

Chinas new Patent Law and Implementation Rules



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NEWSLETTER re. the 3rd Revision of China's Patent Law

Dear Sir/Madam,

Our firm, WENFEI Attorneys-at-Law Ltd., is a Swiss law firm focusing on China-related matters. Our managing partner has been engaged in China since 15 years and acts as board member of various listed and non-listed companies in China. The purpose of this letter is to provide you with a briefing of China's 3rd revision of its Patent Law and the substantial impacts it may have on the regular business practices of a Swiss company active in China.

The revised Patent Law, adopted on December 27, 2008, became effective on October 1, 2009 (see WENFEI's publication China Legal Briefing No.194 on www.wenfei.com). In January, 2010, the revised Implementing Rules of Patent Law was issued, which has become effective on February 1, 2010.

7 new provisions were added in this revision of the Law and 23 amended. The driving force behind the revision is the goal of "building an innovative society", which currently is one of the guiding principles of China's economic policies. Under this guiding principle, the most important changes brought by the new Law include the following: raising the threshold for granting patents, modernizing the compulsory license system, improving the compensation calculation, facilitating the application procedure, abolishing the requirement for first filing in China, indirect protection of "genetic resources" through patent law, etc.

Given the extensiveness of the revision, it is needless to say that it would have great impact on a foreign company doing business in or with China that involves technology or innovations. In this context, it is advised that such companies conduct self-scrutinizing, in order to bring their practices in compliance with the new law – especially, in some cases, the consequences of lack of compliance would be harsh.

The following examples are intended to illustrate how the changes of the new law could have immediate impact to a foreign company acting in China.

- Confidentiality Examination Procedure

The revised Law abolishes the requirement for a Chinese entity (including a foreign-invested enterprise in China) to file patent first in China, for its invention-creations completed in China, and establishes a confidentiality examination procedure instead. An invention-creation completed in China shall go through such procedure first, before it is filed in a foreign country for patent. If the company fails to observe such procedure, China may refuse to grant patent for the same invention-creation.

Equally importantly, in contrast to the former requirement for first filing in China, the confidentiality examination procedure applies not only to Chinese entity, but to all entities, if only their invention-creations are completed in China. **As a result, the strategy of some foreign companies under the old law, namely, to attribute their innovations completed in China to their foreign headquarters to avoid the requirement for first filing in China, does, for this purpose, not work anymore under the new Law.**

- Reward and Remuneration for Inventor/Designer

Already in the law before revision, it is required that, for the “service invention-creation” (i.e., an invention-creation made by an employee, for which the patent application right and patent right goes to the company by virtue of agreement or law), the inventor or designer (i.e. the employee) shall be rewarded upon the grant of the patent, and remunerated after the patent is exploited. However, this provision is not always observed by foreign companies in China, and, in most of the cases, there is no actual consequence, because of the absence of the implementing provisions - the specific provisions as to the standards of reward and remuneration as provided in the old Implementing Rules then apply only to state-owned companies.

Now, however, the revision of the Implementing Rules, after modifying the said provisions on reward and remuneration, extend such provisions to other entities. **According to the revised provisions, if the company has no agreement with the inventor or designer on the reward or remuneration, and the company’s internal regulation has also no such stipulation, then the company has to follow the standards of the law, i.e. 1,000 – 3,000 RMB as reward, and 0.2~2% of the profits**

in exploiting the patent and/or 10% of the licensing royalties, as remuneration. In this context, it is advisable for a company to have a reasonable agreement or clause with its employees on reward and remuneration, in order to avoid the application of the higher legal standards.

- Form of License Agreement

The Law before the revision required that all license agreement should be in written form. The revised Law abolishes such requirement. However, it shall be clarified that for a cross-border license, a written agreement is still needed for obtaining the approval for or registration of technical import or export. The subtle but important impact of this revision is that, due to the abolishment of the written form, a license agreement may be considered as concluded at some point of negotiation, even though a party does not intend so. It is important to bear this in mind in the course of negotiation and, if needed, make the necessary reservation.

It shall be stressed that the above are only examples, and actually not all of them are among the most important changes. Other changes, such as the unusual provisions on exercise of joint ownership of a patent, the change of the standards for granting patents, the indirect protection of genetic resources (particularly for pharmaceutical companies), the recognition of “parallel import”, etc., might also have considerable impact on the company’s practices.

If you are interested in obtaining a full comparison between the old and new Patent Law in English (free of charge), please contact the secretary of our Zurich office (isabelle.mueller@wenfei.com).

We thank you for your time in reading this letter, and wish you a great success in your China businesses!

Best regards

Dr. Paul Thaler