

# Update on PRC's New Law

*Patent law is designed to attract technology transfer but personnel shortage is problem*

BY FRANK D. SHEARIN\*

On April 1, 1985, China implemented a new patent law. Although much has been written about the new law by Chinese and overseas observers, perhaps a few comments concerning the practical aspects of this new law are desirable.

In the context of private property, it is indeed remarkable that China has passed a law that recognizes the rights of private property, especially intangible private property. The new Chinese patent law may be the result of a realization that the Four Modernizations cannot be achieved without high-level technical development and, at least during the early years of this technical development, without the use of advanced technologies of other countries. The patent law, of course, is designed to protect the technology that China so desperately needs to achieve the Four Modernizations, and the technology of the 1980s and 1990s, so that it can achieve its objectives by the year 2000.

## SCOPE OF PROTECTION

At the outset it might be desirable to review the major points of the new Chinese Patent Law, which is modeled after the PU-1968 patent law of Germany.

### *Term*

The law provides that the term of a patent shall be no more than 15 years from the date that the patent application is filed in China. When compared to the laws of the industrialized countries, and indeed many of the developing countries, this term is somewhat short. The world trend seems to be 20 years from the date of filing. However, many legal observers feel that, while the term of the patent is short, particularly compared to the trend of 20 years in the industrialized countries, it does not present a serious deterrent to the transfer of technology.

### *Subject Matter*

With respect to the scope of subject matter embraced by the new law, the law provides that a patent shall

not be granted for any of the usual things that are found in the laws of most countries, i.e. against the laws of the state, immoral, detrimental to the public interest, or substances produced by means of nuclear transformation. However, the law goes further. It says that methods of diagnosis and treatment of disease, foods, beverages, chemicals, pharmaceuticals, and animal and plant species shall not be patentable.

Thus, the law excludes patents on chemicals and pharmaceuticals *per se*. However, based on informal discussions with officials at the State Patent Bureau, in the not too distant future China may change the law to grant patents on chemical compounds and pharmaceuticals.

Like the patent laws of other countries, China's law provides that mechanical and electrical devices, as well as mechanical and electrical processes, are patentable. The law expressly states that computer programs are not patentable.

### *Chemical Mixtures*

Although the patent law in China does not permit patents on compounds *per se*, the law is being interpreted so that, as a general rule, patents will be granted on physical mixtures or formulations on two or more compounds. Examples are a mixture of polymers or copolymers, or a metallic alloy. However, a formulation containing one active ingredient, the balance comprising inert materials, will not be patentable unless it can be demonstrated that the inert materials contribute unique and unexpected properties to the mixture. Again, informal discussions with officials of the State Patent Bureau indicate that claims to a new mixture with one active ingredient may be permitted. As one official said, "This is up to the ingenuity of the patent attorney."

### *Chemical Processes*

In accordance with all patent laws, a method of preparing a chemical compound is available in China. This, however, is the lowest level of protection in the chemical arts, since a skilled chemical engineer is able to devise a score of processes to manufacture a given chemical once he knows its chemical structure, and it is virtually impossible for the technology owner to cover all of these processes in his patents.

China did soften this provision, however. According to the patent law, China will reverse the burden of proof in alleged infringement of chemical process claims. In ordinary circumstances it is virtually impossible to determine whether a chemical product was manufactured by a specific process, especially in countries where discovery proceedings are limited or are not

\*Senior Patent Attorney, Monsanto Agricultural Company, St. Louis, Missouri; paper presented at workshop at LES U.S.A./Canada Annual meeting, Los Angeles, California, October 1986.

available. China adopted the principle that, if a claim of infringement is made the burden is shifted to the alleged infringer to show that the product is not made by a patented process. This is a dramatic step in enforcement that is available in only some countries. It makes the level of protection for a claim to a method of preparing a chemical or a pharmaceutical more meaningful.

#### *Chemical Method-of-Use*

Lastly, when a new use is discovered for a new compound, or when a new use is discovered for a previously known compound, a patent covering a method-of-use is available. In most countries that permit method-of-use claims, the patent owner does not have to take legal action against every user, but can bring suit against the seller of the unpatented compound if that compound has no other non-infringing use. Method-of-use patent coverage is available in most of the industrialized countries of the world today, and was available in Germany prior to 1968.

#### *Biotechnology*

The Rules of Implementation of the new patent law provide that patents will be granted on manmade microorganism processes, but not to the microorganisms themselves. China is to be commended for including this newly-emerging field of technology in its Rules of Implementation. But the interpretation of the law to exclude protection for microorganisms makes the law deficient for biotechnological inventions. China has not yet joined the Budapest Treaty, that international treaty for the deposit of microorganisms, but it has indicated that it intends to join. At present microorganisms must be deposited at a depository designated by the State Patent Bureau. These are: China General Microorganisms Culture Collection under China Microorganisms Culture Depository Management Committee, and China Centre for Type Culture Collection.

In summary, the scope of protection of the new patent law of China is not as broad as it is in most of the industrialized countries, but it is far superior to the scope of protection that is given in many of the developing countries. On balance, the scope of protection should be sufficient to attract the newest, world-class technology in most areas of providing adequate protection for that technology.

### EXAMINATION AND ISSUE

Although the Patent Law of China came into effect on April 1, 1985, by December 28, 1985 the first batch of patents was granted at a ceremony at the Great Hall of the People in Beijing. Altogether, 143 patents were granted. Forty were for invention, 60 for utility model, and 38 for industrial design. Five were confidential, relating to national defense. There has been an increasing stream of patents granted by the Chinese Patent Office, and the Chinese have published a document called *Patent Abstracts*, in Chinese and in English, announcing the publication of patent applications.

Since the patent system has been in operation, approximately 25,000 applications have been filed with the State Patent Bureau. Of these, about 35% were

from overseas. Japan filed about 12% of the total, and the U.S.A. about 8%. Applications for invention accounted for 60%, followed by utility models at 35%, and design, 5%.

These statistics with respect to domestic and foreign applicants are somewhat surprising. China is hungry for foreign technology. By comparison, developed countries such as Canada and Australia report that almost 90% of patent applicants are foreign. There are several possible explanations. Among these are: (1) western observers have underestimated China's research efforts; (2) applicants are reluctant to file in China because of unfamiliarity with the law; or (3) more likely, foreign applicants are not considering China when they decide to file an application overseas.

Article 36 of China's Patent Law requires that when a request for examination of an application is filed, the applicant shall furnish pre-filing date reference materials. At the same time, the applicant shall also furnish documents concerning any search made from the examination of corresponding applications in other countries.

The pre-filing date reference materials apparently means those references that were known to the applicant before he filed his patent application, similar to the requirement in the United States under 37 CFR 1.56. The applicant has a duty of candor and good faith to disclose those references of which he is aware to the U.S. Patent Office, if such references might be material to the examination of the application.

With respect to those documents concerning a search from the examination of corresponding applications in other countries, a similar requirement is placed on foreign applicants by some of the Scandinavian countries, such as Sweden, where the results of searches from examination countries are furnished to the patent offices. Again, a U.S. applicant should also furnish this information to the U.S. Patent and Trademark Office.

Apparently, the Chinese examiners have been inundated with too many references by the requirements of Article 36. Now, they have announced that when there are too many reference materials, the applicant may select and furnish the ones that are most closely related to the invention. When examination is requested, the applicant may then submit only the bibliographic data of all of the reference material. If the Chinese Patent Office considers it necessary, however, it may also require the applicant to furnish copies of the full text or the parts that are relevant.

At this time it is difficult to show trends. The examination of patents is new in China. Even though many of the Chinese examiners were trained for up to two years in the patent offices of foreign countries, the Chinese examiners do not have the same level of experience as in many industrialized countries, and by comparison, there are some rough spots. Based on the handful of applications I have reviewed, the examination reports prepared by the Patent Office are very detailed, and a detailed response is required to insure that the examiner understands the differences between the invention and the cited references. Often the examiners rely on a single reference rather than combining references in making obviousness rejections. However, I believe that the Chinese are dedicated to establishing

a viable patent system, and we can expect more professional examinations in the future.

## ENFORCEMENT

According to information available, no lawsuit relating to patents has been filed in the Peoples Court. However, with more and more patent applications being filed and issued, it is only a matter of time before various kinds of disputes arise concerning the granting of patents, the infringement of patent rights, and contract disputes relating to patents. Lawsuits will be filed in the Peoples Court. Since the concept of the private ownership of intangible property is a new legal concept in China, it remains to be seen how lawsuits concerning patents will be resolved.

A patent owner should remember that he may not be able to enforce a patent in China unless it is being worked. Like the laws of many countries of the world, the law of China provides that, if the patent is not worked within three years after grant without a valid justification, a compulsory license can be granted to a third party. Thus, if there is an allegation of infringement, the alleged infringer can petition the State Patent Bureau for a compulsory license under the patent in question. If the compulsory license is granted, the charge of infringement can be avoided. Again, it remains to be seen how issues of compulsory licenses and patent enforcement will be handled.

It is interesting to note that under Article 60 of the Patent Law, with respect to any acts of infringement arising from the practice of a patent without the consent of the patentee, the patentee may petition the Peoples Court, or he may request the Patent Administration Authorities to handle the matter. Apparently, the Patent Administration Authorities are not under the control of the State Patent Bureau. These Authorities are being established throughout China in most of the provinces, in some cities, and even some economic zones.

Requesting an administrative agency such as the Patent Administrative Authorities to handle a complex matters such as patent infringement, contract

disputes, and the like, is an unusual procedure to western observers. To my knowledge, very few, if any, countries provide that a patent owner can complain of a patent infringement to an administrative agency. The usual procedure in the western mind is to complain to a court.

Again, there have not been any reported instances of a patent owner complaining to the Patent Administrative Authorities. This may be because the patent law is so new, and also because the Patent Administration Authorities are not expected to publicize alleged infringement. However, with the present shortage of trained patent personnel, it is interesting to consider how these Patent Administration Authorities scattered throughout China will handle complex infringement matters. Will they investigate to determine if there is infringement, try the facts, and then render a decision? Will the patentee have the right to participate in any of these proceedings? Will they establish a reasonable royalty? What about injunctive relief?

More likely, the Patent Administration Authorities will attempt to resolve the issues in the Chinese way by conciliation and negotiation. Fortunately, both the Patent Law and the Rules of Implementation provide that if any of the parties are not satisfied with the decision of the Patent Administrative Authorities, they may institute legal proceedings in the Peoples Court.

## CONCLUSION

The scope of protection of the Patent Law of China is not as broad as it is in most of the industrialized countries, but it is far superior to the scope of protection that is given in many of the developing countries.

On balance, the scope of protection should be sufficient to attract much of the newest world-class technology by providing adequate protection for that technology. The shortage of trained personnel in the State Patent Bureau, in the courts, and in the administrative agencies may be troublesome for foreign applicants and patent owners. However, the Chinese want the system to work. They want to provide a forum for the applicant and patent owner to obtain a fair hearing.