The United States Patent and Trademark Office (USPTO) appreciates the opportunity to comment on the newly proposed amendments to the third amendment of China’s Patent Law. The USPTO applauds the State Intellectual Property Office for turning its attention to enforcement as part of an effort to revise the patent law. The USPTO looks forward to continued dialogue as the process moves forward. In the meantime, we have the following comments to the latest draft.

**COMMENTS**

**Article 60**

Where a dispute arises as a result of the exploitation of a patent without the authorization of the patentee, that is, the infringement of the patent right of the patentee, it shall be settled through consultation by the parties. Where the parties are not willing to consult with each other or where the consultation fails, the patentee or any interested party may institute legal proceedings in the people’s court, or request the administrative authority for patent affairs to handle the matter.

When the administrative authority for patent affairs handling the matter considers that the infringement is established, it may order the infringer to stop the infringing act immediately and compensate for losses suffered. If the interested party is not satisfied with the order, he may, within 15 days from the date of receipt of the notification of the order, institute legal proceedings in the people’s court in accordance with the Administrative Procedure Law of the People’s Republic of China. If, within the said time limit, such proceedings are not instituted and the order is not complied with, the administrative authority for patent affairs may approach the people’s court for compulsory execution.

The administrative authority for patent affairs shall have the right to investigate and punish the alleged patent infringer disrupting the market order in accordance with the law; the patent administration department under the State Council shall organize the investigation of suspected patent infringement activity which has significant impact on the country. If the
administrative authority for patent affairs finds that the infringement is established and disrupts the market order, it shall order the infringing party to stop the infringement activity, confiscate the illegal earning, and may seize and destroy the infringing products or special equipment used for infringement, it may also impose a fine of not more than four times of the illegal earning, or may impose a fine of no more than 200,000 RMB if there is no illegal earning or if the illegal earning is difficult to be calculated.

After the decision of declaring the concerned patent right invalid or affirming the patent right becomes effective, the administrative authority for patent affairs or the people’s court shall, based on the decision, timely hear and resolve the patent infringement dispute.

Article 60 empowers administrative agency officers to order the infringer to pay damages, thus opening a new route for the recovery of damages. In the original patent law, promulgated in 1985, the administrative agencies were vested with the authority to order damages in patent infringement cases. That authority was maintained during the 1992 amendments but in 2000, during the period of time of China’s accession to the WTO, this authority was withdrawn, only to appear again in the present draft.

For the reasons discussed above, we suggest the Chinese government consider carefully whether the reinstatement of this authority is consistent with its policy to incentive innovation, as outlined in the 2008 National Intellectual Property Strategy, the 2006 Medium to Long-Term Plan for the Development of Science and Technology, and other similar plans and documents. The judicial branch, which is more independent and less prone to allegations of local bias, is better equipped to administer justice particularly in cases of technical complexity.

Having two parallel routes to pursue damages, administrative and civil, may also cause confusion, particularly with the interplay between the administrative authorities and the courts. The 2008 National Intellectual Property Strategy identified the problem of lack of coordination between the civil and administrative systems. Enhancing the administrative authorities and not providing clear guidance on the relationship between the two systems, including res judicata effect of decisions, availability of evidence, effect of conflicting orders and reliance on administrative rules can be problematic. For example, if the administrative officer orders the defendant to pay damages, and the complainant is not satisfied with the amount of damages, can the complainant initiate a new case with the court? Will a meaningful standard of review be applied for appeals, which addresses the potential res judicata effect of the administrative decision? Will the decision bind other parties in interest in the case? If a case is initiated ex officio, what will be the impact on any Patent Reexamination Board validity proceedings? These and many other questions illustrate the potential complexities of this part of the provision, and the complex challenges facing SIPO and local patent offices.
Article 60 also authorizes administrative officers to investigate and punish alleged patent infringers for disrupting the market order in accordance with the law. While it is unclear in the text whether Article 60 gives the administrative officers *ex officio* authority, the explanatory notes clearly state that such authority is envisioned (*see e.g.*, paragraph 3.5 of the explanatory notes). As discussed above, because of the apparent lack of transparency of the administrative enforcement system, and the possibility of local bias, we are concerned that giving local authorities such power may lead to the potential for abuse.

This provision of Article 60 also references “disrupting the market order”. There is no definition of “market order” in the law. We note, however, that the Market Order Rectification Office of the Ministry of Commerce considers antimonopoly violations to be within its jurisdiction (*see e.g.*, [http://sczxs.mofcom.gov.cn/aarticle/guanywm/zhongyzn/201106/20110607596325.html?811429041=83075823](http://sczxs.mofcom.gov.cn/aarticle/guanywm/zhongyzn/201106/20110607596325.html?811429041=83075823)). While this may not be contemplated by the current language of Article 60, the lack of clear constraints on SIPO’s use of its *ex officio* authority to investigate monopolistic behavior nevertheless raises concerns that SIPO can exercise this authority when, in fact, that authority could be better handled by the antitrust agencies.

**Article 65**

The amount of compensation for the damage caused by the infringement of the patent right shall be assessed on the basis of the actual losses suffered by the patentee; where the actual losses are difficult to be determined, it may be assessed on the basis of the profits which the infringer has earned through the infringement. If it is difficult to determine the losses which the patentee has suffered or the profits which the infringer has earned, the amount may be assessed by reference to the appropriate multiple of the amount of the exploitation fee of that patent under contractual license. The amount of compensation shall include the reasonable expenses incurred to the patentee for handling the infringement.

In case it is difficult to calculate the losses of the patentee, the profits which the infringer has earned, and the amount of the exploitation fee of that patent under contractual license, the administrative authority for patent affairs or the people’s court may, on the basis of such factors as the type of the patent, nature and circumstances of the infringement etc., determine the amount of the compensation from RMB 10,000 yuan to RMB one million yuan.

For the willful act of patent infringement, the administrative authority for patent affairs or the people’s court may increase the damages up to three
times of the amount that is decided according to the first two paragraphs, based on the circumstances, the scale of the infringement and damages caused by the infringement.

Article 65 authorizes the administrative agency, or the people’s court, to increase damages up to three times of the amount that is decided for the “willful act of patent infringement”. The lack of a clear definition or standard for determining “willful” is potentially problematic, resulting in serious implications for the respondent in an administrative investigation. Willful infringement can result in treble damages for the defendant, with the potential to cause severe financial hardship to companies, therefore, clear standards are necessary to lessen the risk for unnecessary and unwarranted financial disruption.

Further, in the US experience, the attorney-client privilege, which protects communications between the client and its attorney, protects the confidentiality of sensitive attorney-client information, including financial materials that the client would need to hand over to its attorney as evidence for a case. As China lacks the attorney-client privilege concept, we are concerned about how a balance could be struck between the need to gather evidence necessary to determine willfulness and the need to protect the important attorney-client information of a company. For example, charges of willfulness could be levied, which could result in “fishing expeditions” to seek out confidential information of competitors. Moreover, as current protections for disclosure of confidential information to courts or administrative agencies are weak, including the lack of strong sanctions to parties who reveal the confidential information, and there are few real deterrents to abusive patent case filings, there are good reasons to expect that patent cases may indeed be initiated for purposes unrelated to actual claims of harm or infringement.

**Article 46**

The Patent Reexamination Board shall examine the request for invalidation of the patent right promptly, make a decision on it and notify the person who made the request and the patentee.

After the decision declaring a patent right invalid or affirming the patent right is made, the patent administration department under the State Council shall promptly register and announce the decision. The decision shall become effective as of the announcement date.

Where the patentee or the person who made the request for invalidation is not satisfied with the decision of the Patent Reexamination Board declaring the patent right invalid or upholding the patent right, such party may, within three months from receipt of the notification of the decision, institute legal proceedings in the people’s court. The people’s court shall
notify the person that is the opponent party of that party in the invalidation procedure to appear as a third party in the legal proceedings.

Article 46 requires the Patent Reexamination Board (PRB) to examine the request for invalidation of the patent promptly, make a decision, and notify the requestor and the patentee. Article 46 also requires that once the PRB has made a decision, the decision should be promptly announced. The apparent objective of this provision is to accelerate the process at the PRB so that parties will not have to wait so long to appeal a case to the court.

However, we are concerned that the immediate enforcement of the PRB decision does not address the concerns that the intermediate level courts have low levels of appeals from administrative agencies, other than validity appeals of patent and trademark offices. With regard to the validity appeals of patents, we also understand the rates of reversal are very low. Such low reversal rates may be discouraging parties from appealing decisions from the PRB. In fact, we have heard reports that although patent and IP litigation have increased dramatically in recent years the number of appeals of PRB decisions to the court have been stagnant or even declining, most likely in response to the perception that these appeals are unlikely to be successful.

**Article 61**

Where any infringement dispute relates to a patent for invention for a process for the manufacture of a new product, any entity or individual manufacturing the identical product shall furnish proof to show that the process used in the manufacture of its or his product is different from the patented process.

Where the dispute of patent infringement relates to a patent for utility model or design, the people’s court or the administrative authority for patent affairs may ask the patentee or interested party to furnish an appraisal report of the patent right made by the patent administration department under the State Council after conducting search, analysis and appraisal of the relevant utility model or design as an evidence for trial and handling of the patent infringement disputes.

In the litigation of patent infringement, the people’s court shall, at the request of the plaintiff or the agent of the plaintiff, investigate and collect the evidence including the alleged infringement products, the accounting books, materials etc. which are under the control of the accused infringer. Where the alleged infringer refuses to provide the evidence or move, forge or destroy the evidence, the people’s court shall take, according to the law, compulsory measures against the obstruction of the civil actions; where a crime is committed, the criminal liabilities shall be prosecuted according to law.
Article 61 provides that in utility model and design patent disputes, the court or administrative agency may ask the patentee or interested party to furnish an appraisal report made by SIPO to be used as evidence in trial.

While it is unclear, under the current language, what the “appraisal report” entails, to help alleviate rights holder concerns regarding the proliferation of unexamined utility model patents, we suggest that the “appraisal report” contain the results of a full examination by SIPO of the utility model patent in question. Further, we suggest that the report be made mandatory so that the court or administrative agency would require the patentee or interested party to furnish the results of a full examination of the utility model patent that would be used as evidence in trial. Additionally, we suggest that the report be considered by the court or administrative agency prior to the granting of injunctive relief.