

# Kluwer Patent Blog

## The 4th amendment of PRC Patent Law is coming

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After several rounds of revisions, the latest draft of the 4<sup>th</sup> amendment of the Patent Law was released by the Standing Committee of the National People's Congress ("NPC") after its first reading in December 2018. This version is expected to be very close to the final amendment. As a response to the "*Opinions on strengthening reform and innovation in the field of intellectual property trial*" issued by General Office of the CPC Central Committee and of the State Council last year, this latest draft includes provisions to boost crackdown on infringement of patent rights, raise damage award against infringement and patent counterfeiting, clarify the burden of proof on the alleged infringing party, and impose joint and several liability on internet service providers ("ISP") for failing to cease services for infringement-related activities. The draft also aims at specifying an incentive mechanism for inventors or designers to share profits from the patents they are involved as well as at further stimulating the country's patent licensing system. We provide more details and comments as below.

### Higher damages award and lower burden of proof for plaintiff

Statutory damages is raised from a range of RMB 10K – 1 million to one of RMB 100K – 5 million. Statutory damages is applicable when none of the three approaches provided by law, i.e. (a) actual loss of the plaintiff caused by the infringement, (b) illegal gain by the infringer from the infringement, or (c) certain times of comparable royalty fee, is available. As statutory damages is often used in patent litigation in practice, the raise of the ceiling to 5 million is a progress.

Further, punitive damages against wilful infringement is added as up to five times of the damages calculated based on above mentioned methods. To ease plaintiff's burden of proof for damages, a new clause is added to shift such burden to an alleged infringer after the plaintiff produces *prima facie* evidence on damages. All these changes aim to deter patent infringement and in response to the criticism that courts are too conservative to award proper damages in patent infringement cases.

### Extended patent term and patent linkage

Notably, patent term extension of up to five years has been provided for patents of innovative drugs, in condition that the innovative drug seeks market approvals simultaneously within and outside China and the total valid term of the patent after the market release is not beyond 14 years. It is the first rule draft in law after China announced its plan to establish a patent linkage system. However, the pharmaceutical industry does raise concern that it is not practical or at least far

challenging to simultaneously file market approval within and outside China, and suggests to remove the requirement of a simultaneous filing outside China. Some considerations are that Chinese innovative pharmaceuticals may not be able to do simultaneous filings at current stage and the possible super-national treatment to foreign enterprises should be prevented.

In the amendment, the term of design patent is extended to 15 years, up from 10 years in light of China's recent ratification of the Hague Agreement, and the domestic priority of design patent is stipulated.

Unfortunately, patent linkage is not addressed in the current amendment, and we hope it will be added in the next amendment, which is not impossible, but with slim likelihood.

**IP abuse** – A good faith principle is added to prevent a patent holder from abusing its patent right to eliminate or limit competition or to damage public interest. We understand that the article aims to address malicious lawsuits filed by non-practicing entities. However, there is a concern that the rule is too general and itself may be misused by authorities.

**Open licensing** – The open licensing system is stipulated in the amendment and as for the utility model and design patent, the patent evaluation report is necessary for open licensing. There is a suggestion to remove this provision, as it has little demand and is unnecessary from practice, and it disobeys the principle of autonomy of will in private law, which may cause the authority to intervene follow-up matters derived from open licensing. We will see how the open licensing clause will be dealt with in the next amendment.

**Inventor compensation** – The amendment provides that certain incentives, including property rights, stocks, and dividends, can be given by companies to employees who develop patented inventions. However, the provision does not include a statement that companies and employees can form their own agreements superseding the law, which should be addressed in the final version to avoid overburdening companies.

**ISP's joint liability** – A new provision stipulates that an ISP shall bear joint and several liability for online patent infringement under set circumstances. As the E-Commerce Law was recently released, the provision may be revised accordingly or deleted from the amendment.

### **Unaddressed issues**

There are strong voices that the judicial branch shall have discretion to determine the patent validity in an infringement lawsuit, or at least in patent re-examination and/or invalidation proceedings to improve the efficiency of patent disputes resolution. It could be a challenging change as it is a long time unsettled battle between the judicial branch and the National Intellectual Property Administration.

There are also voices to introduce substantive examination into the examination of utility model and design patents to reduce junky filings. However, it seems not practical to do so for the time being due to the massive volume of filings for both types of patents.

It is a pity that, partial design was once included but removed from the amendment when it was sent to the NPC for first reading.

Allowing correction application and continuation application after allowance is also under debate.

To balance patent protection and public interest, the voluntary modification and continuation application may be taken into consideration after the grant of a patent.

The policy focus in the current draft is to strengthen the protection of legitimate rights and interests of patent owners and to encourage the implementation and industrialization of inventions. However, there are still some issues to be solved such as the collaboration between infringement and invalidation proceedings, as well as the clearance of massive amount of junky patent filings. We will pay close attention to the follow-up progress of the amendment and look forward to seeing what are addressed in the coming new amended Patent Law.

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