



UNITED STATES PATENT AND TRADEMARK OFFICE

UNDER SECRETARY OF COMMERCE FOR INTELLECTUAL PROPERTY AND
DIRECTOR OF THE UNITED STATES PATENT AND TRADEMARK OFFICE

SEP - 7 2012

Mr. Tian Lipu
Commissioner, State Intellectual Property Office
of the People's Republic of China
No. 6 Xituchenglu, Haidian District
Post Office Box 8020
Beijing, 100088
The People's Republic of China

Dear Commissioner Tian:

Thank you for the opportunity to submit comments on the newly proposed amendments to the third amendment of China's Patent Law. I applaud the State Intellectual Property Office (SIPO) for turning its attention to enforcement as part of an effort to revise the patent law. Effectively enhancing the patent enforcement system is essential in view of China's ambitious objective of improving its innovation capabilities. I am sending you herein the United States Patent and Trademark Office (USPTO)'s general impressions of the proposed amendment. Additionally, the USPTO is submitting more detailed comments on the proposal to SIPO through the comment mechanism.

We appreciate SIPO's efforts through these amendments to strengthen China's administrative enforcement system for patents, including provisions allowing administrative agencies to award damages to compensate right holders' losses and to investigate and punish acts of patent infringement that are suspected of disrupting the "market order." As the explanatory notes to the draft indicate, these changes would effectively replicate the trademark enforcement system by providing more extensive administrative enforcement powers, including *ex officio* enforcement for patents. Other provisions strengthen the courts' powers in respect of evidentiary discovery, and provide for damages and fines for patent infringement. These amendments appear to be directly tied to China's efforts to develop an innovative economy as articulated in the 15-year Medium and Long Term Innovation Strategy, the National Intellectual Property (IP) Strategy, the National Patent Development Strategy 2011-2020, and other related policies.

Strengthening the administrative enforcement system may at first appear to be the most expedient approach to addressing the likely rapid increase in patent disputes resulting from China's ambitious innovation strategy, enabling patentees to better enforce their patents at lower cost and greater speed, as the Explanatory Notes to these amendments set forth. We question, however, how effective this approach would be and whether its longer term implications would not, in fact, undermine confidence in China's patent enforcement and prosecution systems. In this regard, it is of particular concern that foreign patent holders seldom seek relief in the Chinese civil and administrative systems (with under 5 percent of the civil cases brought by

foreigners), yet foreigners are increasingly named as defendants in such patent litigation. These trends highlight the importance of ensuring the expertise of the tribunal, as well as providing procedural and other due process type rights.

Further, we question whether the changes outlined in the patent law amendments are consistent with China's National IP Strategy and will support implementation of its innovation strategy. In this connection we note that the National IP Strategy Outline, which was adopted in 2008, specifically noted at paragraph 9 that the "judicial protection and administrative law-enforcement systems need to be strengthened, *while judicial protection of IPRs should play its leading role*" (*emphasis added*). See also, paragraphs 45 and 46 of the National IP Strategy Outline. If a shift towards more administrative enforcement is indeed contemplated by SIPO, we note that this is precisely the reverse of the direction that all Chinese IP agencies pursued at the time of WTO accession, when the administrative system became quasi-penal in nature.

Additionally, we believe that civil remedies that can be ordered as a result of administrative procedures on the merits of a case must also conform to principles equivalent in substance to the principles set forth in Part III, Section 2 of the TRIPS Agreement, including transparency principles. For example, TRIPS Article 41(2) states that "decisions on the merits of a case shall preferably be in writing and reasoned", and "shall be made available at least to the parties, without delay." In this context, some rights holders have complained that the administrative enforcement system does not provide this level of transparency, and that, in particular, agency decisions are not promptly provided to the parties, nor are such decisions – or their underlying reasoning – consistently provided to the parties in writing. Indeed, in response to questions at the TRIPs Council regarding the provision of written decisions to parties, Chinese representatives stated that this question of transparency in the administrative system is not "relevant to the IPR system." See TRIPS Council Meeting of December 1-2, 2004, IP/C/M/46 11 January 2005. We therefore expect that if the administrative system is to play a more robust role in providing civil compensation, appropriate procedural safeguards will need to be elaborated and put in place.

Second, rights holders have also complained about the susceptibility of the provincial level administrative enforcement agencies to local influences. Increasing administrative authority and deterrence will exacerbate this concern, and lead to greater risks of bias. We are especially concerned about the potential pressures being placed on local administrative agencies which already subsidize patent applications, report horizontally to local governments on patent creation and related benchmarks, issue awards and other recognition to local companies, and report vertically directly to SIPO. As the National IP Strategy recognized in 2008, and as was noted at the recent Federal Circuit/China Law Society Program in Beijing in May 2012, creation of a national appellate IP court that minimizes local influences is a more appropriate method of giving local innovators confidence in the predictability and independence of China's IP enforcement regime. In general, a strengthening of the administrative enforcement system could therefore weaken centralized control and predictability, and draw away resources from the civil judicial system, where most patent cases, which are often of a complex and technical nature, should be properly brought.

Third, the explanatory notes that accompany the patent law amendments indicate that when drafting the fourth amendments, SIPO consulted with IP officials from administrative enforcement officers, entrepreneurs, academic experts, patent agencies and industry associations from various cities in Zhejiang province, such as Wenzhou and Hangzhou. Data from 2011 shows that patent filers from Zhejiang province filed 177,066 patents, of which 75,860 were utility model patents, which ranks Zhejiang province as one of the provinces with the highest number of utility model patents filed in China. If the intention of SIPO and other Chinese government agencies is to address, among other issues, enforcement concerns of rights holders over the proliferation of unexamined utility model patents, we question whether solely focusing on enhancing the administrative enforcement system serves to address these concerns. Instead, a more holistic approach, addressing such issues as patent quality, patent subsidies, and procedural reforms may be warranted. We are also concerned that SIPO has not reached out to jurisdictions, like Beijing, where foreigners tend to file lawsuits, and has instead focused on jurisdictions like Wenzhou and Hangzhou where some of the largest patent judgments against foreigners have been rendered.

Finally, we question whether increasing administrative deterrence and replicating the administrative enforcement system for trademarks is an effective means of enforcement of patent rights. The experience in other countries is that the civil judicial enforcement system is the most effective means to enforce patents. Patents are more technically complicated than trademarks. It is doubtful that an administrative patent enforcement system modeled on China's administrative trademark enforcement system can effectively handle the number and complexity of invention patent cases. With the inevitable increase in invention patents being issued, and the likely concomitant increase in invention patent disputes, China should consider concrete ways of promoting and improving the civil judicial enforcement system by providing more resources, promoting the independence of the judiciary, providing for more training of judges, particularly on technical patent matters, and in general, improvements in the civil legal environment.

Our general observations and comments are tempered by the fact that we do not have all the available background information concerning the current amendments. This is in contrast to the laudable and transparent process by which SIPO revised the third amendments to the patent law, when SIPO actively sought ideas and substantive comments from all interested parties including foreign rights holders and governments.

We recognize that certain provisions, such as those involving willful infringement and collection of evidence, may be based on U.S. practice. Therefore, as these patent law amendments continue through the legislative process, we would appreciate the opportunity to assist SIPO and other relevant authorities in the important effort to improve the Chinese patent enforcement system. To that end, we would like to propose convening a meeting or seminar on these issues. We will follow up shortly with an outline of our proposal.

I look forward to continuing to discuss the direction of this policy in October when we see each other at the World Intellectual Property Organization General Assembly meeting in Geneva.

Sincerely,

A handwritten signature in black ink, appearing to read "D. J. Kappos". The signature is fluid and cursive, with the first name "D. J." and the last name "Kappos" clearly distinguishable.

David J. Kappos
Under Secretary and Director