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TECHNOLOGY TRANSFER TO CHINA:
THE PATENT SYSTEM

Hong Liu†
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INTRODUCTION


These foregoing events represent important steps in China's development of a modern intellectual property protection system. Through its new Patent Law, China intends to promote scientific and technological innovation at home, and to facilitate acquisition of advanced science and technology from abroad. This article de-


Prior to the new Patent Law, China provided limited protection to Chinese and Foreign patents pursuant to the 1950 Provisional Regulations on the Protection of Inventions and Patent Rights, the 1963 Regulations on Rewards for Inventions (repealed by the Regulations on Awards for Inventions), and the 1982 Regulations for Encouraging Rationalization Suggestions and Technological Improvements. While the legislation rewarded inventors for their creations, they vested actual ownership in the state.
scribes and analyzes the PRC Patent Law, with emphasis on the transfer of foreign technology to China.

I. SOME GENERAL FEATURES OF THE CHINESE PATENT LAW

A. Types of Patents

Three types of patents, collectively known as "inventions-creations", may be granted under the PRC Patent Law: invention, utility model, and design. These categories, however, are not always clearly distinguishable. All three types must meet the same "novelty" requirement; in addition, inventions and utility models must also satisfy the standards of "inventiveness" and "practical applicability."

The words "novelty," "inventiveness," and "practical applicability" are generally given the same construction as in other patent systems worldwide. The "novelty" standard is a relative one; i.e. neither publication of an invention, nor its prior exploitation, without more, is sufficient to disqualify a patent application. In this regard, the PRC Patent Law resembles the patent system of the United States, rather than the absolute "novelty" standard adopted by most European countries and Japan.

Beyond these broad terms, the PRC Patent Law does not provide guidelines in sufficient detail to distinguish between the requirements of the three patent types. For example, quite often a subject matter may qualify, under the terms of the PRC Patent Law, for an "invention" patent as well as a "utility model" patent, but the Law does not clearly set forth different standards of inventiveness between the two patents.

As a practical matter, an invention patent requires substantially more inventiveness than a utility model patent. This distinction is essential because, while an invention patent has a life of fifteen years, the utility model patent is granted for a term of only five years, with potential renewal for an additional three-year term. Consequently, it is imperative that an applicant be aware of

2. PRC Patent Law arts. 2, 22, 45.
3. PRC Patent Law art. 22. See also PRC Patent Law art. 23 (defines novelty for design patents).
5. PRC Patent Law art. 2 (the Law refers to inventions, utility models and designs collectively as "invention-creations").
7. Id.
8. Id.
the subtle distinctions in practice which are indecipherable from the language of the PRC Patent Law itself.

B. Patentable Subject Matter

The PRC Patent Law specifies items for which patents may not be granted. They include: scientific discoveries, rules and methods of intellectual activity; methods of diagnosing and treating diseases; and substances obtained from atomic nucleus alteration methods. Patents are also unavailable for foods, beverages and seasonings, pharmaceuticals and other substances obtained through chemical processes, as well as varieties of plants and animals. The methods for producing these items, however, are patentable, despite exclusion of the end-products themselves.

The Law also stipulates that inventions and other creations which involve state security, or vital interests requiring confidentiality, are not patentable. Article 5 in the PRC Patent Law further prohibits the granting of patent rights for inventions and creations that are illegal, violative of social ethics, or injurious to the public interest. These provisions vest the State with broad discretion in interpreting the law and granting patents.

C. Eligible Persons

The PRC Patent Law defines the rights of individual applicants, employing enterprises, and the State. Those eligible to apply for patents include: state enterprises (those under the ownership of the people as a whole); entities under collective ownership; foreign enterprises; Chinese-foreign joint venture enterprises, and individuals.

The PRC Patent Law vests the right to apply for a patent by these rules: 1) creations using resources or funds of an employing enterprise, or within the scope of employment, belong to the enterprise; and 2) those created by an individual without such resources, and outside the scope of employment, belong to the individual. This general distinction is applicable to enterprises owned by the State, a collective, or by an individual.

The PRC Patent Law is unclear as to whether the same principles apply to foreign enterprises and Chinese-foreign joint ventures.

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11. PRC Patent Law art. 5.
13. Id.
Generally, the extent to which a foreign national enjoys patent rights in China is governed by international treaties or bilateral agreements between China and the foreign national’s home country. Another relevant consideration is the Law on Joint Ventures and the Law on Wholly-owned Foreign Enterprises. Arguably, foreign enterprises and Chinese-foreign joint ventures are governed by the same principles.\(^\text{14}\)

II. PATENT APPLICATION PROCEDURES FOR FOREIGN PERSONS

The PRC Patent Law allows foreign individuals, foreign enterprises and other foreign organizations to apply for patent protection in China. The rights accorded a foreign person must be interpreted under the provisions of any applicable bilateral agreement between China and that person’s home country, and any international agreements to which both countries are signatories. Absent such a relationship, the rights would be interpreted under the principle of reciprocity.

Where reciprocity applies, foreign applicants are granted a “right of priority.” China became a member of the Paris Convention for Protection of Industrial Property soon after its promulgation of the PRC Patent Law in 1984. As a member, China is obliged to accord the right of reciprocity internationally to citizens of other Paris Convention member countries.

The right to apply for a patent in China, however, does not mean foreign applicants may submit applications directly to the patent-issuing authority. Procedurally, a foreign applicant must act through a Chinese patent agency.\(^\text{15}\) This aspect will be further discussed below.

A. Application

The procedural requirements of the application process are relatively straightforward under the PRC Patent Law. Applications for invention and utility model patents must include a written re-


\(^{15}\) PRC Patent Law arts. 18, 19. The legal basis for American companies and individuals to apply for patent protection in China was stipulated in the Sino-U.S. Trade Agreement of 1979. Agreement on Trade Relations Between The United States of America and the People’s Republic of China, art. 6, 31 U.S.T. 4658, T.I.A.S. No. 9630. The Trade Agreement provides that each contracting party shall ensure nationals of the other party “protection of patents. . .equivalent to the patent. . .protection correspondingly granted by the other [party].”
quest, a description and its abstract, and claims. A design patent application must include a set of drawings or photographs of the design in lieu of a description and abstract. The Law does not require a claim for a design patent, but the product incorporating the design, and the class to which that product belongs must be indicated. In application for any of the three types of patent, the title of the invention-creation, the name of the inventor and the name and address of the applicant must be included. The required fee must also accompany each application.

For foreigners, the application process can be somewhat more complex. "Foreign applicants" are defined as those who have "no residence or place of business in China." Their applications are governed by bilateral treaties, international conventions, or the principle of reciprocity. However, the terms "regular residence" and "place of business" are again not clearly defined. Thus, applicants must speculate as to the correct construction of who is foreign by drawing from other Chinese law and practice. Because of this uncertainty, a foreign applicant risks being designated domestic, and, consequently, having their patent rights would be subjected to governmental power of transfer.

B. Examination And Approval

Upon receipt of an application for a utility model or design patent, the Patent Office conducts a preliminary examination to determine conformity with proper procedure. If the application is in proper form, it is published in the Official Patent Gazette. Within three months of publication, opposition to the application may be filed by any person. If the application is unopposed, or if any opposition made is declared unjustified, the patent will be issued with a second publication.

The PRC Patent Law requires a substantive examination for invention patent applications. Although this examination is usually initiated by request of the applicant, the Patent Office may conduct

17. PRC Patent Law art. 27.
18. Id.
23. PRC Patent Law art. 34.
An invention patent applicant must request a substantive examination within three years of the date of filing, accompanied by pre-filing date reference material.\textsuperscript{25} If the Patent Office does not initiate an examination, and the applicant fails to request it without good cause during the prescribed time limit, the application is deemed constructively withdrawn.\textsuperscript{26}

Once the Patent Office initiates a substantive examination, neither constructive nor voluntary withdrawal of the application is allowed.\textsuperscript{27} This prevents withdrawal of valuable technology from the public domain and facilitates compulsory licensing. However, the PRC Patent Law is silent as to whether an applicant may challenge the initiation of this procedure.

If an application for an invention patent is rejected after the substantive examination, the PRC Patent Office will ask the applicant to furnish additional support documents or to amend the application.\textsuperscript{28} A patent will be denied if the renewed application is still not in conformity with the provisions of the PRC Patent Law. Appeals may be made in these cases.

For all three patent types, written challenges may be filed by any person within three months from the date of publication.\textsuperscript{29} The Patent Office will send a copy of the opposition to the applicant, who is required to respond in writing within three months from the date of receipt.\textsuperscript{30}

Before filing with the China Patent Office, an applicant should seriously consider the effects of disclosure of the invention. In some countries, including the United States, patent applications are kept in strict confidence. Thus, even if the application is rejected, the inventor may still protect the invention as a "trade secret". However, under the Chinese patent system, the application is published in the Patent Gazette before the patent is approved. Thus, inventors risk public disclosure of the invention in an application. As a result, some inventors will decide to forego patent protection in order to maintain the secrecy of the invention.

On approval of the application, the patent rights accrue back to the date of filing. If mailed, the postmark date is considered the

\begin{itemize}
\item \textsuperscript{25} PRC Patent Law arts. 35-36.
\item \textsuperscript{26} PRC Patent Law art. 35.
\item \textsuperscript{27} Id.
\item \textsuperscript{28} PRC Patent Law art. 37.
\item \textsuperscript{29} PRC Patent Law art. 41.
\item \textsuperscript{30} Id.
\end{itemize}
date of filing. If two applicants file for essentially the same invention, the first to file is granted the patent, regardless of the actual date of invention. This first-to-file system is closer to the practice in Europe and Japan, than the first-to-invent system of the United States.

C. Granting of Patent Rights

Where no justified opposition is found, the Patent Office makes a decision to grant the patent right, issues the patent certificate, registers, and announces the decision. The patent is considered formally granted. The patent may, however, still be invalidated by the Patent Re-examination Committee at any subsequent time, upon application. An adverse decision by the Patent Re-examination Committee on an issued invention patent may be appealed to the People's Court. The Committee's decisions on utility model and design patents are, however, final.

Patent holders are entitled to exploit the patent and to mark products and packaging with the patent symbol and the issuance number, as long as annual fees are paid to the Patent Office. Such fees are payable during the lifetime of the patent and are generally lower than similar fees elsewhere. Thus, fees should not be a significant factor in the decision to file for a patent in China.

Patent rights may be terminated or revoked under certain circumstances. Examples of such circumstances include: a patent holder fails to pay the annual fees; a patent holder submits a written declaration of abandonment; or, revocation by the Patent Re-examination Committee. The Patent Office will register and announce any cessation of a patent right before the patent’s expiration.

31. See PRC Patent Regs. Rule 5 (when mailed within China). See also PRC Patent Law art. 9 (if the postmark is unclear, the date of actual receipt by the Patent Office becomes the date of filing unless the applicant can show the date on which the application was sent); PRC Patent Regs. Rule 12 (applicants filing on the same day are encouraged to reach an agreement between themselves).
32. PRC Patent Law arts. 43, 48, 49. The Patent Re-examination Committee is a separate unit within the Patent Office in charge of applications and requests for the invalidation of patents. The Committee consists of technical and legal experts and is headed by the Director General of the Patent Office. See also PRC Patent Regs. Rule 58.
33. PRC Patent Law arts. 11, 15.
34. PRC Patent Law art. 46.
35. Under the Law, any person may request the Patent Re-examination Board to invalidate an issued patent. PRC Patent Law art. 48.
D. The Patent Agent System in China

1. The Various Types of Patent Agencies and Their Responsibilities

Two major models of patent agency exist in the world today. In one model, typical of most western countries, qualified patent agents or attorneys are allowed to freely practice both domestic and foreign-related patent issues. In the other model, typical of the Soviet Union and other socialist countries, foreign-related patent issues are assigned to specific agencies. For example, in the Soviet Union, the Soviet Chamber of Commerce and Industry is the exclusive agency to deal with foreign-related patent issues. The Chinese patent agent system generally follows the latter model.

The patent agent system in China is subdivided into four types of agencies, with respect to matters unrelated to national security. The first type consists of foreign-related patent agencies. These agencies are designated by the State Council (the Chinese central government) and are mainly, but not exclusively, concerned with applications filed in China by foreigners, and by Chinese nationals filing foreign patent applications in other countries.

Out of the four types of agencies, the foreign-related patent agencies are the only agencies authorized to handle patent matters involving foreign persons or governments. At present there are four such agencies: the China Patent Agency of China Council for the Promotion of International Trade (CCPIT); China Patent Agents (H.K.) Ltd; Shanghai Patent Agency; and N.T.D Patent Agency, Ltd. Under the PRC Patent Law, all foreign applicants filing in China, and all Chinese filing foreign patent applications must act through one of these patent agencies.

The second type of patent agencies are those set up by relevant "competent departments" under the State Council and local governments. They have authority over domestic and local applications only.

The third type are patent agencies and patent affairs offices set up in various units (departments) of large corporations, enterprises, institutes and universities, acting exclusively for these units on patent matters.

The fourth type of patent agencies are the patent law offices approved by the Ministry of Justice. These patent offices are the

Chinese equivalent of patent law firms. They represent their clients in domestic patent issues and litigations.

If the subject matter involves national security, it must be handled by the National Defense Patent Branch Office. This office is established by the Central Military Commission to be responsible for the acceptance, examination and approval of patent applications in which matters of national security are involved.

There are more than 375 patent agencies in China today, employing over 4500 certified patent agents; amongst them, approximately 1500 are full-time agents.

2. A Focus on Foreign-Related Patent Agencies

The functions of the four foreign-related patent agencies, (i.e. Patent Agency of CCPIT, China Patent Agent (H.K.) Ltd., the Shanghai Patent Agency, and N.T.D. Patent Agency, Ltd.) deserve further elaboration. Their services include: legal counselling; preparing documents and filing applications; asserting client patent rights; litigation; negotiating assignments, and licenses; administering the agency’s patent fund, and giving financial assistance to any Chinese applicant in need. More than 14,204 foreign applications have been filed through these agencies; at least 4,037 of these for clients in the United States.

According to the Chinese government, foreign-related agencies are segregated from their domestic counterparts to ensure that, by their special focus in foreign-related matters, foreign persons are rendered quality service. The official source states, “strict[er] requirements are needed for running a foreign-related patent agency than those for a domestic one.”

Foreign-related agencies are nominally organizations independent of the government. Even so, foreign clients inevitably view them as government agencies in the shadow of the Patent Office. As such, the agencies’ loyalty to their foreign clients remains suspect. However, this is no more a matter peculiar to the patent system than that of overall confidence—an issue to contend with when doing business with countries having a socialist system such as China’s.

III. ASSIGNMENTS, LICENSING AND CAPITAL TRANSACTIONS

A. Assignments

The rights to apply for and to exploit a patent are both assignable under the PRC Patent Law and enforceable with a written
agreement. Such contracts are effective when registered and announced by the Patent Office. The assignment of both of these rights by a foreign person to a Chinese entity appears unrestricted. However, assignment by a Chinese entity to a foreign person are subject to approval by a “competent” department designated by the State Council. Since the term “competent” is not defined in the Law, the Chinese government remains flexible in its handling of foreign-related assignment matters.

State-owned enterprises are not given much power to assign their patents; assignment by such enterprises must be approved by “the competent authority at the higher level.” As these state-owned enterprises are currently parties to most of China’s patent assignments to foreign persons, the protective attitude taken is immediately apparent. This is in stark contrast to the fact that assignments among Chinese entities, including assignments by individuals, are essentially unrestricted as long as a state-owned enterprise is not involved.

The protective attitude is again apparent when Chinese-for- eign joint venture enterprises are concerned. Joint ventures are treated as Chinese entities if they are registered in China. The assignment of a patent from such entity to a foreign person requires governmental approval, while the government is not involved in an assignment to a domestic entity.

B. Voluntary Licensing

A patent is licensed by written agreement between a patent holder and a licensee, and upon the payment of a “patent-use fee.” The licensee may “use” a patent through the manufacture of patented products or by utilization of the patented process. To avoid abuse of a licensor’s right, the Patent Law prohibits a licensee from relicensing the technology to third parties. Such conduct is treated as patent infringement subject to sanctions under the Law.

By and large, licensing under the PRC Patent Law is a matter of contract, except when a state-owned enterprise is involved. These
enterprises are typically subject to tighter government scrutiny, as noted in the previous section.

C. **Compulsory Licensing**

The PRC Patent Law's provisions concerning compulsory licensing are of great concern to foreign persons. As can be expected from the discussion above, the Chinese government's tight control of state-owned enterprises extends to compelling licenses of their patents.\(^\text{44}\) On the other hand, patents owned by collectives, individuals or joint ventures are subject to compulsory licensing only when the subject patents are found to be "of great significance to the interests of the state or to public interest, and is in need of spreading and application."\(^\text{45}\) Compulsory licensing actions are directed against "patentees". Since the term "patentee" is defined in the PRC Patent Law to be the "owner of the patent right and the holder of the patent right,"\(^\text{46}\) a licensee cannot be compelled to relicense the subject patent.

A patent that is not "worked" on three years after its grant, is subject to requests for compulsory licensing.\(^\text{47}\) "Working a patent" means the manufacture of the invention, utility model or design, or use of the patented process.\(^\text{48}\) Assignments or licensing activities for such manufacture or use are also considered "working the patent". The PRC Patent Law provides that an entity — not an individual — may request the Patent Office for a compulsory license.\(^\text{49}\)

If the applicant for an invention or utility model patent can show that the use of an existing, prior patent is necessary for the working or "exploitation" of the prospective patent, he may request the Patent Office to grant a compulsory license to use the prior patent.

The process for obtaining compulsory licensing can be initiated by an administrative agency, or upon request by a prospective licensee. Under the Law, several steps must be taken before a compulsory license can be granted. The requesting party must first propose a voluntary licensing arrangement with the patentee on reasonable terms. If such effort fails, a compulsory license action may be requested. A licensing fee is then negotiated between the parties. If

\(^{44}\) PRC Patent Law arts. 51-58.
\(^{46}\) PRC Patent Law art. 6.
\(^{47}\) PRC Patent Law art. 52.
\(^{48}\) PRC Patent Law art. 51.
\(^{49}\) PRC Patent Law art. 52.
the parties cannot arrive at a reasonable fee, the Patent Office may prescribe an amount it deems appropriate. Decisions of the Patent Office regarding compulsory licensing may be appealed in the courts.50

Since a compulsory license encroaches on the property right of the patentee to exclude others from using his invention, a heavy-handed approach by the Patent Office may result in reluctance on the part of foreigners to file for patent protection, or to bring patentable technology into China. How aggressively this policy will be implemented remains to be seen.

D. Patents As Capital Contributions

The PRC Patent Law does not regulate the transfer of patented technology as a form of capital infusion, even though such transactions are popular among Chinese-foreign joint ventures. In such situations, the transfers of technology occur between a shareholder and the enterprise, or among the shareholders, often involving complex transactions. These transactions are qualitatively different from most technology licensing agreements51. The governing laws are found in other statutes.

1. Can the Patented Technology Be Used as Capital Investment?

Under the Law on Joint Ventures Using Chinese and Foreign Investment, “each party to a joint venture may contribute cash, capital goods, industrial property rights, etc., as its investment in the venture.”52 Thus, the law enables foreign investors to contribute industrial property rights and technical know-how as their share of capital contributed to the joint venture. In fact, in many established Chinese-foreign joint ventures, substantial portions of the foreign partners’ investment consist of such contributions. Such arrangements benefit the joint venture by avoiding the use of scarce capital resources, such as hard currencies, to purchase technology in the technical market place.

Under the Implementation Regulations of the Law on Joint Ventures Using Chinese and Foreign Investment: foreign participants who contribute industrial property or know-how as investment shall present relevant documentation on the industrial property or know-how, including photocopies of the patent cer-

50. PRC Patent Law art. 58.
51. See infra subsection 4 of text, "Ownership Issues of Technological Property."
52. PRC Joint Venture Law art. 5.
tificates or trademark registration certificates. Implicit in this statement is the assumption that the contributor of such technology must own the contributed patent rights, and not merely be a licensee. In other words, a licensee cannot exchange a mere right to use a patented technology for a share in a joint venture. The intent behind this requirement of ownership is to avoid enmeshing joint ventures in property disputes with third parties.

On the other hand, owned technology can be contributed to a joint venture. For example, an inventor or assignee of a patent can contribute its ownership rights to a joint venture. Where the rights are acquired from a third party, the purchaser must have acquired full ownership rights.

2. Preferences as to Patented Technology

The PRC Patent Law does not restrict the kinds of technology or patents that can be contributed as capital to the joint venture. As a practical matter, technology or patents which the Chinese characterize as "systematic, comprehensive, continuous and capable of being used to manufacture competitive products" — in other words,

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54. For example, Beijing-Jeep Automotive Company is a Chinese-American joint venture. As party to the venture, the American Motors Corporation contributes technology toward investment. However, while wholly owned technology is easily accepted for this purpose, where property rights are disputed, the use of technology for investment capital is disallowed. The technological investment contract of the venture states:

The present contract does not cover the industrial property rights and technical know-how of AM General Company (U.S.A.) and Renault Company (France). . . . According to the needs of the plans approved by the company, it is possible to conclude, separately and through Party B, agreements for transferring their technology to the company.

The separately concluded agreements refer only to the use, not investment, of technology. Thus, the contract further states:

When the industrial property rights and know-how of AM General Company and Renault Company become the industrial property rights and know-how of the American Motors Corporation and are no longer regarded as the industrial property rights and know-how of AM General Company and Renault Company, they shall be included in the present contract.

55. For instance, in the case of the Shanghai Bell Telephone Manufacturing Company, a Chinese-foreign joint venture, Bell Telephone Manufacturing Company of Belgium transformed use rights, to patented technology acquired from Bell Telephone Company of the United States, to full ownership rights. Hence, it was allowed to use the technology as investment contribution.

56. In one instance, Zhao Zhuoqiang, Esquire, a foreign shareholder of the Guangdong-Hunan Qiangfeng Company, purchased from a Japanese owner the technical know-how for the use of hogs' blood in producing high-protein feed ("Wei Bao 34"). Then, after acquiring ownership, he was able to contribute the technology as investment and acquired shares.
“advanced productive technology” — are highly desirable. The government intends to encourage such contribution to maintain competitiveness, productivity and economic benefits in a joint venture.

Since the applicable laws provide no restriction as to how the receiving party should handle the contributed technology, much is left for negotiation. Participants are well-advised that clear drafting and strict adherence to the terms of the final joint venture contract are paramount for their own protection.

3. Valuation

Valuation of a patent contributed to a joint venture is necessary to distribute any resulting profit among the shareholders. Since there are no set rules to valuation of a patent, the terms are generally left to the shareholders in the joint venture. Technology which is “comprehensively, systematically, and continuously contributed” is understandably more valuable than those not so classified. “Cutting-edge” technology which may be considered competitive in the international market place is also considered more valuable. Additional factors such as originality and potential competitive advantage affects the valuation. The goal of valuation is to arrive at an equitable share of ownership in the patent commensurate with the contribution potential of the technology to the total profit of joint venture.

Chinese laws require that, under normal circumstances, ownership acquired through technological investment not exceed 15-20% of the venture. Exceptions can be made if the transferor actively, continuously, and unreservedly updates the transferred technology. Thus, once a patent expires, an investor may be required to make a new or additional investment in cash, or in kind, to maintain the level of ownership. An exception can also be made when the transferred technology is not readily available in the technological market place, such as those upon which export restrictions are imposed by some countries. Technology which is mature but not yet commercially exploited, may also qualify for an exception.57

Often, the provider of a patent or technology may be required to provide services, such as on-site experts, technical consulting,

57 In the case of the Beijing-Jeep Automotive Company, the technology invested by a foreign shareholder (including know-how and other industrial property rights) was regarded as “comprehensive, systematic and continuous” and, thus, enjoyed preferential treatment. The value of the technology equalled the shareholder's eight million dollar cash investment. Hence, technology comprised fifty percent of its total investment.
management, or cooperative production. These considerations should be factored into determining the value of a patent.

4. Ownership Issues of Technological Property

As discussed above, the transfer of technology as a capital investment is qualitatively different from a licensing transaction. Under the Chinese Joint Venture Law, an investor must transfer to the joint venture proprietary rights in the patent or know-how, and not merely a license.

The transfer of proprietary rights to technology as a capital investment is different from an outright sale or assignment of technology. In an outright sale or assignment, the buyer obtains the complete right of disposal to the technology. By contrast, the transfer by capital investment is incomplete, the transferor maintains partial control of the technology through equity ownership or by contract. The transferor may still act through a board of directors on matters such as transferring proprietary interests in the technology to a third party; although, typically, these contracts provide for transfer to vendor factories without consent of the investor. The transferor is not deemed to have control over patents obtained by a joint venture through improvement of the patented technology.

IV. INFRINGEMENTS AND REMEDIES

A. What Constitutes an Infringement?

Under the PRC Patent Law, infringement is defined as any act of exploiting the patent without the patent holder's authorization. Infringement includes manufacture, use or sale of patented products, and the use of a patented process. Several elements are necessary for a successful infringement action.

The first element is the absence of the patentee's consent or authorization for the accused use of the patent. "Authorization" is
narrowly construed in the Law. Unlike some countries which recognize verbal permission, or tacit consent, the PRC Patent Law explicitly requires that authorization be in writing.60

The second element is a showing that the alleged infringing device is covered within the scope of the patent. The scope of protection accorded invention and utility model patents is based on claims specified in the “request for rights” section in the patent application.61 Any aspect of an invention not claimed in a patent application is not protected.

An infringement resulting from unauthorized manufacture of the patent may fall under one of three categories of liabilities: intentional; negligent; or strict liability. Thus, the Law provides absolute protection against the manufacture of a patented product, with varying degrees of sanctions. Appropriately, the PRC Patent Law provides that the sale or use of a patented product, by one who purchased it from a patent holder, his assignees or licensees, is not deemed to be an infringer. This is the principle of “exhaustion of patent right” recognized in the PRC Patent Law.

The PRC Patent Law specifically exempts five kinds of conduct from infringement liability:62 1) resale or secondary use of a patented product (the “exhaustion of patent right” principle); 2) unauthorized use or sale (Compare manufacture) of a patented product by one without knowledge; 3) manufacture of a patented product, use of a patented process, or preparation to do either prior to the date of patent application; 4) the use of a patented product or process on foreign aircraft and vessels in transit through China; and 5) the use of a patented product or process for scientific research and experimentation purposes.

The practical effects of these exemptions remains to be seen. The second, third and fifth exemptions may be too vague and too broad for a patentee to adequately protect rights granted under the Law. Consider, also, the impracticability of the “use without knowledge” exception - the issuance of a patent is not deemed constructive notice!

Furthermore, the broad interpretation of such terms as “preparation”, “scientific research” and “experimentation” are likely to create problems of uncertainty. As other areas of intellectual property law, such as trade secrets, remain underdeveloped in China,

60. PRC Patent Law art. 12.
these deficiencies in the area of patent law may yet present rude surprises for the unwary.

Finally, the Law does not clearly distinguish between infringing the "patent product itself" and infringing the "patented process". However, such infringements are accorded disparate treatments in the PRC Patent Law. This lack of consistency may be a source of many practical problems in application; this issue will be explored further with respect to chemical inventions below.

B. Who Has Jurisdiction to Hear Infringement Actions?

Under the PRC Patent Law, the patent administrative authorities and the Chinese People's Courts have concurrent jurisdiction over patent infringement actions.63

1. The Administrative Authorities

The administrative authorities includes all administrative bodies for patent affairs, which are set up by either: (i) the competent departments of the State Council; (ii) the special economic zones; or (iii) the provinces, or cities open to foreigners.64

A patent infringement action may be brought to any administrative authority. After assessment of the evidence, the authority issues the equivalent of an injunction, and orders payment of damages.65 The administrative order may be appealed to the People's Courts within three months.66 The power to enforce an administrative order resides in the courts.

Under the PRC Patent Law, the Patent Office is responsible for examining applications, granting requests for compulsory licenses, resolving disputes over compulsory licensing terms, in addition to resolving patent disputes.67 The Patent Re-examination Committee, a unit of the Patent Office, has jurisdiction to review rejected applications. The primary jurisdiction over requests for invalidation of issued patent also resides in this Committee.68

The PRC Patent Law contains references to "competent authorities" or "departments" concerned.69 These departments may initiate compulsory licensing of patents owned by certain classes of

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63. PRC Patent Law art. 60.
64. PRC Patent Regs. Rule 76
65. PRC Patent Law art. 60.
66. Id.
67. PRC Patent Law arts. 3, 52, 53
68. PRC Patent Law arts. 43, 48.
69. See, e.g., PRC Patent Law arts. 30, 60.
patent holders, primarily the state-owned enterprises. These departments also authorize assignments of Chinese patents to foreign persons. The PRC Patent Law does not, however, clearly set forth the scope of power for any of these designated departments.

2. The Courts

Although a patent infringement action can be brought directly to the People's Court, there are several considerations which make this option less desirable than an action in an administrative agency. First, unlike the designated administrative authorities, the Chinese courts are still inexperienced in patent matters. Second, if a foreign person is involved, the Civil Procedure Law designates jurisdiction by intermediate or high courts, restricting the number of available venues. Finally, under the Chinese judicial system, a complaint is limited to one appeal. Hence, by bringing a patent infringement action directly to the courts, the complainant forfeits rights to a hearing by the patent administrative authorities.

The courts are given appellate jurisdiction in the following situations: (i) the Patent Re-examination Committee's refusal to review a rejected patent application; (ii) the Committee's decision on an invalidation action; (iii) the Patent Office's determination of a compulsory license fee; (iv) the Patent Office's compulsory license order; and (v) all decisions of "administrative authority for patent affairs" concerning an infringement.

C. Sanctions And Remedies

1. Administrative Internal Sanctions

The PRC Patent Law imposes internal sanctions upon employees of the Patent Office and other administrative organs for certain types of conduct. The proscribed conduct includes: filing an unauthorized foreign patent application revealing a state secret; usurping the application or other rights of an inventor; and fraud. The applicable sanctions are: reduction of salary; demotion; both reduction

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70. PRC Patent Law arts. 14, 10.
71. PRC Patent Law art. 60.
72. ZHONGGUA REMIN GONGHEGUO MINSHI SUSONFA (CIVIL PROCEDURE LAW OF THE PEOPLE'S REPUBLIC OF CHINA) art. 17(1), 156 (1979) (codified as amended at CIVIL PROCEDURE LAW OF THE PEOPLE'S REPUBLIC OF CHINA PROVISIONAL, 5th National People's Congress, 22nd Session of the Standing Committee 1982). See also PRC Patent Law art. 60 (adverse administrative decisions may be appealed to a Chinese court and then again to a higher level court).
73. PRC Patent Law art. 60.
74. PRC Patent Law arts. 64-66.
of salary and demotion; or dismissal. The decision of sanction is made by the employer or the next higher administrative authority for patents.

2. Civil Sanctions

Civil sanctions are the primary instruments of infringement enforcement. Although not specifically provided, the General Principles of the Civil Law of China are expected to govern patent cases. The PRC Patent Law provides for injunctions and compensatory damages without specifying applicable limits and guidelines. Hence, clarification must come soon to ensure uniformity for effective patent protection.

3. Criminal Sanctions

Under the PRC Patent Law, “serious” infringements are subject to criminal sanctions. One such serious infringement is the representation of another’s patent as one’s own. If convicted of the infringement, sentences include up to three years of imprisonment, detention or fine. Unauthorized application for a patent in a foreign jurisdiction is a crime, but only if “state secrets” are revealed in the process. Fraud by government employees, including Patent Office employees, in the course of official duty may also be a crime under the principles of Mutatis Mutandis in the articles of the Criminal Law. Sanctions include deprivation of political rights, detention or imprisonment of up to five years. If the case is considered “serious”, the term of sentence may be even longer.

Under the Chinese laws, legal persons and legal entities (as opposed to natural persons) are not subject to criminal sanctions. However, the PRC Patent Law requires that “persons directly responsible” for the infringement will be subject to prosecution.


76. PRC General Civil Law arts. 94-97, 118.

77. PRC Patent Law art. 63 (referencing PRC Criminal Law arts. 95-96, 100, 105, 115, 117).

78. PRC Patent Law art. 63.

79. PRC Criminal Law art. 127.

80. PRC Patent Law art. 66.

81. PRC Criminal Law art. 188.

82. PRC Patent Law arts. 63-64; PRC Criminal Law art. 127.
V. SOME ADDITIONAL CONCERNS

A. Chemical Inventions

Under the PRC Patent Law, certain subject matter, such as pharmaceuticals, food products and other chemical inventions are not patentable.\textsuperscript{83} China denies patent protection for these subject matters to encourage local capabilities. The Director of the Patent Office stated, "China's industrial and scientific development level is still relatively backward," and these exceptions to patentability may be lifted at a later date "in view of actual conditions."\textsuperscript{84}

As mentioned previously, different treatments are accorded to product and process patents. In theory a few chemical products can be patented, although most are unpatentable. In practice, chemical products are protected by patenting the production process.

Chemical product inventions that can be patented include: 1) mixtures or compositions - these refer to products composed of two or more chemical substances, not combined in a chemical reaction; 2) agriculture chemical composition invention; 3) inventions which are not pharmaceutical products but are closely related to the healing and diagnoses of diseases; and 4) apparatus and equipment.

Although most food, pharmaceutical products and chemical inventions are not patentable, a patent may be obtained on production process for these products. There are three categories of chemical processes which are generally proper subject matter for patent protection under the PRC Patent Law: 1) New processes used in producing chemical products, new applications of known processes, and methods of preparation; 2) Processing method inventions, such as purification, transportation, measurement, granulation and refrigeration; 3) Process invention using chemical substance for new applications, for example, the use of powdered coal ash to produce a new building material.

The current PRC Patent Law is ambiguous as to the distinction between chemical product and chemical process inventions. Some infringements may go unpunished as a result of this confusion. The policy of protecting only processes, and not the chemical product itself, is expected to be changed soon.

B. MicroOrganisms

Under the PRC Patent Law, there are no specific rules which

\textsuperscript{83} PRC Patent Law art. 25.
\textsuperscript{84} Huang (Director of the National Patent Office), \textit{China's Patent System Is Actively Being Established}, in \textsc{Guoji Maoyi (International Trade)}, Feb. 1984, at 60.
address patentability of microorganisms. By specifically excluding animal and plant varieties as patentable subject matter, the Law, by negative implication, allows microorganisms to be patented. Unlike the PRC Patent Law, the Implementation Regulations of the Patent Law do specifically address the microorganism issue. The stipulations, discussed below, are still confusing.

1. Scope of Protection

Both microbiological processes and their products are patentable. A microbiological process includes the selection and cultivation of a microorganism, and utilization of its special properties. However, patentable products do not include the micro-organisms themselves as products. The law governing the protection of microbiologically produced substances, like those produced by their chemical process counterparts, suffer the same confusion of patentability in the current Law.

Although the definition of the term "microorganism" is not clear in the Implementation Regulations, the definition given by the Regulations on the Deposit of Micro-organisms for the Purposes of Patent Procedure is instructive. There, microorganisms are defined as "all kinds of bacteria, actinomycin, saccharomycete, filamentous fungus, higher fungus, clones, viruses, plasmids existing in host-cell and single-cell algal strains." Microorganisms include pathogenic and non-pathogenic ones.

2. The Deposit of Microorganisms

China is not a signatory to the Budapest Treaty on the International Recognition of the Deposit of Micro-organisms for the Purpose of Patent Procedure. When a foreigner applies for a microorganism related patent in China, the applicant is required to deposit a sample of the microorganism at a depositary institution in China on or before the date of application. A foreign applicant must deposit a sample of the microorganism in one of two microorganism depository institutions. All depository matters must be handled through a Chinese foreign-related patent agency. The two depository institutions are the China General Micro-organisms Culture Collection (CGMCC), under China Micro-organisms Culture Depositary Management Committee, and the China Center for Type Culture Collection (CCTCC). Before a micro-organism sam-
ple can be accepted for deposit, an applicant must also have obtained an import license for the microorganism. A license is available from the Ministry of Public Health, or the Ministry of Agriculture, Animal Husbandry and Fishery.

C. Computer Software

The patentability of software is not addressed by the PRC Patent Law. The Law can be construed to imply that patent protection for computer software is denied under the PRC Patent Law as "rules and methods of mental activities." This attitude is not atypical of developing countries where economic considerations prevail. Recent development, however, suggests that efforts are underway to provide protection soon. The Chinese government is considering adopting separate laws and regulations towards that end.

There was an unsuccessful attempt to include protection for software through the forthcoming Copyright Law. The effort was abandoned because the events have borne out that copyright protection is less effective and more impractical than originally thought. The Chinese are persuaded by arguments similar to those set forth in the U.S. decision in Whelan Associates, Inc. v. Jaslow Dental Laboratory, Inc. which suggests that, unlike patents, copyright law does not protect the novelty of the work, and that it is effective only as to the manner the work is expressed, but not its content. As a result, the Chinese government is drafting separate Computer Software Protection Regulations. These regulations will apply to software written by domestic entities, Chinese-foreign joint ventures and foreign ventures registered in China. Protection for software written by other entities remains uncertain.

At present, computer software is protected in China only through contract provisions. Hence, well-drafted non-disclosure provisions are of paramount importance to contracting parties seeking to keep their computer software protected.

VI. CONCLUSION

The PRC Patent Law is a great achievement in China's efforts to establish a modern legal system that suits its needs. It is an important cornerstone to an overall intellectual property protection system in China. From the scope and provisions in the Law, it is

87. PRC Patent Law art. 25.
evident that the proponents were motivated by practical considerations. At the same time, some of its deficiencies are immediately apparent.

The PRC Patent Law does not accord the same level of rights to patentees as under many other systems. Moreover, many of the concepts need refinement and clear definitions. We have observed also that the PRC Patent Law does not provide satisfactory resolution in many frequently occurring situations.
APPENDIX

CHAPTER 1

ARTICLE 1. This Law is enacted to protect patent rights for inventions-creations, to encourage invention creation, to foster the spreading and application of inventions-creations, and to promote the development of inventions-creations, and to promote the development of science and technology, for meeting the needs of the construction of socialist modernization.

ARTICLE 2. In the Law, "inventions-creations" mean inventions, utility models and designs.

ARTICLE 3. The Patent Office of the People's Republic of China receives and examines patent applications and grants patent rights for inventions-creations that conform with the provisions of this Law.

ARTICLE 4. Where the invention-creation for which a patent is applied relates to the security or other vital interests of the state and is required to be kept secret, the application shall be treated in accordance with the relevant prescriptions of the State.

ARTICLE 5. No patent right shall be granted for any invention-creation that is contrary to the laws of the state or social morality or that is detrimental to public interest.

ARTICLE 6. For a service invention-creation made by a person in execution of the tasks of the entity to which he belongs or made by him mainly by using the material means of that entity, the right to apply for a patent belongs to the entity. For any non-service invention-creation, the right to apply for a patent belongs to the inventor or creator. After the application is approved, if it was filed by an entity under ownership by the whole people, the patent right shall be held by the entity; if it was filed by an entity under collective ownership or by an individual, the patent right shall be owned by the entity or individual.

For a service invention-creation made by any staff member or worker of a foreign enterprise, or of a Chinese-foreign joint venture enterprise located in China, the right to apply for a patent belongs to the enterprise. For any non-service invention-creation, the right to apply for a patent belongs to the inventor or creator. After the application is approved, the patent right shall be owned by the enterprise or the individual that applied for it.

The owner of the patent right and the holder of the patent right are referred to as "patentee."
ARTICLE 7. No entity or individual shall prevent the inventor or creator from filing an application for a patent for a non-service invention-creation.

ARTICLE 8. For an invention-creation made in cooperation by two or more entities, or made by an entity in execution of a commission for research or designing given to it by another entity, the right to apply for a patent belongs, unless otherwise agreed upon, to the entity which made, or to the entities which jointly made, the invention-creation. After the application is approved, the patent right shall be owned or held by the entity or entities that applied for it.

ARTICLE 9. Where two or more applicants file applications for patent for the identical invention-creation, the patent right shall be granted to the applicant whose application was filed first.

ARTICLE 10. The right to apply for a patent and the patent right may be assigned.

Any assignment, by an entity under ownership by the whole people, of the right to apply for a patent, or of the patent right, must be approved by the competent authority at the higher level.

Any assignment, by a Chinese entity or individual, of the right to apply for a patent, or of the patent right, to a foreigner must be approved by the competent department concerned of the State Council.

Where the right to apply for a patent or the patent right is assigned, the parties must conclude a written contract, which will come into force after it is registered with and announced by the Patent Office.

ARTICLE 11. After the grant of the patent right for an invention or utility model, except as provided for in Article 14 of this Law, no entity or individual may, without the authorization of the patentee, exploit the patent, that is, make, use or sell the patented product, or use the patented process, for production or business purposes.

After the grant of the patent right for a design, no entity or individual may, without the authorization of the patentee, exploit the patent, that is, make or sell the product, incorporating the patented design, for production or business purposes.

ARTICLE 12. Any entity or individual exploiting the patent of another must, except as provided for in Article 14 of this Law, conclude with the patentee a written license contract for exploitation and pay the patentee a fee for the exploitation of the patent. The licensee has no right to authorize any entity or individual, other
than that referred to in the contract for exploitation, to exploit the patent.

**ARTICLE 13.** After the publication of the application for a patent for invention, the applicant may require the entity or individual exploiting the invention to pay an appropriate fee.

**ARTICLE 14.** The competent departments concerned of the State Council and the people's governments of provinces, autonomous regions or municipalities directly under the Central Government have the power to decide, in accordance with the state plan, that any entity under ownership by the whole people that is within their system or directly under their administration and that holds the patent right to an important invention-creation is to allow designated entities to exploit that invention-creation; and the exploiting entity shall, according to the prescriptions of the state, pay a fee for exploitation to the entity holding the patent right.

Any patent of a Chinese individual or entity under collective ownership, which is of great significance to the interests of the state or to public interest, and is in need of spreading and application, may, after approval by the State Council at the solicitation of its competent department concerned, be treated alike by making reference to the provisions of the preceding paragraph.

**ARTICLE 15.** The patentee has the right to affix a patent marking and to indicate the number of patent on the patented product or on the packing of that product.

**ARTICLE 16.** The entity owning or holding the patent right shall award the inventor or creator of a service invention-creation a reward and, upon exploitation of the patented invention-creation, shall award the inventor or creator a reward based on the extent of spreading and application and the economic benefits yielded.

**ARTICLE 17.** The inventor or creator has the right to be named as such in the patent document.

**ARTICLE 18.** Where any foreigner, foreign enterprise or other foreign organization having no habitual residence or business office in China files an application for a patent in China, the application shall be treated under this Law in accordance with any agreement concluded between the country to which the applicant belongs and China, or in accordance with any international treaty to which both countries are party, or on the basis of the principle of reciprocity.

**ARTICLE 19.** Where any foreigner, foreign enterprise or other foreign organization having no habitual residence or business office in
China applies for a patent, or has other patent matters to attend to, in China, he or it shall appoint a patent agency designated by the State Council of the People's Republic of China to act as his or its agent.

Where any Chinese entity or individual applies for a patent or has other patent matters to attend to in the country, it or he may appoint a patent agency to act as its or his agent. ARTICLE 20. Where any Chinese entity or individual intends to file an application in a foreign country for a patent for invention-creation made in the country, it or he shall file first an application for patent with the Patent Office and, with the sanction of the competent department concerned of the State Council, shall appoint a patent agency designated by the State Council to act as its or his agent.

ARTICLE 21. Until the publication or announcement of the application for a patent, staff members of the Patent Office and persons involved have the duty to keep its contents secret.

CHAPTER II — REQUIREMENTS FOR GRANT OF PATENT RIGHT

ARTICLE 22. Any invention or utility model for which patent right may be granted must possess novelty, inventiveness and practical applicability.

Novelty means that, before the date of filing, no identical invention of utility model has been publicly disclosed in publications in the country or abroad or has been publicly used or made known to the public by any other means in the country, nor has any other person filed previously with the Patent Office an application which described the identical invention or utility model and was published after the said date of filing.

Inventiveness means that, as compared with the technology existing before the date of filing, the invention has prominent substantive features and represents a notable progress and that the utility model has substantive features and represents progress.

Practical applicability means that the invention or utility model can be made or used and can produce effective results.

ARTICLE 23. Any design for which patent right may be granted must not be identical with or similar to any design which, before the date of filing, has been publicly disclosed in publications in the country or abroad or has been publicly used in the country.

ARTICLE 24. An invention-creation for which a patent is applied
does not lose its novelty where, within six months before the date of filing, one of the following events occurred:

1. Where it was first exhibited at an international exhibition sponsored or recognized by the Chinese Government;
2. Where it was first made public at a prescribed academic or technological meeting;
3. Where it was disclosed by any person without the consent of the applicant.

ARTICLE 25. For any of the following, no patent right shall be granted:

1. Scientific discoveries;
2. Rules and methods for mental activities;
3. Methods for the diagnosis or for the treatment of diseases;
4. Food, beverages and flavorings;
5. Pharmaceutical products and substances obtained by means of a chemical process;
6. Animal and plant varieties;
7. Substances obtained by means of nuclear transformation.

For processes used in producing products referred to in items (4) to (6) of the preceding paragraph, patent right may be granted in accordance with the provisions of this Law.

CHAPTER III — APPLICATION FOR PATENT

ARTICLE 26. Where an application for a patent for invention or utility model is filed, a request, a description and its abstract, and claims shall be submitted.

The request shall state the title of the invention or utility model, the name of the inventor or creator, the name and the address of the applicant and other related matters.

The description shall set forth the invention or utility model in a manner sufficiently clear and complete so as to enable a person skilled in the relevant field of technology to carry it out; where necessary, drawings are required. The abstract shall state briefly the main technical points of the invention or utility model.

The claims shall be supported by the description and shall state the extent of the patent protection asked for.

ARTICLE 27. Where an application for a patent for design is filed, a request, drawings or photographs of the design shall be submitted, and the product incorporating the design and the class to which that product belongs shall be indicated.

ARTICLE 28. the date on which the Patent Office receives the ap-
application shall be the date of filing. If the application is sent by mail, the date of mailing indicated by the postmark shall be the date of filing.

ARTICLE 29. Where any foreign applicant files an application in China within 12 months from the date on which he or it first filed in a foreign country an application for a patent for the identical invention or utility model, or within six months from the date on which he or it first filed in a foreign country, an application for a patent for the identical design, he or it may, in accordance with any agreement concluded between the country to which he or it belongs and China, or in accordance with any international treaty to which both countries are party, or on the basis of the principle of mutual recognition of the right of priority, enjoy a right of priority, that is, the date of which the application was first filed in the foreign country shall be regarded as the date of filing.

Where the applicant claims a right of priority and where one of the events listed in Article 24 of this Law occurred, the period of the right of priority shall be countered from the date on which the event occurred.

ARTICLE 30. Any applicant who claims the right of priority shall make a written declaration when the application is filed, indicating the date filing of the earlier application in the foreign country and the country in which that application was filed, and submit, within three months, a copy of that application document, certified by the competent authority of that country; if the applicant fails to make the written declaration or to meet the time limit for submitting the document, the claim to the right of priority shall be deemed not to have been made.

ARTICLE 31. An application for a patent for invention or utility model shall be limited to one invention or utility model. Two or more inventions or utility models belonging to a single general inventive concept may be filed as one application.

An application for a patent for design shall be limited to one design incorporated in one product. Two or more designs which incorporated in products belonging to the same class and are sold or used in sets may be filed as one application.

ARTICLE 32. An applicant may withdraw his or its application for a patent at any time before the patent right is granted.

ARTICLE 33. An applicant may amend his or its application for a patent, but may not go beyond the scope of the disclosure contained in the initial description.
CHAPTER IV — EXAMINATION AND APPROVAL OF APPLICATION FOR A PATENT.

ARTICLE 34. Where, after receiving an application for a patent for invention, the Patent Office, upon preliminary examination, finds the application to be in conformity with the requirements of this Law, it shall publish the application within 18 months from the date of filing. Upon the request of the applicant, the Patent Office may publish the application earlier.

ARTICLE 35. Upon the request of the applicant for a patent for invention, made at any time within three years from the date of filing, the Patent Office will proceed to examine the application as to its substance. If, without any justified reason, the applicant fails to meet the time limit for requesting examination as to substance, the application shall be deemed to have been withdrawn.

The Patent Office may, on its own initiative, proceed to examine any application for a patent for invention as to substance when it deems it necessary.

ARTICLE 36. When the applicant for a patent for invention requests examination as to substance, he or it shall furnish pre-filing date reference materials concerning the invention.

The applicant for a patent for invention who has filed in a foreign country an application for a patent for the identical invention shall, at the time of requesting examination as to substance, furnish documents concerning any search made for the purpose of examining that application, or concerning the results of any examination made, in that country. If, without any justified reason, the said documents are not furnished, the application shall be deemed to have been withdrawn.

ARTICLE 37. Where the Patent Office, after it has made the examination as to substance of the application for a patent for invention, finds that the application is not in conformity with the provisions of this Law, it shall notify the applicant and request him or it to submit, within a specified time limit, his or its observations or to amend the application. If, without any justified reason, the time limit for making response is not met, the application shall be deemed to have been withdrawn.

ARTICLE 38. Where, after the applicant has made the observations or amendments, the Patent Office finds that the application for a patent for invention is still not in conformity with the provisions of this Law, the application shall be rejected.

ARTICLE 39. Where it is found after examination as to substance
that there is no cause for rejection of the application for a patent for invention, the Patent Office shall make a decision, announce it and notify the applicant.

ARTICLE 40. Where, after receiving the application for a patent for utility model or design, the Patent Office finds upon preliminary examination that the application is in conformity with the requirements of this Law, it shall not proceed to examine it as to substance but shall immediately make an announcement and notify the applicant.

ARTICLE 41. Within three months from the date of the announcement of the application for a patent, any person may, in accordance with the provisions of this Law, file with the Patent Office an opposition to that application. The Patent Office shall send a copy of the opposition to the applicant, to which the applicant shall respond in writing within three months from the date of its making the response is not met, the application shall be deemed to have been withdrawn.

ARTICLE 42. Where, after examination, the Patent Office finds that the opposition is justified, it shall make a decision to reject the application and notify the opponent and the applicant.

ARTICLE 43. The Patent Office shall set up a Patent Re-examination Board. Where the applicant is not satisfied with the decision of the Patent Office rejecting the date of receipt of the notification, request the Patent Re-examination Board to make a re-examination. The Patent Re-examination Board shall, after re-examination, make a decision and notify the applicant.

Where the applicant for a patent for invention is not satisfied with the decision of the Patent Re-examination Board rejecting the request for re-examination, he or it may, within three months from the date of receipt of the notification, institute legal proceedings in the people's court.

The decision of the Patent Re-examination Board in respect of any request by the applicant for re-examination concerning a utility model or design is final.

ARTICLE 44. Where no opposition to the application for a patent is filed or where, after its examination, the opposition is found unjustified, the Patent Office shall make a decision to grant the patent right, issue the patent certificate, and register and announce the relevant matters.
CHAPTER V — DURATION, CESSATION AND INVALIDATION OF PATENT RIGHT.

ARTICLE 45. The duration of patent right for inventions shall be 15 years counted from the date of filing.

The duration of patent right for utility models or designs shall be five years countered from the date of filing. Before the expiration of the said term, the patentee may apply for a renewal for three years.

Where the patentee enjoys a right of priority, the duration of the patent right shall be counted from the date on which the application was filed in China.

ARTICLE 46. The patentee shall pay an annual fee beginning with the year in which the patent right was granted.

ARTICLE 47. In any of the following cases, the patent right shall cease before the expiration of its duration:

(1) Where an annual fee is not paid as prescribed;
(2) Where the patentee abandons his or its patent right by a written declaration.

Any cessation of the patent right shall be registered and announced by the Patent Office.

ARTICLE 48. Where, after the grant of the patent right, any entity or individual considers that the grant of the said patent right is not in conformity with the provisions of this Law, it or he may request the Patent Re-examination Board to declare the patent right invalid.

ARTICLE 49. The Patent Re-examination Board shall examine the request for invalidation of the patent right, make a decision and notify the person who made the request and the patentee. The decision declaring the patent right invalid shall be registered and announced by the Patent Office.

Where any party is not satisfied with the decision of the Patent Re-examination Board declaring the patent right for invention invalid or upholding the patent right for invention, such party may, within three months from receipt of the notification of the decision, institute legal proceedings in the people’s court.

The decision of the Patent Re-examination Board in respect of a request to declare invalid the patent right for utility model or design is final.

ARTICLE 50. Any patent right which has been declared invalid shall be deemed to be non-existent from the beginning.
CHAPTER VI — COMPULSORY LICENSE FOR EXPLOITATION OF PATENT RIGHT.

ARTICLE 51. The patentee himself or itself has the obligation to make the patented product, or to use the patented process, in China, or otherwise to authorize other persons to make the patented product, or to use the patented process, in China.

ARTICLE 52. Where the patentee of an invention or utility model fails, without any justified reason, by the expiration of three years from the date of the grant of the patent right, to fulfil [sic] the obligation set forth in Article 51, the Patent Office may, upon the request of an entity which is qualified to exploit the invention or utility model, grant a compulsory license to exploit the patent.

ARTICLE 53. Where the invention or utility model for which the patent right was granted is technically more advanced than another invention or utility model for which a patent right has been granted earlier and the exploitation of the later invention or utility model depends on the exploitation of the earlier invention or utility model, the Patent Office may, upon the request of the later patentee, grant a compulsory license to exploit the earlier invention or utility model.

Where, according to the preceding paragraph, a compulsory license is granted, the Patent Office may, upon the request of the earlier patentee, also grant a compulsory license to exploit the later invention or utility model.

ARTICLE 54. The entity or individual requesting, in accordance with the provisions of this Law, a compulsory license for exploitation shall furnish proof that it or he has not been able to conclude with the patentee a license contract for exploitation on reasonable terms.

ARTICLE 55. The decision made by the Patent Office granting a compulsory license for exploitation shall be registered and announced.

ARTICLE 56. Any entity or individual that is granted a compulsory license for exploitation shall not have an exclusive right to exploit and shall not have the right to authorize exploitation by any others.

ARTICLE 57. The entity or individual that is granted a compulsory license for exploitation shall pay to the patentee a reasonable exploitation fee, the amount of which shall be fixed by both parties
in consultations. Where the parties fail to reach an agreement, the Patent Office shall adjudicate.

ARTICLE 58. Where the patentee is not satisfied with the decision of the Patent Office granting a compulsory license for the exploitation or with the adjudication regarding the exploitation fee payable for exploitation, he or it may, within three months from the receipt of the notification, institute legal proceedings in the people’s court.

CHAPTER VII — PROTECTION OF PATENT RIGHT

ARTICLE 59. The extent of protection of the patent right for invention or utility model shall be determined by the terms of the claims. The description and the appended drawings may be used to interpret the claims.

The extent of protection of the patent right for design shall be determined by the product incorporating the patented design as shown in the drawings or photographs.

ARTICLE 60. For any exploitation of the patent, without the authorization of the patentee, constituting an infringing act, the patentee or any interested party may request the administrative authority for patent affairs to handle the matter or may directly institute legal proceedings in the people’s court. The administrative authority for patent affairs handling the matter shall have the power to order the infringer to stop the infringing act and to compensate for the damage. Any party dissatisfied may, within three months from the receipt of the notification, institute legal proceedings in the people’s court. If such proceedings are not instituted within the time limit and if the order is not complied with, the administrative authority for patent affairs may approach the people’s court for compulsory execution.

When any infringement dispute arises, if the patent for invention is a process for the manufacture of a product, any entity or individual manufacturing the identical product shall furnish proof of the process used in the manufacture of its or his product.

ARTICLE 61. Prescription for instituting legal proceedings concerning the infringement of patent right is two years counted from the date on which the patentee or any interested party obtains or should have obtained knowledge of the infringing act.

ARTICLE 62. None of the following shall be deemed an infringement of the patent right:

(1) Where, after the sale of a patented product that was made by
the patentee or with the authorization of the patentee, any other person uses or sells that product;

(2) Where any person uses or sells a patented product not knowing that it was made and sold without the authorization of the patentee;

(3) Where, before the date of filing of the application for patent, any person who has already made the same product, used the same process, or made necessary preparations for its making or using, continues to make or use it within the original scope only;

(4) Where any foreign means of transport which temporarily passes through the territory, territorial water or territorial airspace of China uses the patent concerned, in accordance with any agreement concluded between the country to which the foreign means of transport belongs and China, or in accordance with any international treaty to which both countries are party, or on the basis of the principle of reciprocity, for its own needs in its devices and installations;

(5) Where any person uses the patent concerned solely for the purposes of scientific research and experimentation.

ARTICLE 63. Where any person passes off the patent of another person, such passing off shall be treated in accordance with Article 60 of this Law. If the circumstance are serious, any person directly responsible shall be prosecuted for his criminal liability, by applying mutatis mutandis Articles 127 of the Criminal Law.

ARTICLE 64. Where any person, in violation of the provision of Article 20 of this Law, unauthorizedly files in a foreign country an application for a patent that divulges an important secret of the State, he shall be subject to disciplinary sanction by the entity to which he belongs or by the competent authority concerned at the higher level. If the circumstances are serious, he shall be prosecuted for his criminal liability according to the Law.

ARTICLE 65. Where any person usurps the right and inventor or creator to apply for a patent for a non-service invention-creation, or usurps any other right or interest of an inventor or creator prescribed by this Law, he shall be subject to disciplinary sanction by the entity to which he belongs or by the competent authority at the higher level.

ARTICLE 66. Where any staff member of the Patent Office, or any staff member concerned of the State, acts wrongfully out of personal considerations or commits fraudulent acts, he shall be subject to disciplinary sanction by the Patent Office or the competent authority concerned. If the circumstances are serious, he shall be prose-
cuted, for his criminal liability, by applying mutatis mutandis Article 188 of the Criminal Law.

CHAPTER VII — SUPPLEMENTARY PROVISIONS

ARTICLE 67. Any application for a patent filed with and any other proceedings before, the Patent Office shall be subject to the payment of a fee as prescribed.

ARTICLE 68. The Implementing Regulations of this Law shall be drawn up by the Patent Office and shall enter into force after approval by the State Council.

ARTICLE 69. This Law shall enter into force on April 1, 1985.