China is to Establish Patent Linkage

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On October 8, 2017, the Chinese Communist Party and the State Council jointly issued a special opinion on the reform of drug and medical device approval system ("Innovation Opinion"). The Innovation Opinion together with an earlier China Food and Drug Administration ("CFDA") document ("Circular No. 55") issued in May 2017 (collectively "Reform Opinion"), propose that China is to establish a U.S. style patent linkage system for its drug regulatory scheme.

I. U.S. Patent Linkage and E.U. System

In the United States, generic drugs approval is "linked" to pioneer drug patent(s) under the Hatch-Waxman Act by several mechanisms – the Orange Book, the certification process, a notice to the innovator of generic filing, a patent infringement suit, automatic stay of drug approval, and a 180-day generic market exclusivity period.

1.Orange Book

The FDA requires branded drug manufacturers to list their patents and patent expiration dates for each new drug. When the FDA approves a New Drug Application (NDA), the relevant patent information is published in the "Orange

Book" and is updated monthly.

2. Patent Certifications

Under the Abbreviated New Drug Application (ANDA), generics may rely on an innovator's preclinical and clinical safety and efficacy data to obtain FDA approval.

ANDA applicants must make one of the following four certifications as to each patent listed in the Orange Book:

- No relevant patent is listed in the Orange Book ("Paragraph I certification");
- The listed patent has expired ("Paragraph II certification");
- The generic drug will not go on the market until the date on which the listed patent will expire ("Paragraph III certification"); or
- The listed patent is invalid or is not infringed ("Paragraph IV certification").

For a Paragraph I, II or III certification, the FDA may approve the ANDA immediately or on the date the patent expires. If an applicant wishes to obtain FDA approval during the term of a listed patent, it must make a Paragraph IV certification, which may trigger Hatch-Waxman Act litigation, as discussed below.

3. Paragraph IV Certification

- In the case of a Paragraph IV certification, the ANDA applicant must, within 20 days after the FDA accepts the ANDA application, notify the patent owner of its filing, setting out detailed reasons why the patent is invalid or will not be infringed. The patentee has 45 days after receipt of notice to file a patent infringement action.
- A Paragraph IV certification is treated as an artificial act of patent infringement – as if the generic company had already started manufacturing and selling the drug.
- If the patentee does not litigate within 45 days, the FDA is free to approve the ANDA once it verifies the bioequivalence of the generic drug. If a

lawsuit is filed, the FDA is prohibited from approving the ANDA for 30 months (30-month stay). The 30-month stay terminates if a court issues an order determining that the patent is invalid or not infringed.

4. 180-Day Market Exclusivity to First Generic

The first generic filer who successfully challenges the listed patent will enjoy a 180-day market exclusivity, during which the FDA will not approve other generic drugs of the same type.

5. E.U. System

The European Union does not adopt the patent linkage because originators can quickly obtain a preliminary injunction or in-suit injunction to block infringing acts throughout Europe, thus making the patent linkage less necessary in the E.U.

II. China’s Current System

China’s current drug approval system uses patent clearance as a condition of generic approval but the written rules do not function well due to some shortcomings.

First, unlike the United States, China did not maintain a patent registry equivalent to the Orange Book. As a result, generic applicants lack knowledge of all potential blocking patents and the CFDA could not quickly determine whether a generic application has a risk of infringing the innovator’s patent.

Second, the CFDA, though requiring all applicants to guarantee non-infringement in the written rules, did not mandate applicants to identify specific patents or state

the basis of non-infringement. In practice, a generic applicant may always make a blanket declaration claiming that it does not infringe any party's patent. The CFDA did not review the authenticity and accuracy of such declaration, but would publish the declaration on the CFDA website. If receiving complaints of infringement from a patentee, the CFDA usually did not probe into whether the generic drug would infringe the innovator's patent unless infringement is very straight forward, e.g., the generic drug copied a patented chemical compound. When the asserted patent is more complicated, for example, claiming a process, formulation of the product, or a second medical use for the compound, the CFDA would tend to approve the generic application, let the generic company itself decide when and how to launch the generic drug, and if any dispute arises, let the parties resolve the dispute before a court.

Third, Bolar exception bars brand name companies from bringing lawsuits against generic defendants in the course of drug registration, as China does not provide artificial infringement for submission of a generic application. Therefore, branded name producers have to wait to sue until the generic drug reaches the market.

Therefore, generic drugs in China are able to enter the market before patent expiration, though they still face high infringement risks.

III. China's Proposed Patent Linkage System

China is unlikely to follow the E.U. system because preliminary/in-suit injunction is rarely granted by Chinese courts.

China's proposed patent linkage system shares all crucial elements of the U.S. patent linkage, including the drug-patent registry, the statutorily required notice of generics to patentee, an automatic stay of approval triggered by patentee's lawsuit, and exclusivity reward to the first successful generic challenger.

1. Chinese “Orange Book”

On December 28, 2017, the CFDA issued the first edition of Catalogue of Approved Drug Products (comparable to the “Orange Book” in the United States). The Chinese Orange Book is being expanded and currently covers 131 drugs, inducing both innovative drugs and generic drugs. Besides information on the active ingredient, applicant, dosages, it also includes related patent and data exclusivity information.

2. Patent Infringement Action and 24-Month Stay

The Reform Opinion requires generic applicants to make a non-infringement declaration against the patents listed in the Chinese Orange Book and notify the innovator within 20 days after filing the application. The patentee must sue within a 20-day window to trigger the 24-month stay of the generic approval, which terminates within the 24-month until the generic company prevails the patent infringement action or reaches a settlement, or the brand patent expires, or if no court decision on infringement is issued after the 24-month elapses. If the generic drug is found infringing within the 24-month stay, the generic application will be rejected. If no court decision is issued within the 24-month stay, the CFDA may approve the generic application.

If the generic filer does not declare any relevant patent (similar to a fabricated Paragraph I certification in the U.S.) and is then sued by a patentee for infringement, the CFDA will stay the market approval to punish the generic’s false statement. The period of stay is facts dependant and case specific.

3. 18-Month Data Exclusivity

The first generic drug of which the originator drug is not approved in China, if successfully challenging the innovator’s patent, will receive 18 months of data exclusivity for its clinical trial data. During the period of data exclusivity,

subsequent generics are not allowed to enter the market unless they obtain their own clinical trial and bioequivalence data.

IV. Our Comments

The Reform Opinion still leaves several issues to be resolved as discussed below.

1. Lack of Incentive to Generic Companies

China's 18-month data exclusivity is only available to the first generics whose originators are not approved in China (i.e. under category 3 under the new classifications of chemical drugs), which account a small portion of generics. The majority of generics whose originators have been approved in China (i.e. under category 4 under the new classifications of chemical drugs) are not eligible for data exclusivity.

In addition, data exclusivity is not as strong as market exclusivity in the U.S., which strictly precludes generic competitors from entering the market.

Data exclusivity is important to innovator companies as it prohibits generics from cross-referring to originators' costly and time-consuming trials data. Generics of category 4 only need to show the proposed generic drug has the same active ingredient and is a bioequivalent of the pioneer drug. Such bioequivalent test is much cheaper and faster to perform, less worthy of protection. Data exclusivity thus does not provide sufficient incentive to all generics.

It is suggested China grants market exclusivity to the first successful challenger of patent validity, regardless of whether or not the corresponding originator drug is approved in China, so that generic manufacturers have significant financial

incentive to use the patent linkage system to challenge the listed patents.

2. Absence of Artificial Infringement

China may need to amend its Patent Law to include the artificial act of infringement so that pioneer drug makers can litigate their patents before the generic drug is actually marketed.

In particular, it shall be an act of infringement to submit a generic application declaring that the patent listed in the Chinse Orange Book is invalid or is not infringed (similar to the filing of a Paragraph IV certification in the U.S.).

3. No Definition of "Prevailing Patent Challenge"

It is unclear whether "prevailing patent challenge" means the generic applicant obtains a favorable PRB decision invalidating the patent or a trial court judgment finding of non-infringement.

Chinese courts in infringement cases do not have the authority to determine whether the asserted patent is invalid or not. As a typical strategy, the defendant, after being sued for patent infringement, would file an invalidation action before the Patent Re-examination Board (PRB). The PRB procedure usually yields a determination on the validity of the patents in 6-10 months, which is sufficiently faster than 12-24 months for a trail court proceeding of pharmaceutical patent infringement.

We think "prevailing patent challenge" should be symbolized by a PRB decision invalidating the patent at issue, or a trial court decision finding the patent is not infringed if the patent validity is not challenged or maintained through invalidation procedures.

4. 20-Day Notice Period too Short to Sue

The 20-day window for initiating an infringement lawsuit is not feasible in practice for an innovator to make necessary preparations and gather evidence. This is especially true for foreign patentees, who need extra time for notarization and legalization formality documents (e.g. POA).

V. Conclusion

The proposed rules for implementing the patent linkage system is a significant step in China’s reform efforts to balance the interests of both branded manufactures and generic companies, and to encourage new pharmaceutical research and generic drug competition. We will provide follow-up observations after the rules are in practice.