

'Designatory' Licensing In China

BY SHAOJI CHEN*



Exploitation of designatory licensing, a unique concept, in China's planned economy

One of the most prominent characteristics of the Chinese patent system is the regulation concerning what I call designatory licensing. I believe that the unique kind of licensing can only be found in a system of planned economy. What designatory licensing is and how it differs from the compulsory licensing under the same system is the subject to be explained in this article.

As is known to those who are familiar with Chinese Patent Law, Article 14 of the Law stipulates: "The competent departments concerned at the State Council and the people's governments or 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. . . ."

That is what I mean by designatory licensing under the Chinese patent system, which has something in common with the Compulsory licensing described in Chapter 6 of the same Law in following terms:

1. Differing from other sorts of licensing, which is always entered into based on the willingness of the two parties, both designatory licensing and compulsory licensing are

regarded as a kind of incomplete civil action that is conducted certainly with the interference of a third party, i.e., the authorities concerned. Lack of a basis of thorough negotiations from the two parties to the dealing, the both are granted beyond the consent of the patentee. Irrespective of willingness or unwillingness of patentee (and licensee in case of compulsory licensing), the authorities concerned are entitled by law to grant licenses to either designated or would-be licensees to exploit the patent right held by the patentee. On the other hand, under compulsory or designatory licensing, the patentee rarely has the right to select his licensee.

2. In spite of the interference of the authorities, there must be a consideration in the licensing agreement, namely, both designatory and compulsory licenses are royalty-bearing. But, whenever the two parties cannot come to an agreement upon royalty payment, the authorities concerned are empowered to make a final decision that is binding to both parties.

3. Both kinds of licensing must be concluded in written form, and the resulting contracts are regulated directly by the PRC Technology Contract Law.

4. Both licenings are non-exclusive in nature. No right to sublicense is involved in the two licenings.

Despite major areas of commonality as analyzed above, designatory licensing deviates from compulsory licensing in the following main aspects:

1. A designatory license is granted in accordance with the State plan which is a unique feature of a socialist-planned economy, whereas compulsory license is granted on the basis of the application of

would-be licensee, which is more or less similar to that of other country, but is socialist or capitalist nature.

2. A designatory license is granted by the competent departments of provinces, autonomous regions or municipalities directly under the Central Government, whereas a compulsory license is decided by no other authorities than Chinese Patent Office.

3. The subject matter of designatory license is mainly composed of the patent rights to important invention-creations, held by entities under ownership by the whole people and within the granting authorities' administration. A designatory license may be granted over a patent held by a Chinese individual or entity under collective ownership, if it is of great significance to the interests of the State or to the public interest and is in need of spreading and application. This kind of designatory license cannot be granted without approval by the State Council at the submission of the department concerned. Whereas the subject matter of compulsory license is any patent held by any entity or individual, be it Chinese or foreign. That is to say, a foreign patentee can never be a licensee of a designatory license.

4. Moreover than that, the licensee under a designatory license may have not applied for the exploitation of the granted subject matter, but being designated by the authorities concerned to be licensee (sometimes against its will). The licensee under a compulsory license must have applied with CPO for exploiting the licensed patent. What

*China Council for the Promotion of International Trade, Patent Agency, Beijing, China.

is more, a licensee under a compulsory license must be qualified to exploit the patented invention or utility model. Otherwise, the compulsory license shall not be granted.

3. A designatory license decided

by the authorities concerned is not appealable to upper authorities or courts, whereas a licensee under a compulsory license granted by CPOJ may institute legal proceedings in the people's court if he is not

satisfied with CPOJ's decision concerning granting a compulsory license or royalty paid to patentee.

4. Cross-licensing may be involved more often in compulsory licensing than in designatory licenses.