

Roadmap

for Intellectual Property Protection in China

Patent Protection in China

Suggested for use by patent holders, particularly
new entrants to the Chinese marketplace

Prepared Autumn 2008, updated February 2010

It is strongly emphasised that the information provided in this publication by no means constitutes legal advice and should not substitute for counsel. The information is based on the opinion of independent experts and does not claim to be either complete or definitive; but is intended merely as a guide. The relevant Chinese laws and other available legal and technical sources should be properly consulted when seeking protection for IP rights in China.

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Contents

Preface: Recent changes in the Chinese patent system	2
Overview	3
Patent types & terms of protection	4
Invention patents & utility patents.....	4
<i>Patent eligibility</i>	4
<i>Novelty</i>	4
<i>Inventiveness</i>	4
Design Patents.....	4
<i>Patent eligibility</i>	4
<i>Novelty</i>	5
<i>“Creativity”</i>	5
<i>No conflict with other IP rights</i>	5
Terms of Protection.....	5
Patent application/Registration	5
How to obtain patent protection in China.....	5
The Chinese State Intellectual Property Office (SIPO).....	6
Examination procedure for invention patents.....	6
<i>Step one: Preliminary examination</i>	6
<i>Step two: substantive examination</i>	6
Examination procedure for utility model patents	7
Examination procedure for design patents.....	7
Practical tips for obtaining effective patent protection in China	7
Invalidation/Re-examination proceedings	8
Invalidation requests.....	8
<i>Invention and Utility Model patents</i>	8
<i>Design Patents</i>	9
Re-examination requests	9
Appeals	9
Patent infringement	9
Infringing acts.....	9
Possible defences of the alleged infringer	9
Enforcement of patent rights in China	10
Administrative enforcement	10
Judicial enforcement.....	10
Criminal Sanctions.....	13
Employee’s inventions	14
Co-ownership of Patents – Joint Ventures	14
Assignment and licensing: Compulsory licences	14
Principal patent legislation / Sources of patent law & practice	15
China contact information	16
Acknowledgments	17

Preface: Recent changes in the Chinese patent system

The third revision of the Patent Law took effect on 1 October 2009 and brought a number of substantial changes to the Chinese patent system. Further to this revision of the Patent Law, amended Implementing Regulations of the Patent Law entered into force on 1 February 2010.

Where patent prosecution and invalidation are concerned, the amended law applies only to new cases; in this respect, the "*Transitional Provisions regarding the amended Patent Law*" set forth the principle "*old law for old cases, new law for new cases*". For example, the principle of absolute novelty will only apply to patents filed on or after 1 October 2009, i.e. it is not a ground of invalidation for patents filed before the effective date of the amended Patent Law.

As regards exploitation of patents, however, the provision concerning co-ownership will apply to any act of exploitation on or after 1 October 2009, irrespective of when the patent was filed or granted.

Likewise, infringing acts taking place on or after 1 October 2009 will be subject to the new Law; for example, an *offer* to sell an article protected by a design patent (which was not regarded as act of patent infringement under the old law) will give cause to legal actions if continued or repeated after 1 October 2009.

The procedural provisions set forth in the amended Implementing Regulations generally govern all patent applications filed on or after 1 February 2010, whereas the old Implementing Regulations apply to all patents and applications filed before that date. However, some selected provisions of the amended Implementing Regulations also apply to patents and applications filed before 1 February 2010 (*for details, see the Transitional Rules for the Amended Implementing Regulations of the Chinese Patent Law*).

Overview

Chinese patent law covers three distinct subject matter:

- “Inventions”
- “Utility models”
- “Designs”

“Inventions” and “utility models” are innovations in the field of technology. Invention patents are for more substantive technical innovations, whereas utility model patents are intended for smaller technical improvements. Design patents cover innovations in the field of styling.

Every enterprise doing business in China is strongly advised to make active use of the Chinese patent system. In particular, it is absolutely crucial to apply for patent protection in China for each and every innovation, even if a launch of the respective product in the Chinese market is not yet on the horizon. Markets change rapidly, and patent protection has to be requested before the respective product is introduced anywhere on the world. In particular, a European patent has no effect in China!

Many western companies ignored this golden rule, and faced imitations of their technology in the Chinese market later on, resulting in severe financial damage. In the absence of patent protection in China, such imitations are completely legal! These products legally made in China may be eventually shipped to other countries, causing further problems.

Therefore, an active patenting strategy – as part of an overall IP strategy – is a must in China, just like in any Western country.

Since China is a Member of WTO, its patent law system has to meet the international standard set by the TRIPs Agreement. The Chinese intellectual property system underwent two substantial reviews from 2001 to 2008, and

the current Patent Law took effect on 1 October 2009.

From an international perspective, many basic concepts of Chinese patent law are similar to the German or European patent system. However, some legal questions are still not codified in the patent law, resulting in legal uncertainties.

Patent enforcement in China is essentially characterised by two factors. First, the country is very large, and the legal expertise of courts and the support by local authorities may not be adequate in rural regions. However, the major cities, in particular Beijing, Shanghai and Guangzhou, can be considered as a reliable forum for patent infringement actions.

Second, the Chinese procedural law imposes a number of requirements for patent infringement actions which foreign right holders may not be familiar to. In particular, any evidence used for patent infringement actions has to be certified by a Chinese notary, and all foreign documents have to be legalised.

These characteristics require a careful and timely planning of patent litigation actions in China. Nevertheless, patent litigation has to be considered an effective means to defeat piracy and technology theft. Given the efforts of the Chinese government to improve the overall IP system, the number of patent litigations is expected to increase very significantly in the next few years.

However, IP protection measures should not be limited to filing patent applications. It is rather advisable to implement an overall IP strategy covering legal, technical, administrative, and political aspects. Such a multi-dimensional approach can help to avoid a significant number of problems.

Patent types & terms of protection

INVENTION PATENTS & UTILITY PATENTS

An invention patent is granted for inventions, i.e. any new technical solution relating to a product, a process or improvement thereof. A utility patent is granted for utility models, i.e. any new technical solution relating to the shape, the structure, or their combination, of a product, which is fit for practical use.

To be patentable, the claimed invention/utility model must be new and inventive over the prior art, and must possess practical applicability.

Patent Eligibility

Invention/utility patents are not available for the following subject matter:

- Scientific discoveries.
- Rules and methods of intellectual activities.
- New varieties of plants and animals, not including the breeding processes for new varieties of plants and animals.
- Diagnostic, therapeutic or surgical methods for treating diseases of the human or animal body.
- Substances obtained by means of nuclear transformation.
- An article that is detrimental to public order, good morals or public health.
- An article whose shape or design is identical or similar to the party, national or military flag, the national emblem, the government medal.

Novelty

To be patentable, the claimed subject matter of an invention/utility patent must be new over the prior art. A document is considered novelty destroying if it discloses all features of the claimed invention.

Under the 2009 Patent Law, "prior art" includes any technology known to the public in China or abroad before the filing date ("absolute novelty").

Furthermore, the claimed subject matter must be new over the so-called "secret prior art", i.e. all – yet unpublished – pending patent applications filed with SIPO before the filing/priority date of the respective application (provided that these patent applications are published later on).

Inventiveness

To be patentable, the claimed subject matter must be "inventive" over the prior art.

As regards invention patents, inventiveness means that – compared with the prior art – the invention has "prominent substantive features and represents a notable progress".

As regards utility patents, inventiveness means that – compared with the prior art – the utility model has "substantive features and represents progress".

Therefore, the level of inventiveness required for a utility model patent is not as high as for invention patents.

DESIGN PATENTS

A design patent is granted for original designs relating to the shape, pattern, colour or a combination thereof of an object (i.e. with respect to a specific object, but not *per se*).

Patent Eligibility

Design patents are not available for the following subject matter:

- 2-dimensional designs of patterns, colors (or their combination), or of two-dimensional printed matter, that mainly serve as indication of origin. In practice, there is a significant uncertainty when assessing whether a design falls into this exception. As a rule of thumb one may say that if a design is eligible for trademark protection (as 2-dimensional trademark), it is likely not eligible for design patent protection.

Novelty

To be patentable, the claimed subject matter of a design patent must be new over the “prior design”. A document is considered novelty destroying if it discloses an identical design as the claimed design.

Under the 2009 Patent Law, “prior design” includes any design known to the public in China or abroad before the filing date (“absolute novelty”).

Furthermore, the claimed design must be new over the so-called “secret prior design”, i.e. all – yet unpublished – pending design patent applications filed with SIPO before the filing/priority date of the respective application (provided that these design patent application are published later on).

“Creativity”

To be patentable, the claimed design must be “obviously different from the prior design or the combination of features of the prior design.”

No conflict with other IP rights

To be patentable, the claimed design must not be in conflict with any legal right of any other person that was acquired before the date of filing (in particular trademarks or copyrights).

TERMS OF PROTECTION

Patent rights commence from the date of publication in the Patent Gazette. The term varies depending on the type of patent:

- Invention: 20 years from the filing date
- Utility Model: 10 years from the filing date
- Design: 10 years from the filing date

Average duration of application/registration procedure (as of 3/2008):

Invention patents: 3-5 years

Utility/design patents: 1 year

Patent application/ Registration

HOW TO OBTAIN PATENT PROTECTION IN CHINA

In order to obtain patent protection in China, the inventor or his employer has to file a Chinese patent application. A foreign patent has no effect in China (and vice versa). The application must be filed before the innovation is disclosed to the public, e.g. by marketing or selling.

Foreign companies with R&D facilities in China should be aware: Foreign filing licence may be required!

If an invention is “completed” in China (e.g. made in a Chinese R&D centre) a confidentiality examination is required before a respective foreign (non-Chinese) patent application can be filed. Failure to comply with this requirement will result in the non-patentability of this invention in China.

Under Rule 8 of the Implementing Regulations, an invention is regarded as “completed” in China if the “substantial contents” of the technical solution are completed in China; therefore, this provision cannot be avoided by transferring the final stage of the invention process to be completed abroad.

Where the applicant has not heard from SIPO for 4 months after filing the application for confidentiality examination, the applicant may file abroad without further approval.

The confidentiality examination request can be filed in three ways: First, by submitting a “detailed description” of the invented technical solution, second, by referring to a pending Chinese national patent application, and third, by filing an international PCT application with SIPO (acting as receiving office).

Instead of directly filing a patent application in China, it is also possible to file a first patent application in a foreign country (must be a Member State of the Paris Convention, like all EU countries), and then file a second patent application in China within 12 months (6 months for designs), claiming the priority date of the first application.

Priority Date

The priority date is the filing date of the first patent application covering the subject matter. This priority date can be “claimed” (used) in subsequent foreign applications filed not later than one year (6 months for design patents) after the first application. The content of the subsequent application must not exceed the disclosure of the priority application in order to fully enjoy the priority right.

If the priority of an earlier application is validly “claimed” in a later application, any publication occurred or any patent application filed by third parties after the priority date are not taken into consideration when examining novelty and inventiveness of that later patent application.

A further way to obtain patent protection in China is to file an international patent application under the Patent Cooperation Treaty (PCT), naming China as one of the designated states. A PCT application can be filed e.g. with the European Patent Office, or any national patent office within the EU. The applicant has to initiate the “national phase”, i.e. the procedure before the SIPO not later than 30 months from the priority date. The PCT route therefore gives the applicant significantly more time (30 months) to make the final business decision whether or not to pursue the application in China.

Foreign companies not having a registered office in China must use a local patent attorney to handle the filing of a patent (all Chinese patent attorneys are qualified to handle matters for foreign companies). The quality of the patent attorney and hence the quality of the application is critical for the value of the protective right. Treat your patent applications as one of the most valuable assets of your company in China!

The national Chinese patent application has to be in Chinese language, and only the Chinese patent claims eventually determine the scope of protection. Therefore, a very careful translation of the application is of utmost importance. However, a foreign PCT application (drafted e.g. in English) is treated as the binding original during patent examination, i.e. errors occurring when preparing the Chinese translation are not as fatal as if the Chinese translation was filed directly as a national application – in any case, however, the published Chinese text is binding for the granted patent.

If there are two patent applications filed on the same innovation, the patent is granted to the one who filed its

patent application first (first-to file-system).

THE CHINESE STATE INTELLECTUAL PROPERTY OFFICE (SIPO)

The Chinese State Intellectual Property Office (SIPO) (which is directly under the State Council) has currently two main divisions: the Patent Office and the Patent Re-examination Board (PRB).

The Patent Office of SIPO receives and examines patent applications (and semiconductor layout designs registrations). The PRB handles “patent re-examination requests” (i.e. appeals of rejections by the Patent Office), and “invalidation requests” (filed against an issued patent). Local intellectual property offices (IPOs) are in charge of administrative patent enforcement.

EXAMINATION PROCEDURE FOR INVENTION PATENTS

There is a two-step examination procedure for invention patent applications.

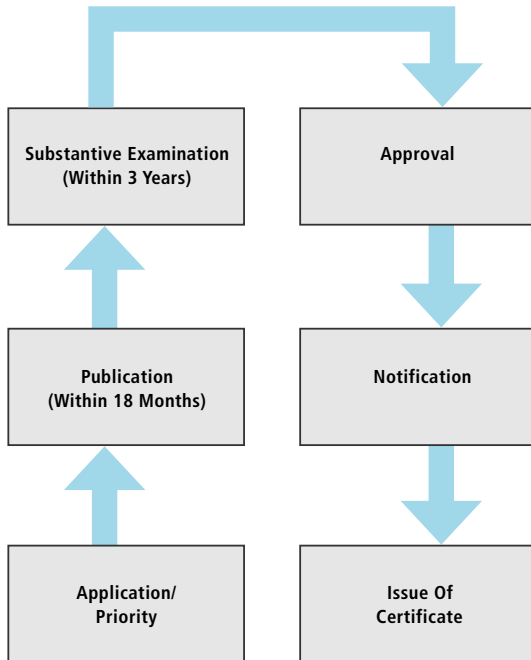
Step one: Preliminary examination

A patent application must be filed with the Patent Office of SIPO. If the Patent Office receives an application for an invention patent and finds the application to be in conformity with the Patent Law, it will publish the application 18 months after the date of filing or the priority date, whichever is the earlier date. Upon request of the applicant, the Patent Office may publish the application earlier.

Step two: substantive examination

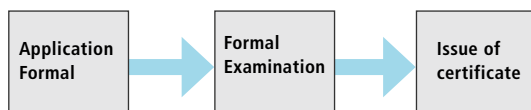
The applicant for an invention patent must file a request for substantive examination within 3 years of the filing date or the priority date (whichever is the earlier date), upon which the Patent Office will examine patentability of the claimed invention. The applicant must provide relevant documents generated before the filing date.

If the applicant has filed an application for the same invention overseas, he must submit documents or results relating to the application in that foreign country. If the applicant fails to request substantive review within 3 years without justifiable reason, the application will be deemed to be withdrawn.



EXAMINATION PROCEDURE FOR UTILITY MODEL PATENTS

For utility model patent application, there is no substantive examination procedure: The Patent Office only conducts a “formal examination”, looking at, for example: unity, content of the application documents, the applicant’s qualifications, the right of priority, and so on. If no cause for rejection can be found, the Patent Office issues a patent certificate, valid for 10 years from the filing date.



Parallel filing of an invention patent and a utility model patent application

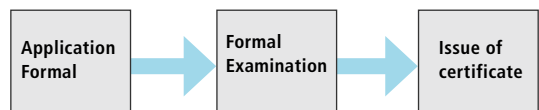
In order to obtain an enforceable protective right as soon as possible, it can be advisable to file a utility and invention patent application in parallel, and abandon the utility model patent once the invention patent has been issued (Article 9 Patent Law). The invention patent and the utility model patent must be filed on the same day; both applications must be accompanied by a declaration that a parallel invention patent or utility model patent, respectively, was filed (Rule 41 Implementing Regulations).

EXAMINATION PROCEDURE FOR DESIGN PATENTS

The Patent Office also receives patent applications on designs. Like for utility model patent applications, there is merely a “formal examination” procedure for design patent applications. A design patent certificate is issued when the application is approved, having a validity of 10 years from the filing date.

An application for a patent for design shall be limited to one design incorporated in one product. However, multiple designs may be filed in one application if they are similar designs for the same product, or if they are incorporated in products belonging to the same class and are sold or used in sets.

It should be noted that under the 2009 Patent Law, a design patent application must comprise a written “brief description” of the design. Applicants are advised to draft this description very carefully as it is not merely a formal filing requirement but is rather also used to determine the scope of protection of the design patent.



PRACTICAL TIPS FOR OBTAINING EFFECTIVE PATENT PROTECTION IN CHINA

Below are some practical tips how to obtain effective patent protection in China:

1. **Translation:** translation accuracy is always a major issue for patent applications filed by foreign entities in China. Unfortunately, it is not uncommon that a patentee finds out the invention as defined in a Chinese patent deviates substantially from the original patent application as a result of the initial incorrect or inaccurate translation, only at time of enforcement. To ensure accurate translation, it is important to allow abundant time for the translator to avoid translation to be done within a very short lead-time, which will surely result in mistakes. In addition, it is not unknown that even technical translators experience substantial difficulty in translating technical terms or more complex sentences of a patent specification, due to the complex nature of a patent document. Typical translators tend to choose an arbitrary meaning when there are several meanings that can be attached to a term. To avoid translation errors, especially in a patent application for an important invention, it will be prudent to seek

professional confirmation of the translation of the patent specification in Chinese (e.g. by reverse translation).

2. **PCT applications:** Since the text of the original PCT specification is accepted as the authentic text of a national Chinese patent application upon entry into the national phase, it is recommended to use the PCT route to file patent applications in China.
3. **Amendments during prosecution:** China has a very stringent approach regarding added subject matter and/or amendments made during prosecution. Amendments of the application going beyond the disclosure of the original application may result in a patent being invalidated. Therefore, utmost care must be exercised during prosecution not to breach these rules.
4. **Claims:** there are very strict rules on post-grant amendment of claims during revocation proceedings. If the granted independent claims turn out to be anticipated or obvious over the prior art, the claims can only be amended by features which are already present in the dependent claims. Features which are present in the specification but not the claims will not be accepted as a source for post grant claim amendments. Therefore, dependent claims should include as many useful technical features as possible to cater for possible post-grant claim amendments.

Invalidation/ Re-examination proceedings

INVALIDATION REQUESTS

Any entity or individual may file a request with the Patent Re-examination Board (PRB) of SIPO to declare the patent invalid. The petitioner does not need to show any particular legal interest in filing such invalidation action. In general, there is no time limit for filing such request (NB: there are no opposition proceedings in China, unlike e.g. at the European Patent Office).

The petitioner can raise inter alia one or more of the following grounds for invalidation:

Invention and Utility Model patents

- The claimed subject matter is not new and/or inventive over the prior art.
- The claimed subject matter does not have practical applicability
- The invention is not a patentable subject matter.
- The claimed subject matter violates the laws of the State, goes against social morals or is detrimental to the public interest
- A patent has been previously granted for the same or a similar new invention or utility model, which was filed earlier than the current application.
- The claims are not sufficiently clear and concise, or the description does not disclose the invention sufficiently clear and complete.
- The scope of the claims is not supported by the patent description, or the amendment goes beyond the disclosure of the original application.

Design Patents

- The claimed design is not new (i.e. it belongs to the prior design), and/or is not “obviously different” from the prior design or the combination of features of the prior design.
- An earlier design patent application (which was published after the current application) relates to the same design.
- The subject matter of the design patent collides with a legal prior right obtained by any other person (including copyright or trademark).
- The subject matter of the design patent does not relate to shape, pattern, color of an article, or a combination thereof.
- The subject matter of the design patent relates to a 2-dimensional design of patterns, colors (or their combination), of two-dimensional printed matter that mainly serves as indication of origin.

RE-EXAMINATION REQUESTS

If the Patent Office rejects a patent application, the applicant may file a request for re-examination with the PRB. The request must be filed within three months from the date of receipt of the decision.

Protection against Abusive Patent Applications

Right holders must be aware that abusive filing of utility model patent applications on inventions of third parties may occur, in particular if the true inventor failed to file a respective patent application in China. In order to avoid lengthy, costly and complicated invalidation proceedings, companies are strongly advised to file Chinese invention/utility patent applications for each and every innovation (or at least to disclose the respective improvement in printed journals, magazines etc., in order to destroy novelty or inventiveness of such third party abusive utility model applications)!

APPEALS

Decisions of the PRB can be appealed to the Beijing First Intermediate Court (3 months deadline). A further appeal can be filed with the High People’s Court of Beijing (15 days deadline), and in exceptional cases with the Supreme People’s Court for re-trial.

Patent infringement

INFRINGEMENT ACTS

Without the authorisation of the patentee (applicable to invention patents, utility patents, as well as design patents) no entity or individual may exploit the patent, i.e.

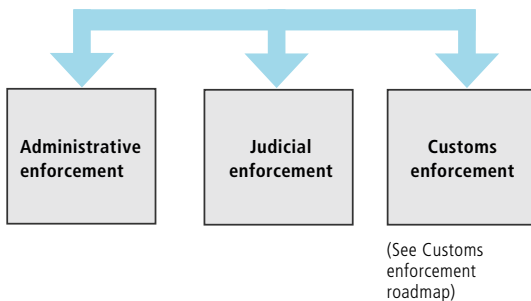
- make, use, offer to sell, sell or import the patented product, or
- use the patented process, or
- use, offer to sell, sell, or import the product directly obtained by the patented process for production or business purposes.

POSSIBLE DEFENCES OF THE ALLEGED INFRINGER

- Private use (non-commercial use);
- Attacked embodiment belongs to the prior art or prior design (prior art defence);
- Use solely for the purpose of scientific research and experimentation;
- Absent wilful patent infringement retailers, distributors and owners of infringing products are not liable for damages provided that they can prove that they obtained the product from a “legitimate source”.
- The statute of limitations for patent infringement is two years starting from the date the patent holder or interested party knew or should have known of the existence of the patent infringement!

Enforcement of patent rights in China

In accordance with the legislation of the PRC, patentees have three main options for enforcement once they discover that their rights are being infringed:



However, for complex technical questions related to “invention” or “utility model” patents in particular, judicial enforcement is by far the most important option.

ADMINISTRATIVE ENFORCEMENT

As mentioned above, administrative enforcement by the local IPO may be particularly helpful for design patent infringement cases (in particular at trade fairs), or to mediate such patent disputes. Complex technical questions related to “invention” or “utility model” patents are normally less suitable for administrative procedures.

The IPO may also, at the request of the two parties concerned, also act as a mediator regarding the amount of damages to be awarded to the patentee. If mediation fails, either party may file proceedings in the People’s Courts.

The patentee may request the IPO to impose administrative actions and penalties on the infringer. The IPO investigates the complaint and may, if infringement is found, order the infringing party to stop the infringing act. However, the IPO cannot award damages to the patentee.

Appeals against IPO decisions, such as fines, are generally made to the Administrative Tribunals of the appropriate regional court (Intermediate or Higher People’s Court), while the Criminal Tribunals of the appropriate Lower Court hear criminal cases. The Supreme People’s Court generally hears only the most important appeal cases, i.e. those that have national interest or effect.

JUDICIAL ENFORCEMENT

Since 1993, China has set up Intellectual Property Tribunals in a growing number of the Intermediate People’s Courts and Higher People’s Courts throughout the country. The Supreme People’s Court also established its Intellectual Property Tribunal in October 1996. Since 2000, the IP Tribunal is called Third Civil Division.

General overview of the court system

China has a four-level court system – Basic Courts, Intermediate Courts, High Courts and the Supreme People’s Court.

- Basic (county and city district) courts hear cases of first instance unless otherwise specified under the law.
- Intermediate (regional) courts handle major cases involving foreign parties, or involving important issues within its jurisdiction, as well as appeals from basic courts.
- High (provincial) courts handle important cases (e.g. involving high damages) as courts of first instance and appeals from lower-level courts.
- The Supreme People’s Court (SPC) handles appeals from the High courts, and major cases having significant influence throughout China and other cases deemed necessary at its own discretion.

Basic courts are only trial courts, while the others are both trial and appellate courts. Each court consists of several chambers, including civil, administrative and criminal.

Since 2000, first instance patent cases are normally heard by Intermediate People’s Courts. Cases where the damage claim exceeds RMB100m (around EUR 10m) are heard at 1st instance by the High Court. Civil patent cases usually fall into the jurisdiction of the Third Civil (IP) Division.

Courts have the authority to petition for referral of a matter to the next higher level if the case is a serious one. Thus, a high profile intellectual property dispute involving matters of provincial concern might be referred to the High Court for trial.

Patentees may file a civil and criminal case together, but the criminal case must be filed first, and then the patentee can pursue damages under a civil claim; the patentee cannot file a civil case and then ask for criminal sanctions. In most cases, if both civil and criminal complaints have been filed against the same party, the civil case judge usually stays the case until the criminal judgment is made. If this happens, the civil judge is more likely to grant higher damages and sanctions.

Preparing a patent infringement complaint

Filing a civil patent infringement complaint requires very careful planning and preparation of the case. Respective deficits are likely to result in inadequate court proceedings. If a company encounters patent infringement in China, the first step should be to consult with an experienced patent lawyer, before proceeding with any further internal or external preparations of patent enforcement, to avoid misinvestment of financial and human resources when investigating and preparing the case.

Once the facts of the case are reasonably clear, the second step should be an in-depth analysis of the facts of the case by the patent lawyer (in particular: analysis of the infringing embodiment, review of the validity of the patent). Such objective risk assessment should be then used as the basis for the final business decision whether to start patent infringement actions.

As a third step, sending a warning letter and/or negotiations with the infringer should be considered. However, it should be noted that sending a warning letter may be a double-edged sword, as the party warned may raise a lawsuit for declaration of non-infringement in a local court (being an unfavourable jurisdiction), following the letter. This risk should be taken into account before sending the letter. At this stage, it is very important to collect and notarize proper evidence of the infringing act(s) (foreign documents must also be legalised in the country of origin). Patentees may request a pre-trial evidence preservation order from the competent court (see below, interim relief).

An infringement complaint can be either filed at the place where the infringer is located, or where the infringing act (e.g. the sale) occurs. However, it should be aimed to file an infringement complaint with the courts of Beijing, Shanghai or Guangzhou, as these courts have ample experience in handling patent law cases, unlike some provincial courts.

Therefore, it is necessary to establish proof of infringement in these cities e.g. by initiating a delivery of the infringing embodiment there. For this purpose, it may be advisable to use local investigation firms to approach the infringer.

Preliminary Injunction & Evidence Preservation

In urgent cases, plaintiff can request the People's Court to stop infringing acts immediately, preventing losses before and during the lawsuit. This is called a "preliminary injunction". Preliminary injunctions will usually be granted if plaintiff can furnish evidence strongly supporting his claim that: (1) his lawful rights are being infringed, or the infringement is imminent (i.e. that the damage to the rights owner is happening now or is about to happen; future damage is not sufficient), and (2) the infringement will result in "irreparable damage" to the patent or rights holder. Plaintiff shall provide a guarantee (such as a local bank account or local bank guarantee) to the court to obtain a preliminary injunction. The People's Court shall render a ruling within 48 hours from the reception of the request (this period may be extended to additional 48 hours "for special reasons"). Plaintiff has to institute legal proceedings within 15 days after the People's Court issued a preliminary injunction. If plaintiff fails to do so, the People's Court shall terminate the measures.

Moreover, plaintiff may file a request with the People's Court for "preservation of evidence" (e.g. seizure of the evidence) prior to instituting legal proceedings, if such evidence might be destroyed, lost or difficult to obtain later. When taking preservation measures, the People's Court may order plaintiff to provide a bond. If the requester fails to provide a bond, the request shall be rejected. The People's Court must render a ruling within 48 hours of receipt of the request. If plaintiff fails to institute legal proceedings within 15 days after the people's court has adopted the preservation measures, the People's Court shall terminate the preservation measures.

In practice, preliminary injunctions are still difficult to obtain in patent matters. They require careful preparation of the formalities such as notarisation and legalisation of Power of Attorney and appropriate guarantees.

Trial procedures, outcome and timeline

After the patent infringement complaint is filed with the competent court, it will be served to the defendant.

If the defendant wants to question the validity of the patent-in-suit, he has to file a separate invalidation request with the PRB (see above) within 15 days after receiving the complaint. He then may request the trial court to stay the procedure until the PRB has decided the case. In case of utility model or design patents, courts may ask the patentee to furnish an opinion of SIPO on the validity of the patent, a so-called patent evaluation report (see the explanation box below). If the patent evaluation report concludes that there are good invalidity arguments, the court may subsequently stay the infringement proceedings until the pending re-examination proceedings are terminated. However, in case of invention patents, courts are quite unlikely to stay the procedure, i.e. the court usually accepts the patent as granted.

Patent Evaluation Report

A patent evaluation report is an analysis of the validity of a utility model patent or a design patent. The report is prepared by the SIPO upon request by the patentee or an "interested party" such as the exclusive licensee or a non-exclusive licensee being authorized to enforce the patent.

The SIPO shall issue the evaluation report within two months after receipt of the request. The evaluation report can be inspected by any third party (Rule 57 Implementing Regulations). As the evaluation report is not an administrative decision, it cannot be appealed, but the applicant requesting the report may ask for reconsideration within two months after receiving the report.

In practice, the patentee may consider requesting an evaluation report before filing an infringement action to speed up the infringement proceedings and to avoid a negative outcome of possible re-examination proceedings. However, if the patentee decides to enforce the patent despite a negative evaluation report, it should be kept in mind that the alleged infringer may inspect the evaluation report and eventually use it against the plaintiff.

If the defendant does not file an invalidation request, the infringement court will assume that the patent-in-suit is valid (there is no invalidity defense under Chinese law). However, the defendant may argue that the attacked embodiment does not fall under the patent claims, and/or practices nothing but prior art, and/or international exhaustion of rights, etc., among other defences.

The court will schedule an evidence submission hearing usually within one month of receipt of the complaint by the Defendant. Thereafter, the Court will schedule the main hearing on the merits.

After the main hearing, the court will render a decision. Unlike in some European countries, this decision is not preliminary enforceable, i.e. the patentee cannot use the first instance decision to stop the infringer until the decision has become final. The decision becomes final and enforceable, if the defendant does not file an appeal within the prescribed period after receiving the written judgment, or the appeal is eventually dismissed.

The average duration of first instance proceedings involving a foreign party is probably about two years, if the proceedings are not stayed pending the separate invalidation proceedings before the PRB.

The Civil Procedure Code requires a second-instance case to be completed within three months, but the courts can extend the time limits; for foreign-related cases, there is no definite time limit for rendering a final decision, but usually within 9-12 months.

The court fees for each instance are relatively low (1.0% of the value of the infringement, and 0.5% of the value exceeding RMB 1.000.000).

Damages

There are four statutory methods for calculating the amount of damages for patent infringement. However, the patentee cannot choose between the four methods; there is rather a statutory hierarchy among the methods: The first method mentioned below is the default method, and the court will address the next method only if it is "difficult" to calculate damages based on the previous method. In practice, most cases are decided based on the last method. Reasonable expenses spent by the patentee on investigation and prevention of infringement, including appropriate lawyer fees, may be included in the damages.

- The loss suffered by the patentee. The loss can be calculated by the following method: the reduced sales volume of patented products multiplies the profit per patented product. If the reduced sales volume is hard to determine, the sales volume of infringing products may

be considered as the reduced sales volume of patented products.

- The profits which the infringer has earned. The profits can be determined by multiplying the sales volume of the infringing products by the reasonable profit per infringing product.
- Appropriate multiple of licensing fees. If it is too difficult to determine damages based on losses of the patentee or profits of the infringer, the damages may be assessed by reference to the appropriate multiple of a contractual licensing fee. This approach is most appropriate, if the patentee registered a licensing contract with the Patent Office. The damages may amount single, double or triple royalty fees, depending on the circumstances of the case.
- When damages cannot be determined by any of the three methods mentioned above (in particular due to the harsh Chinese rules of evidence), the court may award “lump sum” damages from RMB 10.000 up to RMB 1.000.000, depending on the circumstances of the infringement.

- without authorisation, indicating the patent number of another person on the product or on the package of that product made or sold by him or it;
- without authorisation, using the patent number of another person in the advertisement or in any other promotional materials of his or its product, so as to mislead other persons into believing the technology concerned is the patented technology of another person;
- without authorisation, using the patent number of another person in the contract entered into by him or it, so as to mislead other persons into believing the technology referred to in the contract is the patented technology of another person;
- counterfeiting or transforming any patent certificate, patent document or patent application document of another person.

The patent holder files a criminal complaint with the People’s Court or the Public Security Bureau (police); he or she must present appropriate evidence. Criminal complaints received by the IPO will be forwarded to the police.

Use of foreign judgements

Although judges are open to learn from foreign cases, they neither directly use foreign judgments as precedents, nor do they necessarily follow foreign judgements in parallel proceedings. Nevertheless, it can be helpful to submit appropriate foreign judgments in Chinese proceedings.

CRIMINAL SANCTIONS

Patent infringement as such is not considered as a crime, so that there is no criminal prosecution procedure available (yet). However, acts of patent counterfeiting (“passing off”), which can also constitute patent infringement, may be subject to criminal punishment, **including a** fine amounting to four times the illegal income of the infringer or, if there are no illegal earnings, a fine of up to RMB 200.000.

Pursuant to Article 216 of the Criminal Law of the PRC, passing off can be considered as a crime if the circumstances are serious. Article 84 of the Implementing Regulations of the Patent Law states that the following may constitute an act of passing off the patent of another person as one’s own:

Employee's inventions

Companies having R&D facilities in China should be aware of the Chinese employee's invention law (Article 16 Patent Law): The employer filing a patent on an invention made by an employee (so-called "service invention") has to pay to the employee a "reward", and upon exploitation of the patent a "reasonable remuneration" reflecting inter alia the economic relevance of the invention.

It is strongly suggested that both parties conclude an agreement on the manner and amount of the award and remuneration (see Rule 76 Implementing Regulations). Such agreement should be part of any standard employment contract for R&D personnel. Absent such agreement, Rules 77 and 78 Implementing Regulations prescribe a default reward and remuneration scheme.

The issue of employee's invention law should also be taken into consideration when negotiating a R&D contract with a Chinese entity. Such contract should determine which party has to pay possible rewards and remuneration, and should contain the obligation of the R&D company to conclude respective agreements with their employees.

Note: The amended Implementing Regulations only apply to patent applications filed on or after 1 February 2010.

Co-ownership of patents – Joint Ventures

Many Joint Venture (JV) agreements between a foreign company and a Chinese partner stipulate that inventions made in the course of the JV are "jointly owned". Under such agreement, absent further contractual rules, each co-owner is allowed to use the invention in an unlimited manner, and may grant non-exclusive licenses (while royalties must be shared by all co-owners). Any other exercise of a jointly-owned patent application right or patent right is subject to consent by all co-owners. Depending on the specific circumstances, these default provisions may be inappropriate to meet both parties' interests, especially if a JV fails.

Assignment and licensing; Compulsory licences

A pending application or registered patent may be assigned to another party. The assignment must be registered with the Patent Office. The assignment takes effect on the date of registration. If the assignment is from a PRC assignee to a foreign party, the assignment is subject to the approval of the relevant authorities.

A patent holder may also license its patent to other parties. A written contract should be recorded within 3 months – although there are no penalties imposed by the Patent Office if this is not done.

Foreign owners should be aware of the compulsory licensing provisions under the Patent Law. Most importantly, compulsory licenses may be granted where the patentee, after the expiration of three years from the grant of the patent right and of the expiration of four years from the filing date of patent application, has not exploited or has not "sufficiently" exploited the patent "without any justified reason". According to Rule 73 Implementing Regulations, the patentee "insufficiently" exploits the patent if he fails to meet the domestic demand for the patented product or process (by licensing and/or manufacturing). Furthermore, compulsory licenses are inter alia available for reasons of "national emergency" or "public health", for the exploitation of dependant patents, and for reasons of antitrust (competition) law.

Principal patent legislation / Sources of patent law & practice

- Chinese Patent Law, adopted by the Standing Committee of the National People's Congress in 1984, last revised on 27 December 2008. This third and current revision took effect on 1 October 2009. Prior to that it was revised on 25 August 2000 and implemented on 1 July 2001.
- Implementing Regulations to the Patent Law, adopted by the State Council on January 18, 2010, in force since February 1, 2010.
- Transitional Rules for the Amended Implementing Regulations of the Chinese Patent Law, in force since February 1, 2010.
- Guidelines for Patent Examination, adopted by SIPO on January 21, 2010, in force since February 1, 2010.
- Interpretation by the Supreme People's Court on Some Issues Concerning the Application of Laws to the Trial of Patent Infringement Disputes, adopted on December 21, 2009, in force since January 1, 2010.
- Interpretations by the Supreme People's Court on the Application of the Law with respect to Ordering Pre-trial Provisional Measures for Ceasing Patent Infringement, adopted in 07 June 2001 and in force since July 1, 2001.
- Measures for Patent Administrative Enforcement by SIPO, adopted and implemented in 17 December 2001.
- Regulations on Rules Formulating Procedures of SIPO, adopted in force since December 31, 2001.
- Measures for the Administration and Recordal of License Contracts for Patent Exploitation adopted by SIPO in 17 December 2001 and in force since January 1, 2002.
- Administrative Measures for the Registration of Technology Import and Export Contracts, adopted by Ministry of Commerce in January 2002 and implemented on 1 March 2009.
- Announcement on the Register of Patent Right Pledge Contracts, adopted by SIPO on 1 February 2007.
- Measures for Compulsory License on Patent Implementation concerning Public Health Problems, adopted by SIPO on 1 January 2006.
- Measures for Compulsory Licensing of Patent Implementation, adopted by SIPO on 15 July 2003.
- Provisions of the State Intellectual Property Office on Electronic Patent Application, adopted by SIPO on 12 March 2004.

China contact information

STATE INTELLECTUAL PROPERTY OFFICE (SIPO)

www.sipo.gov.cn (Chinese)

www.sipo.gov.cn/sipo_English (English)

STATE ADMINISTRATION FOR INDUSTRY AND COMMERCE (SAIC)

www.saic.gov.cn (Chinese)

www.saic.gov.cn/english (English)

China Trademark Office (CTMO)

www.ctmo.gov.cn or <http://sbj.saic.gov.cn/> (Chinese and English)

NATIONAL COPYRIGHT ADMINISTRATION OF CHINA (NCAC)

www.ncac.gov.cn (Chinese only)

GENERAL ADMINISTRATION OF CUSTOMS OF CHINA (GACC)

www.customs.gov.cn (Chinese)

<http://english.customs.gov.cn/publish/portal191/> (English)

SHANGHAI CUSTOMS

www.shcus.gov.cn (Chinese)

<http://shanghai.customs.gov.cn/Default.aspx?tabid=8813>
(English)

GUANGZHOU CUSTOMS

<http://guangzhou.customs.gov.cn> (Chinese)

<http://guangzhou.customs.gov.cn/Default.aspx?tabid=5942>
(English)

TIANJIN CUSTOMS

<http://tianjin.customs.gov.cn> (Chinese only)

GENERAL ADMINISTRATION OF QUALITY SUPERVISION INSPECTION AND QUARANTINE (AQSIQ)

www.aqsiq.gov.cn (Chinese)

<http://english.aqsiq.gov.cn> (English)

MINISTRY OF PUBLIC SECURITY (MPS)

www.mps.gov.cn (Chinese only)

SUPREME PEOPLE'S COURT (SPC)

www.court.gov.cn (Chinese)

CHINA IP JUDICIAL PROTECTION, IPR TRIBUNAL

www.chinaiprlaw.cn (Chinese)

www.chinaiprlaw.com/english (English)

SUPREME PEOPLE'S PROCURATORATE (SPP)

www.spp.gov.cn (Chinese only)

MINISTRY OF COMMERCE (MOFCOM)

www.ipr.gov.cn (Chinese)

www.english.ipr.gov.cn (English)

SERVICE CENTRES FOR IPR PROTECTION, REPORTING AND COMPLAINTS

<http://jbits.ipr.gov.cn/tousu/eHome.html> (English)

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This Roadmap for Intellectual Property Protection is part of a series of guides prepared under the EU-China Project on the Protection of Intellectual Property Rights (IPR2). The series aims to provide European and Chinese companies with up-to-date information on how to protect their intellectual capital in Europe and in China. For other guides, visit www.ipr2.org or contact IPR2 (info@ipr2.org).

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If you are a European SME or SME representative body, for further information contact the European Union's China IPR SME Helpdesk:

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The European Patent Office (EPO) is the European implementing organisation for IPR2, and draws on expertise from its Member States in specific fields and the Office for Harmonisation in the Internal Market (OHIM) on trademark and design.

www.epo.org
www.oami.europa.eu



中华人民共和国商务部
MINISTRY OF COMMERCE OF THE PEOPLE'S REPUBLIC OF CHINA

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