approved.[84] In the case of assignment to a foreigner, the patentee, whether a holder or an owner, must apply to the "competent department . . . of the State Council" for prior approval.[85] It is unclear whether assignment to a Chinese-foreign joint venture requires such approval. All assignments must be in the form of a written contract and are effective only after they have been both registered and announced by the Patent Office.[86]

To exploit a patent without holding or owning it, an entity or individual must obtain a license from the patentee[87] unless the exceptions of article 14 apply.[88] The scope of the license must be explicitly stated in the licensing contract. A licensing fee must be paid to the patentee. This fee is owed to the patentee even if an arrangement under article 14 is involved, although in this case the fee is prescribed by the government. Since a licensee does not own the patent, any sublicensing must be confined to the terms of the contract.[89] In those situations involving complementary technology outside the scope of the patent, the parties must provide for improper use of trade secrets in the contract.

A patentee may abandon his patent rights by two methods. Failure to pay the annual fee as prescribed is considered a constructive abandonment.[90] The patentee may also abandon his rights by written declaration to the Patent Office. In either case the Patent Office registers and announces the abandonment.[91]

D. *The Obligations of the Patentee*

A patentee in China is obligated both to work the patent[92] and to pay an annual fee.[93] To fulfill the first obligation, the patentee may choose to work the patent himself or assign or license it to others. If a

83. P.L. Art. 10.
84. *Id.*
85. *Id.*
86. P.L. Art. 12.
87. *Id.*
88. *See supra* text accompanying notes 74 to 76.
89. *Id.*
90. P.L. Art 47.
91. *Id.*
92. P.L. Art. 51.
93. P.L. Art. 46.

patentee is unable to work the patent in China himself, he must either assign or license the patent to others or face the possibility of compulsory licensing. To work or "exploit" the patent is defined in the statute.[94] Mere importation of patented products does not constitute exploitation of the patent; it appears that a foreign patentee must either make an investment in China to fulfill his obligation to work the patent or be subject to the compulsory licensing provisions.

The patentee's obligation to pay the annual fee commences in the year of the patent grant. The first annual payment is due when the patent certificate is issued. Subsequent fees are to be paid in advance within one month of the end of the preceeding year.[95]

E. Compulsory Licensing

Compulsory licensing is a device used by developing countries to prevent the abuse of exclusive patent rights in their countries. Failure to work the patent is the most frequently cited abuse. The Paris Convention acknowledges the problems which monopolies on the importation of patented products might cause and so recognizes the use of compulsory licensing by member countries.[96] The Paris Convention offers a limited amount of protection to a patentee who files in China. The Convention provides that if goods manufactured in member countries are imported by the patentee into a country where a patent has been granted, the patent will not be forfeited.[97] Accordingly, one does not risk forfeiture of the patent by choosing not to work it. But the patentee is still subject to compulsory licensing if the country of patent grant has such a provision. China allows such compulsory licensing[98] and its statutory provisions largely follow the Paris Convention.

The patentee of an invention or utility model is required to fulfill his obligation to exploit the patent three years from the date of the grant of the patent right.[99] Failure to exploit the patent may result in the grant of a compulsory license upon a request by a qualified entity

94. P.L. Art. 11. "Exploit" is defined for design patents as to "make or sell the product, incorporating the patented design, for production or business purposes," and to "make, use or sell the patented product, or use the patented process for production or business purposes" for inventions and utility models.

95. P.Reg. Rule 87.

96. Paris Convention, *supra* note 29, Art. 5.

97. Paris Convention, *supra* note 29, Art. 5(A)(1).

98. Paris Convention, *supra* note 29, Art. 5; P.L. Art. 51-58.

99. P.L. Art. 52. In contrast to the Chinese Patent Law, Article 5 of the Paris Convention allows a choice between four years from the date of filing of the patent application or three years from the date of the patent grant, whichever is longer, before an application for a compulsory license will be considered.

capable of exploiting the technology.[100] If exploitation of an invention or utility model patent is dependent on the working of a second patent, the first patentee may request a compulsory license of the second patent.[101] There appears to be no time limit on such requests. Therefore, when use of a second patent is required to work a dependent patent,[102] and a compulsory license is issued on the basis of a request prior to the lapse of the three-year time period, the patentee subject to compulsory licensing may be able to argue to the Chinese Patent Office that a violation of his rights under the Paris Convention has occurred.[103]

An entity or individual seeking a compulsory license must demonstrate to the Patent Office that he failed to conclude a license contract on reasonable terms with the patentee.[104] The patentee may protest to the Patent Office the pending grant of a compulsory license[105] or the amount of the fee set to be paid to him. He may pursue an adverse decision in the people's court within three months of notification by the Patent Office of the grant of the license or the amount of the fee to be paid.[106] The compulsory license does not confer the exclusive right to exploit the patent on the licensee. The licensee under a compulsory license may not sublicense to another and is required to pay a fee agreed to by the patentee or adjudicated by the Patent Office.[107]

Compulsory licensing is unlikely to force the unwilling to tranfer technology readily or quickly to China. The first problem with the system as it is structured stems from the generation of the initial request. A compulsory license must be requested by a third party standing ready with adequate capacity and resources to exploit the patent without the cooperation of the patentee. Dissemination of the information about the patent to a third party as well as the technical and possible financial difficulties make successful exploitation of a patent in this manner unlikely.

A second handicap to this system is the time element. A patent applicant has three years during which he can ask for a substantive examination of his invention. The patentee, having obtained his pat-

100. P.L. Art. 52. Although not specified in this article, "qualified entity" probably refers to a qualified Chinese entity. In other articles of the Patent Law, the word translated here as entity (*danwei*) is used only to refer to Chinese entities. *See, e.g.*, P.L. Art. 16.

101. P.L. Art. 53.

102. WENDA, *supra* note 17, at 63.

103. Paris Convention, *supra* note 29, Art. 5.

104. P.L. Art. 54.

105. P.Reg. Rule 68.

106. P.L. Art. 58.

107. P.L. Arts. 56-57.

ent, then has another three years to decide when or whether to work his patent. If faced with a compulsory license, the patentee may appeal his case to the people's court. The patentee, therefore, may have up to seven years from the date of filing on a fifteen year patent to withstand a demand for a compulsory license. Compulsory licenses should not be considered a significant exception to guaranteed rights of exclusive use of patents in China.

VI. INFRINGEMENT AND REMEDIES

Success in winning infringement actions and gaining available remedies is complicated by judicial and administrative inexperience in trying cases under the newly established patent system. Serious questions concerning jurisdiction and available remedies have only been partly addressed by laws and commentary relating to patents. This section addresses the definition of infringement, jurisdiction over infringement actions, and administrative, civil and criminal sanctions imposed for patent infringement.

A. Infringement

Infringement is defined under the Chinese Patent Law as any act of exploitation of the patent without the authorization of the patentee.[108] Exploitation includes the manufacture, use and sale of patented products as well as the use of patented processes. In an infringement action involving invention or utility patents, the patented product or process is defined by the terms of the claims, descriptions and appended drawings submitted with the patent application. Drawings or photographs of a product which incorporates the patented design are used to determine when a design patent has been infringed.[109] If the technology or design challenged is not defined within the scope of materials that were submitted to the Patent Office with the application, there can be no infringement.

The Patent Law specifically excludes several acts which might otherwise constitute infringements.[110] Secondary use or sale of a patented product[111] is not considered an infringement. If the patented product or process is used on a means of transportation that temporarily passes through China, there is no infringement as long as there is a treaty between China and the home country of the foreign means

108. P.L. Art. 60.
109. P.L. Art. 59.
110. P.L. Art. 62.
111. That is, a sale by a purchaser from the patentee, a licensee or other authorized person.

of transport, an international treaty to which both belong or a reciprocity agreement. Unauthorized use or sale of a patented product by a user or seller without knowledge of the lack of authority is exempt from infringement prosecution. Manufacture of the patented product, use of the patented process, or preparation to do either of these which takes place prior to the filing of the patent application does not constitute infringement. Finally, where the patent is used solely for scientific research and experimentation, an infringement action will not lie.[112]

The last three exceptions to an infringement action might make it difficult for a foreign patentee to protect his patent, because they might allow an unchallengeably broad range of use of patented products or processes. Under the exception for use without knowledge, it appears that only actual notice will suffice to protect a patent right and that publication of the patent application does not create constructive notice. Since a showing of actual knowledge requires an extremely high, if not impossible, standard of proof, this exception might seriously erode patent protection. Under the exception for pre-application preparation to make or use a subsequently patented product or process,[113] "preparation" is undefined. Broad judicial interpretation of the term combined with China's lack of a trade secrets law could leave the patentee with scant protection from anyone showing minimal preparation to use. Finally, one must consider the scope of the permitted use of a patented product or process in scientific research and experimentation, which is also undefined. If a separate patentable product or process is developed through use of an existing patent in scientific research and experimentation, the compulsory licensing rules might apply to the existing patent.[114] Whether in fact any or all of these exceptions weaken patent protection will depend upon further interpretation and clarification by Chinese authorities.

B. Jurisdiction over Actions for Infringement

Both the patent administrative authority and the Chinese courts have jurisdiction to hear patent infringement cases.[115] The administrative authority includes all administrative institutions for patent affairs set up by the competent departments of the State Council or of any provincial, open city or special economic zone government.[116] When

112. P.L. Art. 62.
113. P.L. Art. 2(3).
114. P.L. Arts. 53, 62.
115. P.L. Art. 60.
116. P.Reg. Rule 76. The establishment of local patent administrative departments was authorized by a joint circular issued by the State Economic Commission, the State Scientific

a patentee or other interested party believes his patent right has been infringed, he may bring his case to the administrative authority. The patent administrative authority has the apparent summary power to issue the equivalent of an injunction and order compensation for damages.[117] Issue of injunctions and damage awards appear to be based on the discretionary assessment of evidence presented to the administrative authority by the complainant.[118] Further requirements are not stipulated under the Patent Law. An appeal from an administrative order must be lodged with the people's court within three months of the administrative authority's decision.[119] The administrative authority, however, must turn to the people's court to enforce an administrative decision.

A complainant may bring a patent action directly to the people's court, but should weigh several factors before deciding to do so. There is no specialized patent court in China, and Chinese courts are as yet inexperienced in handling patent cases. The patent administrative system is more experienced in handling patent cases because the law itself is so recent. However, it appears that jurisdiction over patent cases will be delegated to a small number of economic courts with the Supreme People's Court having the power of ultimate review.[120]

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and Technological Commission, the Ministry of Labor and Personnel, and the China Patent Bureau. The circular stated further that patent administration bureaus may be set up by provinces, autonomous regions and municipalities with a heavy workload. Industry ministries and bureaus, special economic zones and open cities may also establish their own patent administrative departments. The responsibilities of the local patent administrative departments and bureaus include formulating programs and plans for patent work in each locality or department, organizing, coordinating and giving administrative guidance on patent work, handling disputes involving patents, supervising patent work concerning trade licenses and technological imports, organizing publicity and training cadres in patent work, and exercising leadership over patent service organizations in each locality or department. *See* **FBIS**, Sept. 5, 1984, at K20.

117. P.L. Art. 60.

118. *Id.*

119. An appeal from an administrative order must be filed within three months of the date of notification of the order. If the three month time period has lapsed, the administrative authority, under article 60 of the Patent Law, may apply to the court for an order of compulsory execution to enforce the adminstrative order.

120. Speech by Ren Jianxin, Vice-President of the Supreme People's Court of the People's Republic of China, *reprinted in* **RMRB**, Dec. 10, 1985, at 4. In March 1985, the Supreme People's Court issued a circular setting forth standard rules for courts to follow when trying patent cases. The circular established seven categories of patent cases to be tried in economic courts. The seven categories are disputes concerning the initial grant of patents, voidability of invention patents, challenges to the issuance of compulsory licenses, infringement of compulsory licenses, infringement of inventions, new models, exterior designs after applications for patents have been filed but before grant of patent rights, infringement of patent rights and contract disputes over assignments of patent application or patent rights. The circular also stated that experts and scholars would serve on the courts as people's assessors. *See* **FBIS**, Mar. 4, 1985, at K23; **FBIS**, Dec. 30, 1985, at K19.

The Civil Procedure Law restricts judicial jurisdiction over foreigners to intermediate or higher courts, and so the same restriction might apply in patent cases.[121] A final factor is the number of appeals possible. The complainant is limited to one appeal under the Chinese judicial system.[122] In contrast, an action brought first under the patent administrative system can be appealed twice before Chinese courts.[123]

The complainant should also note the statute of limitations, which is two years from the date the complainant knew or should have known of the infringing act.[124] However, because the Chinese knowledge standard in patent cases has not been tested, one can only speculate as to how a court might further define it.

C. Sanctions Imposed for Patent Infringement

Sanctions imposed for patent infringement or illegal acts related to patents fall into three principal categories: administrative, civil and criminal.

1. Administrative Sanctions

Administrative sanctions address administrative violations as well as other illegal acts committed by Patent Office employees in China. Sanctions include reduction of salary, demotion and dismissal. The decision to apply an administrative sanction is made by the actor's entity or the next highest administrative authority for patents. Misconduct includes filing an unauthorized foreign patent application which reveals a state secret,[125] usurping the application or other rights of an inventor[126] and fraud committed by a staff member of the Patent Office.[127]

2. Civil Sanctions

Civil sanctions are the principal means in China of protecting patent rights in infringement cases. The General Principles of the Civil Law include general rights, but have only a few references to remedies.[128] The scope of remedies available under the Patent Law is

121. *Zhonghua Renmin Gongheguo Minshi Susongfa* (Civil Procedure Law of the People's Republic of China), Art. 17(1) (1979).

122. *Id.*, Art. 156.

123. Under article 60 of the Patent Law, a party may appeal an adverse administrative decision to a Chinese court. An adverse court decision may then be appealed once to a higher level Chinese court.

124. P.L. Art. 61.

125. P.L. Art. 64.

126. P.L. Art. 65.

127. P.L. Art. 66.

128. Arts. 94-97, 118 (1986).

uncertain. The Patent Law provides for injunctions and compensatory damages.[129] The limits of these available remedies are still to be tested in the Chinese court system.

3. Criminal Sanctions

"Serious" infringements warrant criminal sanctions under Chinese law.[130] Passing off the patent of others may be a criminal offense by application of article 127 of the Criminal Law.[131] This article was originally developed to authorize prosecution of trademark infringement violations. Under article 127, an individual may be sentenced to fixed term imprisonment of up to three years, detention or fines. Although "passing off" is not clearly defined in the Patent Law, some Chinese legal scholars have defined the term in several ways.[132] The first is fraudulently filing and registering a patent with the patent bureau so as to misappropriate the patent rights of another. An example of fraudulent filing is false registration as a patentee, assignee or licensee. A second meaning is passing off one's own non-patented product as another's patented product. This encompasses counterfeiting or copying the structure, decoration or advertisement of another's patented product. A third meaning is the sale of any non-patented product as a patented one.

There are other acts to which criminal sanctions may apply. Unauthorized foreign filings which reveal a state secret may subject the party filing to prosecution. Patent office staff or "any staff member concerned of the State" who commits fraud in the course of his official duties may be prosecuted by mutatis mutandis application of article 188 of the Criminal Law.[133] This article stipulates criminal penalties for judicial personnel who commit malfeasance in office. While neither the Patent Law nor the Criminal Law defines malfeasance or fraudulent acts relating to patent staff responsibilities, analogous comparisons to article 188 of the Criminal Law are possible. Analogous acts of fraud are likely to be the grant or failure to grant a patent to an applicant where the staff member knows the grant should or should not be made. Further, a fraudulent decision concerning the

129. P.L. Art. 60.

130. "Serious" is an ambiguously defined term of art found in Articles 63, 64 and 66 of the Patent Law. The term appears frequently in the Criminal Law and describes criminal behavior which has highly detrimental effects on social order or economic activity in China. *See, e.g., Zhonghua Renmin Gongheguo Xingfa* (Criminal Law of the People's Republic of China) [hereinafter Criminal Law] Arts. 95-96, 100, 105-11, 115, 117 (1979).

131. P.L. Art. 63.

132. Chen Zexian, *Wo Guo Zhuanlifa Zhong de Xingshi Guiding* (The Criminal Provisions of the Chinese Patent Law), 11 ZHENGZHI YU FALU, no. 4, at 30 (1984).

133. P.L. Art. 66.

grant of a compulsory license may be prosecuted. Finally, any purposely fraudulent decision affecting a patent matter may be considered a criminal violation.

The penalties range from deprivation of political rights, detention, or imprisonment for up to five years, unless the case is very serious, in which case more than a five year sentence may be handed down.[134] The Patent Law is unclear as to who may be prosecuted under the "any staff member concerned of the State" provision. The phrase may possibly refer to staff members who have the power to examine patent affairs, patent agency employees and judicial workers handling patent cases.[135]

Administrative, civil and criminal sanctions are not mutually exclusive. One or more types of sanction may apply in a given case. Criminal liability, however, attaches only to juristic persons. Legal persons can not be liable for criminal acts under Chinese law. In the event that the infringer is an entity, the state may prosecute the manager, director or engineer directly for the infringement.[136]

VII. CONCLUSION

China offers a full range of patent protections to patent applicants and patentees; however, the Patent Law pays more than passing attention to China's socialist economy. For instance, a patentee must work his patent in China in order to enjoy the benefits of exclusive use. Furthermore, the differences between a "holder" and an "owner" of a patent, the exceptions to infringements under article 62 of the Patent Law and the establishment of administrative and judicial jurisdiction to hear patent cases are all clearly influenced by Chinese social and economic policy.

Patent procedure is complex and sometimes unclear. Many terms used in the Patent Law are imprecise, and so far remain uninterpreted. With time and experience, though, a stable administrative system for patents should emerge.

The purpose of China's Patent Law is to encourage foreign technology transfers. Given the uncertain climate governing this area before enactment of the statute, the recognition of intellectual property rights is in itself a major step for China. Moreover, the restrictions which apply to domestic holders and owners of patents, such as those on assignments and on rights of exploitation, are for the most part not applicable to foreign patentees. A policy of generally

134. Criminal Law Art. 188.
135. Chen, *supra* note 132, at 31.
136. P.L. Arts. 63-64; Criminal Law Art. 127.

allowing foreigners the patent protection that they would expect in their own countries is evident from the Patent Law. Although foreign patentees may still be subject to compulsory licensing, it is likely that the policy and purpose of the Patent Law will form the basis for its practical application. Patentees of essential foreign technology should find that China has made a compromise between the needs of its socialist developing economy and the requirements of intellectual property owners, one which potentially favors the transferor's interests.