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CHINA IP Bulletin



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Executive Summary

PRC Patent Law to be Amended

The third amendment to the *Patent Law of the Peoples Republic of China* has gone through several rounds of consultations, but is finally ready to become law. We provide here a critical analysis of the important changes which have been introduced. While some amendments only codify existing practices, others provide a considerable improvement on the existing law. Among others, the Third Amendment introduces new standards of novelty and the evaluation of design and utility model patents, addresses the issue of the simultaneous applications for utility patent and invention patent, and increases the penalties for patent infringements.

by Peng Kai and Mark Dahl

New Trends in China IP Protection

New laws are not only providing better protection of IP rights in China, they are also illustrative of a change of attitude towards the role of IP in the future development of China. The *Instructive Guidance on the Nationwide Work for Attraction of Foreign Investment* clearly points out the desired trend for foreign investment to begin producing higher value-added goods and services. And the new *Corporate Income Tax Law of the Peoples Republic of China* establishes High- and New Technology Enterprise (HNT) with proprietary core intellectual property rights as one of only three kinds of companies qualified to enjoy tax advantages in the future.

by Maarten Roos

NEWS

Supreme Peoples Court Clarifies Infringement when Patents are Part of Standards

In a recent response the Supreme Peoples Court (SPC) clarified what constitutes infringement when a patent is included in the setting of standards. If a patent registrant participates in or agrees to incorporate the patent into a national, regional, or industry standard, the use of the patent by others does not constitute infringement of the patent. The use of a patent to determine a standard is therefore regarded as authorizing the use of the patent by others during the implementation of that standard. According to the SPC, the patent holder could still collect royalties, but those royalties would be markedly lower than any royalties not related to standards. Jiang Zhipei, the Chief Judge of the SPCs IPR tribunal, said that this was the SPCs second reply about the standard issue. The first reply was an opposite opinion which denied that incorporation of a patent in a standard constituted publication of the patent.

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Chinese Patent Law to be Amended

In recent years the Chinese government has expressed an increased desire to improve China's patent laws to make the Chinese business environment more appealing to foreign investment. As a result, the State Intellectual Property Office (SIPO) has drafted a third amendment to the *Patent Law of the Peoples Republic of China*, which in August 2008 was presented to the National Peoples Congress for final deliberation and is expected to become law by early 2009. This article gives an overview of some of the most important changes that adoption of the Third Amendment will bring.

Higher Standards for Novelty

One of the most important changes is a shift from relative to absolute standards for novelty. In order for a utility model or invention to be patentable it must be novel, which is currently defined as there being no identical invention or utility model (i) previously filed for with the SIPO, (ii) publicly disclosed in publications in China or abroad, or (ii) publicly used or made known to the public by any other means in China. Under the amended definition, any kind of use or disclosure, in China or abroad, can be cited as prior art against a patent application. The change in definition is subtle but extremely significant. Under the prior rule the only foreign matters deemed known to the public were those that had been publicized, which gives room to Chinese companies to exploit technologies which are already in use (but not publicized) elsewhere. This minor change will thus dramatically level the playing field between foreign and domestic users, and will allow foreign patent holders to better protect their rights in China.

For design patents, the novelty standard has also been raised. Currently a design is novel as long as it is not identical or similar to a published design in China or abroad, or a design in use in China. Under the Third Amendment, for a design to be novel and thus patentable, it must be substantially different from designs and from the combinations of existing design characteristics, existing inside or outside China.

Improved Protection

Several amendments appear to strengthen patent protection. However, while most of these are literal changes to the Patent Law, they are not all substantial changes to current practice. For example, in Article 60 of the

Third Amendment, when the Patent Administrative Department (PAD) considers an infringement is established then it shall order the infringer to stop the infringing act immediately. This is a change from the previous language which used only the words may order. Other articles that strengthen patent protection are merely symbolic recognitions of the current practice, including Article 67 which formally gives the PAD the authority to investigate patent infringements; Article 70 which establishes a method for a patentee to preserve evidence of the infringement prior to initiating legal action; and Article 72 which determines that in a lawsuit, a patent holder may claim for damages suffered during the 2 years prior to that filing.

One article that does give design patent holders stronger protection is Article 11. Infringements on design patents not only include making, selling and importing, but also the offer to sell. Thus legal action can be taken to stop the showing or advertising of infringing products, which may be useful in preventing infringing products from entering the market.

Application Strategies

One article reflecting the current situation in China is in fact an important addition to the Third Amendment. Article 10 codifies the current practice of allowing patent holders to apply for both a utility and invention patent on the same day, and then abandon the utility model upon granting of the invention patent, without abandoning the rights associated with full ownership of the patent. This practice allows patent holders a certain level of protection as a utility model (without substantive examination), until the more extensive application process of an invention (including substantive examination) has been completed. This codification is especially important because of the large number of lawsuits that patent infringers have brought against patent holders arguing that when the patent holder abandons the utility patent in favor of the invention patent, the utility patent is effectively made public property, allowing the duplicate and use of the product. This amendment settles the issue decidedly in favor of patent holders.

The Third Amendment also establishes a new system of evaluation reports for design and utility model patents. The system clearly improves on existing mechanisms, allowing for the SIPO to search, analyze and evaluate

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New Science and Technology Progress Law increases visibility of IP issues

On 1 July, 2008 the *New Science and Technology Progress Law* went into effect. Chinese authorities indicate that the law is aimed at encouraging technological innovation in China and protecting intellectual property rights. Measures include encouraging financial institutions to support development of new technology by lending to developers, and clarification the intellectual property rights for products developed through government financed programs. Under the new law researchers developing products with government funding will own IP rights for nearly all their inventions, except for those related to national defense, national security, or dealing with major social issues of public interest.

SIPO pledges to help IP owners affected by the Sichuan earthquake disaster

The State Intellectual Property Office (SIPO) recently issued a circular on offering preferential policies to parties related to patent affairs in regions severely hit by the Sichuan earthquake of May 2008. According to the circular, the original patent certificates that were lost during the earthquake can be reissued to their owners. In addition applicants, patent holders, and related parties that fail to complete necessary procedures in a timely manner due to the Sichuan earthquake may within two months resume whatever process they were involved in without extra fees. (Source: China IP News, June 30, 2008)

PRC Patent Law to be Amended

cont.



the patentability of a design or utility model at the patent holders request. While the value of the report is not clearly stated, patent holders are at least given a means to better protect their interests.

Increased Penalties

Penalties for patent infringement are also increased. Article 68 of the Third Amendment involves the compensation to the patentee. Along with the current methods for determining damages, the amended article increases the possible recovery for cases in which it is difficult to determine damages by the usual methods (i.e. the patent holders losses or the infringers profits). The minimum amount of such legal compensation is increased from RMB 5,000 to 10,000, and the maximum from RMB 500,000 to RMB 1,000,000. This may also now include reasonable costs of the patent holder for legal action against the infringer.

Patents made in China

Finally, when the first draft of the Third Amendment was published for comments in 2006, it included a clause obliging patent applicants to apply for that patent in China first, for any invention-creation made

in China. This clause was rationalized by saying that it would help protect the interests and secrets of the state in a way similar to in the United States, others argued that it would discourage foreigners to invest in research and development in China. Under public pressure the Third Amendment now refers to an obligation to apply for an examination with the SIPO for national security issues. If this examination is passed, the applicant may apply for the patent outside China first.

While some of the changes to the Patent Law are minor and reflect nothing more than a clarification of the current law, others suggest dramatic changes in the way the Patent Law will be applied. Certainly there remains room for improvement; however, each change in the Third Amendment is a welcome step towards more consistency in patent law and patent security. Such efforts are essential to improving the Chinese market appeal to foreign investors, as well as helping domestic companies to grow. We encourage all patent owners and IP attorneys to become familiar with the rights and regulations associated with patent ownership in China. This way they can more effectively protect their property interest, and the long term security of their business endeavors.

By Peng Kai and Mark Dahl

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PRC National Intellectual Property Strategy Issued

On 5 June 2008, the State Council promulgated the *Outline of the National Intellectual Property Strategy*. The Outline sets five-year goals which include: 1) increasing the number of yearly patent applications to be equal with that of other developed countries; 2) increasing the benefits of holding a patent; 3) improving the protection of patent rights and reducing the number of infringements; and 4) increasing public awareness of intellectual property rights and a respect for such rights. Moreover, 24 specific tasks are mentioned that need to be accomplished in the near future in order to reach these goals. The full text of the Outline can be found at www.ipr.gov.cn or in English at www.english.ipr.gov.cn.

New Trends in China IP Protection

Recent Trends in IP Protection

It is well-known that in China the problem of intellectual property protection lies not with the laws which are relatively comprehensive and basically comply with the obligations under the Trade-Related Aspects of Intellectual Property Rights (TRIPs). Rather, the difficulties lie in enforcing intellectual property rights in a country where the legal system is still under development, the concept of IP rights is relatively new, and IP protection does not rank very high on the country's list of priorities.

Especially the latter is changing. Unrelenting international pressure and the growing importance of IP protection to domestic companies are spurring courts and government authorities at local level to intensify their efforts to tackle infringements.

A third reason for the change of attitude, which is more recent but may prove to be even more durable, is the gradual shift of the industrial focus to higher value-added sectors. China wants to re-position itself in the world economic order; rather than focusing on low-end, labor intensive manufacturing, it is trying to appeal to higher value-added manufacturing and service industries. A precondition: a safe environment for developing and holding IP rights must be created.

Two of this year's legislative initiatives show how IP may play a role in China's future development, with the focus on supporting and attracting companies with core intellectual property rights.

Trademark Owners responsibilities muddled by recent decisions in the US and Europe

In a United States District Court Opinion on Monday 14 July 2008, the court held that "It is the trademark owner's burden to police its mark, and companies like eBay cannot be held liable for trademark infringement based solely on their generalized knowledge. *Tiffany (NJ) Inc. v. eBay, Inc.*, 2008 WL 2755787 (July 14, 2008). While this decision only has effect in the Southern District of New York, and is certain to be appealed, it may have influence on similar cases in other countries. It is noteworthy that France has recently heard a similar case and ruled the opposite. Either way it would be wise for trademark owners to make investments in the protection of their trademark.

New Trends in China IP Protection cont.



Guidance of Foreign Investment

In the *Instructive Guidance on the Nationwide Work for Attraction of Foreign Investment*, the Ministry of Commerce on 6 March 2008 set out the policies for the coming years to attract foreign investment. The document clearly explains the desired trends of foreign investment, which should be made in higher value-added production and service industries, and will thereby lead the country's economy to a higher level.

While the policy document is very general in nature, it includes a number of important references. Investment in research and development (R&D) of new technologies should enjoy tax and industrial policy benefits to upgrade China's industrial structure. Local governments are asked to consider matters such as intellectual property when attracting or approving foreign investment projects. Foreign-invested enterprises and multinational corporations are encouraged to cooperate with local enterprises and science institutes to promote original innovations and a higher percentage of localization of intellectual property. And strengthening the protection of intellectual property is named as one of the four key aspects of the Thousand Hundred Ten Project, in which internationalization of China's service industry has become the chosen method to raise China's service sector.

HNTE Enterprises

Under the new *Corporate Income Tax Law of the Peoples Republic of China* and its implementing rules, both effective as of 1 January 2008, the existing tax benefits for foreign-invested manufacturing enterprises were abolished. Instead, only three kinds of

companies will be qualified to enjoy tax advantages in the future, including the High- and New Technology Enterprise (HNTE). In itself this is another prime example of the push to upgrade China's industrial structure.

The importance of intellectual property in this context was re-affirmed in the *Administrative Measures on HNTE Recognition* (Circular Guokefahuo [2008] No. 172) of 14 April 2008, which detailed the conditions that a company must fulfill to be recognized as an HNTE enterprise and

enjoy tax benefits. One of the pre-conditions is the ownership (or long-term leasing) of core intellectual property rights.

China: An Upgrading of the Economy

China remains a developing country, and vast parts of the country and its economy have a long way to go. As long as it continues to have cheap labor in abundance, it will not lose

its attraction for low value-added manufacturing industries. On the other hand, the eastern provinces, lead by the Yangzi River Delta around Shanghai and the Pearl River Delta in the south, are spurring ahead. Rising prices for land, labor, electricity and other important resources make it too expensive for the low-valued added industries of earlier times, and companies are now demanding better (soft) infrastructure, legal enforcement, and intellectual protection. The central government is pointing the way, and the incentives are huge; will local courts and authorities follow to make IP in China safer?

By Maarten Roos

“...difficulties lie in enforcing intellectual property rights in a country where the legal system is still under development, the concept of IP rights is relatively new, and IP protection does not rank very high on the country's list of priorities.”

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SIPO to Establish 32 IPR Protection and Assistance Centers Nationally

The State Intellectual Property Office (SIPO) has announced that it will open 32 IPR Protection and Assistance Centers in 16 provincial-level and 16 municipal-level intellectual property offices. After these 32 centers are opened, there will be 42 such outlets across the country. This expanded network of offices will provide IP owners better access to enforcement officials and broaden the scope of influence of the SIPO.

Shenzhen IPO drafts Regulations on Protection of the Internet Software IPR of Shenzhen

The regulations focus on Internet account theft but also prohibit the production, publication, and dissemination of malicious software. Fines range from RMB 30,000 to 50,000. Internet service providers are also being required to cooperate with law enforcement and provide information regarding suspects, including names, contact information, and IP addresses. Copyrighted software is also directly addressed as the regulations state that copyright authors may use protection measures such as encryption, communication protocols, software installation licenses, software registration certification and digital watermarking. Fines for anyone infringing such protection methods will range between RMB 30,000 to 70,000.

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