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Fangda's China Litigation Series:

New Revision of Chinese Patent Law and the Likely Impact on Patent Litigation in China

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The wait is over: after 12 years, the legislative body of China finally completed the revision of the Patent Law on October 17, 2020. The new law will come into effect on June 1, 2021. This changing landscape of Chinese patent law will have a great impact on future patent litigation in China. In this article, we discuss some key provisions incorporated into the new law and their likely effects on patent litigation in China.

- A Brief History of Patent Law in China

This is the fourth revision of the Patent Law in China. The first ever Chinese Patent Law was promulgated in 1984. In subsequent years, China joined the Paris Convention for the Protection of Industrial Property, the Patent Cooperation Treaty, and the World Trade Organization (WTO). As a result of joining WTO in 2001, China became a member of the TRIPS agreement (The Agreement on Trade-Related Aspects of Intellectual Property Rights, to give it its full title). To comply with its international obligations, as well as to facilitate its development into an innovative society, China has since amended its Patent Law four times: first in 1992, again in 2000 and 2009, and most recently this year. Since it took 12 years for the most recent revision of the Patent Law to be completed, the consensus among legal scholars and practitioners alike is that this revision is long overdue. In the intervening period, China and the outside world have changed greatly, as is obvious.

- Key Provisions of the New Law

1. Punitive Damages—Belated Debut

The most significant changes in the 2020 revision of the Patent Law relate to damages in patent litigation. Previously, the compensation awarded to patentee was relatively low, sometimes even not enough to cover the cost of pursuing litigation. The low compensation amount did not serve the purpose of being a deterrent to potential infringers and has long been criticized. This issue has been addressed in the new law.

Under the new law, punitive damages of up to five times the determined damages may be awarded for intentional infringement that causes serious harm to patentee. This definitely sends a strong message to those repeating and intentional infringers and is likely to serve as a powerful deterrent to wannabe infringers. At the very least, the prospect of punitive damages may force accused infringers to stop infringement activities sooner and be more amenable to out-of-court settlement.

In addition, the new law has increased the statutory damages to RMB30,000-5million (about US\$4,500-750,000). (Before the current revision, the comparable figures were RMB10,000-1 million (about US\$1,500-150,000)). This is significant because most patent infringement cases in China apply statutory damages when determining the amount of compensation. The current revision means that, in future, for a large number of patent infringement cases that apply statutory damages, the amount of damages awarded will be substantially increased.

As well as providing scope for the increased amount of damages, the burden of proof in relation to the damage amount is also shifted in a way that benefits the patentee. If an infringer does not provide accounting books and information related to the infringement, the court may refer to the claims of the patentee and the evidence provided by the patentee to determine the amount of compensation. In the past, it was always difficult for a patentee to prove the amount of compensation because most of the relevant information was in the possession of the accused infringer, who rarely handed over that information to the patentee. The courts were powerless to compel the infringer to do so. With this shift in the burden of proof, we can expect the levels of damages to be determined more easily.

2. Design Patent—*Enhanced Protection*

For a long time before the most recent revision, the Patent Law in China only protected a product's overall design. The designs of a product's inseparable parts were not within the scope of protection. No matter how iconic or unique a product's inseparable part may be, protection would not be granted to the design of the part.

In the 2020 revision of the Patent Law, a design patent protects the overall and partial shape, pattern, the combination thereof or the combination of the color with shape and pattern of a product. Such revision expands the protection scope of a design patent to individual parts of a design.

When the new Patent Law takes effect in 2021, we expect design patent holders will take a closer look at potential infringing products to see if there is infringement to parts of their designs. Disputes in this area are sure to increase.

3. Pre-trial Preservation—*Preliminary Injunction in China*

The scope of pre-trial preservation (i.e., the Chinese version of preliminary injunction) has been clarified. In the 2008 revision of the Patent Law, before the trial, a patentee could only request an infringer to cease infringing acts. However, in the 2020 revision, before the trial, a patentee may ask for asset preservation (to prevent the infringer's disposal of their assets) and request an infringer to perform, or to desist from, certain acts.

In addition, the new law prescribes "acts that impede the realization of the rights of the patentee or interested party" as an additional reason for requesting pre-trial preservation.

In view of the changes discussed above, it appears that the new law makes it easier to request pre-trial preservation, and the scope of the pre-trial preservation is clarified. We expect pre-trial preservation will become a more useful tool in patent litigation and, because of that, accused infringers may feel more pressure and be more open to an out-of-court settlement.

4. "Hatch-Waxman Act" in China—*New in China*

In the 2020 revision of the Patent Law, another important change is the introduction of the patent linkage system, which specifically aims to resolve potential patent disputes involving new drugs. Based on the new law, if an applicant for generic drug marketing authorization and a related patentee engage in patent disputes when the application is going through the administrative review process, either party may bring a lawsuit before the court and request the court to rule on whether any related pharmaceutical technique is within the patent protection scope. This revision is basically a transplant of the largely successful Hatch-Waxman Act into the Chinese legal system. Obviously, the aim of

the revision is to promote the introduction of generic drugs in China. However, it remains to be seen how well such a patent linkage system will work in the Chinese legal system and whether it will achieve its objective.

5. Administrative Protection—*Another Option for Dispute Resolution*

According to previous versions of the Patent Law, only the court has authority to resolve patent infringement disputes. The patent administrative department within the government only deals with the acts of patent counterfeiting. In the 2020 revision, when patent infringement occurs, the patentee can not only bring a lawsuit before the court, but can also apply to the patent administrative department in the government to resolve the patent infringement dispute. The patent administrative department is entitled to inquire of the relevant parties, investigate the suspected illegal acts, conduct on-site inspections of the premises, and examine the products related to suspected illegal acts. For patent infringement disputes that have significant effects in the entire country, the China National Intellectual Property Administration (CNIPA) may be involved upon the patentee's request.

The availability of an administrative patent dispute resolution channel allows the patentee to choose between judicial or administrative channels to enforce their patent right in accordance with their specific needs. Compared to the often-prolonged litigation process, this supplemental resolution is fast, cost-saving and convenient for a patentee to shut down the infringement activities in a timely manner.

- *Conclusion*

There are still several changes to the Patent Law that we do not have space to describe in detail, but we have covered the main points in the revision. The overall trend of this revision is to provide better protection for those holding patent rights.

We will discuss other noteworthy topics in detail in subsequent articles of this series.

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