




**GLOBAL MARKETPLACE — EYE ON CHINA:
WEB SERIES**

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**Integrating IP and Business in
the Face of China's Patent
Law Changes**

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Discussion Agenda

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- Current Trends and Shift in China's IP Landscape and Practical Strategies
- The Third Amendments to China's Patent Law and Associated Developments
- Relevance of Changes to Chinese Patent Law to IP Companies
- Protecting Your IP Internally
- Stimulation of R&D Activities and Technology Investments



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Presenters

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Current Trends and Shift in China's IP Landscape and Practical Strategies



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China and the IP Dichotomy

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- China receives more patent applications than any other nation and is the third largest recipient of utility (invention) applications
- China has the most trademark filings of any nation
- China was the source of 81% of the total value of counterfeit goods seized by US Customs in 2008 — IPR seizures of goods from China rose 40% by value in FY 2008



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Shifting Government Attitude

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- 2001-2004
 - Focus on laws, less than robust enforcement
 - Defensive international posture
 - Tension within the government agencies in China
- 2004-2007
 - More attention paid to enforcement
 - US files a WTO case against China
- 2007-Present
 - Focus on Innovation in China
 - Move from “Made in China” to “Invented in China”
 - National Intellectual Property Strategy is Adopted
 - Third Amendment after international study



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Strategies

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- File strategically, but definitely file for IP in China
 - IP protection is improving
 - There is no enforcement of IP rights without IP
 - Simple, but it has been a problem for companies large and small
- Strategically determine whether and where to manufacture in China



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Strategies

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- Have IP counsel in *China*
 - Familiarity and presence in China is critical
- Utilize US government resources in China
 - USPTO Office/Foreign Commercial Service IP Attaches
 - Market Access Compliance Officers
 - United States Trade Representative



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Third Amendments to China's Patent Law and Associated Developments



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Legislation History

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- March 2005
 - State Intellectual Property Office (SIPO) proposed guideline of research project of third amendment to patent law
- August 2006
 - SIPO proposed Draft Amendment
- August 2008
 - National People's Congress published the draft Patent Law Amendment to seek opinion from general public
- December 27, 2008
 - National People's Congress approved the amendments to the Patent law
- The new Patent Law will come into effect on October 1, 2009



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Background

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- PRC Patent Law enacted in 1984 and amended in 1992 & 2000, both with a view to comply with international practice
- Third Amendments initiated as part of PRC national IP strategy
- Legislation purpose focused on promotion of innovations and implementation of patented technology



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Confidentiality Review (1)

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- First filing requirement under the current law
 - Current PRC Patent Law requires that “any PRC entity or individual” to first file in China for its inventions made in China
- The new Patent Law replaces the first filing requirement with a confidentiality review system for invention or utility model made in China



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Confidentiality Review (2)

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- Legal liability for failing to comply with the confidentiality review requirement prior to filing patent application outside of China
 - No patent right shall be granted in China
 - Divulging State secrets shall be given administrative sanction



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Absolute Novelty Standard

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- Prior art basis extends from the moderate novelty standard under the current patent law to the absolute novelty standard in the new new patent law



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Patent Co-owners' Rights

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- For a co-owned patent case, an agreement with respect to exploitation of patent between/among the co-owners shall govern
- Where there is no agreement stated above, each co-owner may exploit the patent independently or grant a non-exclusive licensing to others provided that the licensee fee received shall be allocated between/among the co-owners
- But consensus from all co-owners required for patent enforcement



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Compulsory License

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- Patent not implemented for 3 years after grant (and 4 years after filing)
- Patentee's exercise of his patent right found to be an act restricting or eliminating competitions
- Exportation of drugs to foreign countries – Doha Declaration



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Prior Art Defense

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- Infringement shall not be found if evidence exists proving that the accused infringing technology belongs to prior art
- Details provided in Supreme People's Court's draft Judicial Interpretation circulated in June 2009
 - Single prior art shall be relied upon;
 - Variations allowed under principle of doctrine of equivalent



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Patent Infringement Exemptions (1)

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- Parallel importation
 - Importation of any patented product or product directly obtained from the patented process, after the said product is sold by the patentee or by its (his) licensed entity or individual, shall not be deemed an infringement upon a patent right



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Patent Infringement Exemptions (2)

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- Bolar exemption
 - Producing, using or importing patented medicine or patented medicinal equipment for the purpose of providing the information as required for administrative examination and approval, and producing and importing the patented medicine or patented medicinal equipment exclusively for the said purpose, shall not be deemed an infringement upon a patent right



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Damages

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- Maximum statutory damages increased to RMB 1 million
- The damages can also include the reasonable cost paid for stopping the infringement



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Inventor Remuneration

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- Invention and utility model: not less than 2% of the profits after the taxation earned from exploitation of the invention or Utility model
- Design: not less than 0.2% of the profits after the taxation earned from exploitation of the Design
- If the entity licenses or transfers the patent, it must draw not less than 10% of the license fees or transfer fees after taxation and rewarded it to the Inventor/Creator as remuneration
- Under the new draft Implementation Rules, such remuneration percentages applicable to all the entities, state-owned-enterprises or private companies, unless otherwise set forth in the company policy or individual contracts



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Design Patent

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- “Non-obviousness”: Compared with the prior design or combination the prior design features, the design for which a patent is granted shall have distinctive features
- Multiple designs now allowed in one application.
 - Two or more similar designs for the same product



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Relevance of Changes to Chinese Patent Law to IP Companies



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The Significance Of China To Qualcomm's Businesses

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- Qualcomm has a large research & development office in China
- Qualcomm has over 1100 issued patents in China, and over 3100 pending applications
- Qualcomm has licensed most major wireless phone equipment manufacturers in China, including such companies as:
 - ZTE Corporation
 - Huawei Technologies Co., Ltd.
 - Datang Telecom Technology Co., Ltd.
 - Ningbo Bird Co., Ltd.
 - And dozens of others
- Qualcomm has previously litigated several patents in China against Nokia, in both Shanghai and Beijing



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Notable Changes To Chinese Patent Law That Affect IP Strategy

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- Compulsory Licensing - Article 49
 - What does “or has not sufficiently exploited the patent without any justified reason” mean?
 - Will manufacturing outside of China and importation into China be sufficient?
 - Will licensing as a business itself be sufficient exploitation?
 - What does “the patentee’s exercise of the patent right thereof is an act of anti-monopoly conduct” mean?
 - What, beyond mere enforcement of patent rights, would be required?
 - Would licensing offers greater than an uncertain threshold (e.g., FRAND challenges) be considered anti-competitive?
 - What constitutes sufficient “public interest” to grant a compulsory license?



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Notable Changes To Chinese Patent Law That Affect IP Strategy (cont.)

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- Patent Exhaustion - Article 69(1)
 - What does “a patented product ...was sold by the patentee or the entity or individual with the authorization of the patentee” mean?
 - Does that include sales by individuals that have less than the full patent rights (e.g., to make and sell but not to use)?
 - Does this go beyond, for example, the Quanta case in the US?
 - What about sales of components (e.g., chips) that are thereafter combined with other components (e.g., displays, keypads, etc.) in China to make the patented product?



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Notable Changes To Chinese Patent Law That Affect IP Strategy (cont.)

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- Co-Ownership of Patents - Article 15
 - What does “the fee shall be allocated among co-owners” mean?
 - Would it be based on a flat pro-rata share?
 - What if the patent was one of thousands licensed in a portfolio?
 - Should we re-analyze our joint-development agreements?



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Protecting Your IP Internally



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Need for Internal IP Protection

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- Until now, much emphasis placed on protecting external IP misappropriation/theft
- Relative shortage of experienced skilled labor has resulted in sharp salary increases and retention struggles
- With more R&D underway in China among FIEs, comes an increased need for internal IP protection



What Strategies Can Be Used?

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- Compartmentalize the manufacturing/R&D process
- Hold technical staff to NDAs
- Bind technical staff with non-competes
- Use liquidated damage clauses
- Reward & Remuneration (Under New Patent Law)



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Compartmentalization of Manufacturing Process

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Merits:

- No single person has access to all facets of proprietary technology process
- Requires reverse-engineering to be a conspiracy, not just actions of a single employee
- Relatively low labor cost in China may offset inherent inefficiencies of this approach



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Compartmentalization of Manufacturing Process

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Demerits:

- Likely results in inefficiencies in manufacturing process
- Likely results in increased labor costs
- May unintentionally stifle innovation



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Non-Disclosure Agreements

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- NDAs are permitted to be used to protect confidential information from unauthorized disclosure during and following termination of employment
- Although initially difficult for employers to prevail in labor arbitration, trend now is increasingly favoring employer



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Non-Competes (1)

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- Historically used for employees with access to competitively harmful information
- Was not codified in PRC law until passage of Labor Contract Law (effective 1/1/08)
- Non-competes may be used in labor contracts for up to a maximum of 2 years
- May only be enforced against senior management and technical personnel



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Non-Competes (2)

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- Special compensation must be paid
- LCL silent on calculation of amount of consideration
- Calculation still left up to local implementing regulations, many of which are also silent
- Good rule of thumb: 4 months' salary for each year of non-compete term



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Liquidated Damage Clauses

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- The LCL authorizes employers to include liquidated damage clauses in labor contracts for employee training expenses
- Meant to punish employees that leave soon after receiving special training (overseas, academic, etc.)
- Employers might consider special training (and such damage clauses) for technical staff as incentive to remain employed



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Employee Inventor Reward and Remuneration

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- Articles 6 and 16 of the PRC Patent Law imposes an obligation on an employer to “reward & remunerate” an employee inventor “at a reasonable rate”
- Current implementing regulations reference criteria to reward & remunerate SOE employee inventors only
- Revised law (effective from 10/1/09) removes the reference to SOEs, replacing it with “Chinese entity” (now covers all FIEs, SOEs and private Chinese-owned companies)



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Employee Inventor Reward of Remuneration

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- Revised Patent Law expressly provides that a “Chinese entity” and an employee inventor may agree by contract on the reward and remuneration
- If not provided by contract, the criteria set forth in the Implementing Regulations applies (by default)
- Employers are strongly encouraged to include specific provisions in labor contracts for a scheme of reward & remuneration (and also include procedures for resolving any disputes)



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Stimulation of R&D Activities and Technology Investments



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R&D and Technology Investments in China

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- A changed environment for technology development and commercialization
 - NPC's current 5 Year Plan ('06-'10)
 - “Build a conservation-minded and environment-friendly society” - Promote clean and “green” technology
 - “Efficiently practice strategies to invigorate China through science and education . . .” - Promote scientific research and innovation



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R&D and Technology Investments in China

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- Changes to the Foreign Investment Industry Catalogue (effective 12/1/07)
 - Upgrade China's industrial structure by encouraging investment projects that use new and high technologies and new materials;
 - Reduce support for investment in the manufacturing sector using traditional technologies; and
 - Enhance resource conservation



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R&D and Technology Investments in China

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- “Encouraged” industries now include:
 - Energy (power generation, grid construction and clean energy)
 - Bio-techs
 - Electricity
 - Aerospace (airports and satellites)
 - Chemical (especially supporting aerospace, IT and environmental)
 - Pharmaceutical and healthcare



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Duality Gains Momentum

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- Amcham’s *China Manufacturing Competitiveness* study (02/2009) reveals:
 - 57% of companies in the CMC survey reported the duality approach as primary motive for establishing and expanding their PRC presence
 - Increasing focus on domestic market and using China facilities to produce for export
 - Nearly 25% said they were placing new state-of-the art production technology in their China facilities



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Promotion of Innovation Under the 3rd Amendment

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- Raising the Patentability Standard
- Removing the “First Filing” Requirement
- Enhanced Protections of Patent Rights



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Stimulation of Reduction to Practice

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- Patent Co-owner's Rights Better Defined
- Prior Art Defense Codified
- New Exemptions to Patent Infringement



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Follow-up Information

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