



January 1, 2016

Director Song Dahan
Legislative Affairs Office of the State Council
Post Box 2067
Beijing, 100035
People's Republic of China

Via email to: zlf@chinalaw.gov.cn

Re: IPO Comments on Draft Revision of the Patent Law of the People's Republic of China (December 2, 2015)

Dear Director Song:

Intellectual Property Owners Association ("IPO") respectfully submits comments to the Legislative Affairs Office of the State Council ("LAO") on the Draft Revision (sent to the State Council) of the Patent Law of the People's Republic of China ("Draft Revision") published December 2, 2015.

IPO is an international trade association representing companies and individuals in all industries and fields of technology who own, or are interested in, intellectual property rights. IPO's membership includes more than 200 companies and more than 12,000 individuals from 38 countries who are involved in the association either through their companies or as inventor, author, law firm, or attorney members.

IPO would like to thank LAO for the opportunity to comment on the Draft Revision. We commend the attention to the practical concerns regarding enforcement of patent rights and development of effective remedies under the law for infringement of those rights. In this regard, the increase in statutory damages provided in Article 68, for example, better reflects the actual damages suffered by the patentee. By protecting investments in innovation, patent law encourages parties to innovate. Fair and efficient mechanisms for resolving disputes relating to patent rights are important parts of any effective patent regime.

The Draft Revision prescribes, in part, a greater role for the patent administrative departments in investigating, adjudicating liability, enjoining infringing activities, and confiscating or destroying infringing products or parts, tools, molds, and equipment dedicated to producing infringing products or to carrying out infringing methods. The increased responsibilities of the patent administrative departments, as proposed, might enhance the speed and efficiency in the resolution of such infringement matters. We believe, however, there will be far less uniformity, accuracy, and predictability, as well as fewer procedural protections than those afforded through judicial review. These judicial benefits should be enjoyed by foreign as well as domestic patent rights holders and others investing in innovation within China's borders.

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INTELLECTUAL PROPERTY OWNERS ASSOCIATION

The comments below address proposed revisions to Articles 14, 16, 60, 62, 63, 67, 68, and 85.

I. Article 14

We are pleased to see that the wording of “shall not impede the advancement of technology” has been deleted, but we remain concerned about this article. According to the Explanatory Notes on Draft Revision (draft sent to the State Council) of the Patent Law of the People’s Republic of China (“Explanatory Notes”), the addition of this article is to “add a principle to prevent abuse of patent right.” IPO respectfully recommends that Revised Article 14 not to be added.

First, the parts of this article are not logically related. We understand that the principle of good faith means an applicant shall not steal, plagiarize, or copy a third party’s invention or patent application contents and file as its own patent application or fake patent, pass off a third party’s patent, or infringe a third party’s patent intentionally. We believe these behaviors have no relation with “harm public interest” or “improperly exclude or restrict competition.”

Second, “harm public interest” and “improperly exclude or restrict competition” are too vague to constitute sufficiently clear, specific, or administrable standards to guide courts or administrative agencies, which may create significant uncertainty and impede the legal exploitation of patents. This would violate Article 30 of Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), which provides that the exceptions to the exclusive rights conferred by a patent should not unreasonably conflict with a normal exploitation of the patent and unreasonably prejudice the legitimate interests of the patent owner, taking account of the legitimate interests of third parties.

Third, the concepts in Revised Article 14 have already been addressed by other laws or applied by the relevant government agencies or the people’s courts, and therefore do not need to be duplicated in the Patent Law.

For example, Article 55 of the Anti-Monopoly Law of the People’s Republic of China provides that the law is applicable to acts of misusing intellectual property rights to exclude or restrict competition. Additionally, the Price Supervision and Anti-Monopoly Bureau of the National Development and Reform Commission has conducted and decided some anti-monopoly cases based on the Anti-Monopoly Law, and is also making regulations on “Guidelines on Prohibition of Abuse of Intellectual Property to Exclude and Restrict Competition.” The “Regulations on Prohibiting Acts of Misusing Intellectual Property Rights to Exclude or Restrict Competition,” promulgated by the State Administration for Industry and Commerce (SAIC) on April 4, 2015 and effective on August 1, 2015, has also defined abuse of patent rights. It is our understanding that the Anti-Monopoly and Anti-Unfair Competition Enforcement Bureau of SAIC is also investigating some “monopoly” behavior based on the Anti-Monopoly Law and its own regulations.

We are concerned that if the Chinese Patent Law (and its implementing regulations) and SIPO are also involved in anti-monopoly issues, it will lead to conflict and inconsistency between the various regulations and their enforcement by different government agencies.

II. Article 16

IPO respectfully recommends that Article 16 not be revised as proposed.

Under the existing Article 16, the party obligated to give reward and remuneration to the inventor is the employer entity that has been granted patent rights. Paragraph 1 of the revised Article 16 makes it ambiguous as to what “employer entity” must remunerate and potentially would extend that obligation to the employer entity even in the situation where the patent rights are granted to an assignee other than the employer entity. Revised Paragraph 1 also provides that the employer entity should give the inventor reasonable remuneration based on the scope of exploitation of the patent and the resulting economic benefits, which we believe could cause undue administrative burden.

The Explanatory Notes state that it would be unreasonable to require an assignee that has already paid a license fee (to a patent-owning employer entity) to give reward and remuneration to an inventor employed by the employer entity. We believe it would also be unreasonable to mandate the employer entity to which the inventor belongs to pay reward and remuneration after the invention has been assigned. This would create an unnecessary and unfair ongoing administrative burden for an employer entity to track the grant and the exploitation of a patent. For example, when the employer entity is merely a commissioned researcher or developer, oftentimes it is under the obligation to assign all patent rights to the commissioning party and not involved at all in the application or the exploitation of any patent. In this case, the employer entity should not be obligated to keep track of the granted patent or to determine whether and how any patent has been exploited. More importantly, if the employer entity has not been given reward based on patent granting or remuneration based on patent exploitation by the assignee, then the employer entity should not be required to do the same to its inventor employee.

We believe the obligation under Article 16 to give inventors reward and remuneration shall be considered satisfied by compliance with an employer’s invention reward and remuneration rules, regulations, plan, or compliance with an agreement between employer and inventor regarding inventor reward and remuneration.

IPO respectfully recommends that draft Article 16 be revised as follows:

After a patent right is granted on a service invention/creation, the employer entity shall reward the inventor or designer of service invention/creation. After the patent on the invention/creation is exploited, such employer entity shall give the inventor or designer a reasonable amount of remuneration according to the scope of application and the economic benefits obtained **by the employer entity**.

Where the employer entity and the inventor or designer have agreed, pursuant to Paragraph 4 in Article 6 of this Law, that the right to apply for a patent on the invention/creation belongs to the employer entity, the employer entity shall give reward and remuneration to the inventor or designer as stipulated in the preceding paragraph. **Obligation to give inventors reward and remuneration shall be considered fulfilled by compliance with the employer entity’s service invention/creation reward and remuneration policy or with the agreement between the employer entity and inventor or designer regarding service invention/creation reward and remuneration.**

III. Articles 60 and 67

IPO respectfully recommends that Paragraph 2 of Article 60 not be included and Paragraph 1 of Article 67 not be revised as proposed.

Under existing Article 60, the patent administrative departments may order the infringer to cease the infringing activity. Paragraph 2 would allow the patent administrative departments to confiscate or destroy the infringing products as well as the parts, tools, molds, equipment, and other means dedicated to producing the infringing products or to carrying out infringing method at its own initiative for willful infringements such as group and repetitive infringement under circumstances where “market order” has been disturbed. In addition, the power to impose a fine is proposed. Similarly, Paragraph 1 of Article 67 of the Draft Revision would expand the patent administrative departments’ authority to investigate from patent passing-off acts (which may not involve a patentee whose right is infringed) to patent infringing acts.

We respectfully submit that because Paragraph 1 of the Draft Revision has already empowered the patent administrative departments to act at the request of the patentee, there is no need to incorporate the additional power in Paragraph 2 of Article 60 or Paragraph 1 of Article 67 for the patent administrative department to take action on its own volition.

We respectfully recommend that no action against patent infringement can be taken by patent administrative departments without a prior complaint filed by the patent holder alleging infringement. In addition, to determine whether to enjoin the acts of infringement, confiscate or destroy infringing products or equipment dedicated to implementing the acts of infringement, or impose fines, the patent administrative departments must first decide if “market order” has been disturbed. It would also be helpful if the Draft Revision provided guidance for determining the meaning of “market order” because those terms have not been defined.

IV. Suggested New Article X1

We respectfully recommend adding the following new article after Article 67.

New Article X1

Any administrative decision made by the patent administration department for patent affairs regarding orders to stop infringement, confiscation orders, imposing a fine, sealing up business, and seizing products, shall not be immediately executable if any involved party has instituted legal proceedings in the people’s court in accordance with the Administrative Procedure Law of the People’s Republic of China, Civil Procedure Law of the People’s Republic of China, and any other related laws. In the case where the involved party fails to institute legal proceedings within the period of limitation of actions or such administrative decision is upheld by any effective judicial decision, the administrative decision shall be put into effect and executable.

The current Chinese Patent Law is silent on whether an administrative decision rendered by SIPO or its local branches is enforceable immediately. This proposed amendment would make it

explicit that such administrative decision is not effective and enforceable so long as there is a pending appeal against such decision. This amendment is necessary to ensure that administrative enforcement is subject to judicial review. If this amendment is not made, such administrative decision can be immediately effective under the Chinese Administrative Procedure Law, which would lead to undesirable results.

Over the last 20 years, certain Chinese courts have developed expertise in adjudicating patent infringement matters. Indeed, the establishment of the three IP Courts in Beijing, Shanghai, and Guangzhou is a positive step to concentrate technical and legal experts in the IP fields and to improve consistency among People's Courts in China. Making an administrative decision effective immediately would be contrary to China's efforts to move IP cases to specialist courts.

Moreover, we suggest that the power of making patent infringement determination be limited to the provincial level patent administrative departments.

V. Article 62 (New)

IPO respectfully recommends that the first paragraph of draft Article 62 be revised as follows:

<p>If a party, without the consent of the patent holder, and knowing that a product is a raw material, intermediate, component, or equipment specifically used for exploiting a patent and having no substantial non-infringing use, for the purpose of production and business operation, provides such product to another that performs a patent infringing act, the party shall be jointly liable to the patent infringement with the infringer.</p>
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We believe that where a supplier provides a raw material, intermediate, component, or equipment that has alternative uses that do not infringe a patent, the supplier should not be subject to joint liability merely by virtue of providing the item. Otherwise, this could deter suppliers from selling items having legitimate uses outside of a patent.

We are concerned that the meaning of the word "specifically" might be ambiguous, and can be interpreted to mean "especially," "only," or "completely (totally)." For clarification, IPO believes it would be helpful to revise this paragraph to expressly exclude those raw materials, intermediates, components, or equipment that have a substantial non-infringing use.

Alternatively, we recommend that this clarification be provided in the Implementing Regulations of the Patent Law.

VI. Article 63 (New)

IPO respectfully recommends deleting proposed Article 63 in its entirety.

Proposed Article 63 would impose joint and several liability on Internet Service Providers ("ISP"s) for infringement by third-party users where the ISP "know[s] or should have known that the Internet user infringes a patent right by utilizing the Internet services provided, but failed to adopt necessary measures to stop [it], such as deleting, blocking or disconnecting the link to the infringing products."

In general, we believe that secondary liability for ISPs should be governed by the same rules and standards as secondary liability for any other type of business that provides a service or component that is potentially used by an infringing third party. It is unclear why, for example, a trucking or shipping company or a manufacturer that provides a component incorporated into an infringing product should be treated any differently than the provider of an internet service that happens to be used by a third-party infringer. We are unaware of any other major jurisdiction that has sought to adopt such a secondary liability rule for ISPs in the context of patent infringement.

Additionally, the “knew or should have known” standard is far too low and uncertain to be appropriate for the imposition of secondary liability for patent infringement. The scope and meaning of patent claims can be far less clear and certain than the exclusionary scope of copyrights and trademarks, making it exceptionally difficult to determine prior to a formal adjudication by a court whether third-party conduct or products are infringing. As a result, imposing liability based on mere knowledge (or an after-the-fact assessment that an ISP “should have known”), combined with the ISP’s failure to “adopt necessary measures” to prevent infringement, would impose enormous – and unjustified – burdens and uncertainty on ISPs, requiring them to independently investigate and determine the validity of claims of infringement by third parties. Imposing such a burden on any commercial entity would be unwarranted and unwise, given the uncertainty surrounding patent claim construction and the inability to obtain detailed information regarding third-party products and manufacturing practices that would be necessary to make an accurate infringement determination.

VII. Article 68

Draft Article 68 would retain the language from existing Article 68 that damages shall be determined according to the patent holder’s actual losses or the infringer’s profits. We propose that the patent holder should be allowed to elect between these, if the evidence allows such a determination.

Draft Article 68 would also add a provision on willful patent infringement. We are concerned that the draft does not specifically define this term, which leaves Article 68 open to different interpretations by the administrative authority and throughout the people’s courts. We recommend incorporating further guidance to avoid such different interpretations. For a finding of willfulness, it should be the patent owner’s burden to prove that the infringer’s actions were objectively reckless.

IPO respectfully recommends that paragraph 1 of draft Article 68 be revised as follows:

The amount of damage for patent right infringement shall be determined according to the patentee's actual losses caused by the infringement. If the actual losses are hard to determine, **or if the patentee elects,** the amount may be determined according to the infringer's profits through the infringement. If the patentee's losses ~~or~~ **and** the infringer's profits are hard to determine, the amount may be determined based on the reasonably multiplied amount of the royalties of the patent. **The patentee may establish willful infringement by proving that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent, and that this objectively high risk was either known or so obvious that it should have been known to the infringer. Upon a finding of willful infringement, the administrative authority or people's court may increase the aforesaid damage amount in the preceding two paragraphs by two to three fold on the basis of the factors such as the specific scenario, scale, and consequences of the infringing act.** The amount of damage shall include the reasonable expenses paid by the patentee ~~to~~ **for** stop the infringement.

VIII. Article 85 (New)

IPO respectfully recommends deleting proposed Article 85.

This article proposes certain measures regarding behavior of participants in national standards development who do not disclose their patents. IPO respectfully suggests that LAO instead rely upon the SAIC's new Rules on Stopping the Abuse of Intellectual Property to Eliminate or Restrict Competitive Conduct. Deletion of Article 85 would avoid the possibility of any conflict that LAO's proposed amendments of the Patent Law may have with SAIC's Rules or the specific disclosure policies of national standards development organizations.

IPO thanks LAO for the opportunity to provide these comments for consideration. We invite you to contact us if you have any questions.

Sincerely,



Mark W. Lauroesch
Executive Director