

Problems of Enforcement of Patent Law in China and its Ongoing Fourth Amendment

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Enforcement of patent law has been a bone of contention not only in the western countries but within China too and most agree that the principal issue has more to do with inadequate enforcement rather than the legislation itself. While the developed countries are more critical of China, other international organizations and scholars from developing countries have different views. Chinese legislators believe that the major problems in China's patent enforcement are 'difficult evidence rules, long cycle length, high cost, low compensation, and poor result'. In fact, the root causes of these problems are China's low level of economic development and the rule of law, as well as the Chinese traditional culture. To solve those problems, China started the fourth amendment to its Patent Law in November 2011. If the amendment is approved, together with other fundamental reforms, China's patent enforcement is expected to improve gradually.

Keywords: China, patent law enforcement, intellectual property rights, patent law amendment

The Patent Law of the People's Republic of China was issued in 1984, and amended in 1992, 2000 and 2008, respectively. During the past three decades, China has developed and improved its patent system, and established a patent protection system fundamentally similar to those in western developed countries resulting in significant progress in the global arena. According to the latest statistics on intellectual property indicators issued by the World Intellectual Property Organization (WIPO), the number of patent applications filed by Chinese residents reached 560,681 in 2012, surpassing the figures of Japan and the United States; ranking first in the world.¹ Patent litigation in China has also increased consistently and rapidly in recent years. In 2012, the number of new civil cases relevant to patents in China was 9,680, increasing by 23.80 per cent.² In comparison, the number of patent lawsuits in the United States in 2010 was 2,892, and with rapid growth in two years, it reached a record high of 5,189, in 2012 (ref. 3) which was still far smaller than the number for China. Thus, over the years since the eighties, China has received the patent system well and started to use the system actively. However, despite these striking developments, there continue to be several problems. Not only have the developed countries like the

United States and members of the EU constantly expressed discontent about the intellectual property (IP) protection situation in China, calls for patent law modification has been on the rise within China also. At the end of 2011, the Chinese government started process of the fourth amendment to the patent law, seeking to solve the problems of enforcement. This paper discusses these problems of enforcement and the major content of the ongoing fourth amendment.

Enforcement of China's Patent Law: Major Problems

Compared to the past, China's recent progress in IP protection has been significant. However, many patent holders, not only foreigners but also Chinese, are still not satisfied with the current patent protection scenario in China. According to a recent social satisfaction survey report, the overall social satisfaction to China's IP protection had a lowly score of 64.96 points, while the item 'enforcement of IPR law' received the lowest satisfaction score of 58.45 points. All communities were most dissatisfied with the lack of recognition of the gravity of intellectual property rights (IPR) infringement, the timeliness and extensiveness of damages for infringement, as well as the timeliness and convenience of remedies.⁴

Compared to other countries, China's IPR enforcement is often ranked behind even developing countries. According to a World Economic Forum's (WEF) recently released report, China ranked

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53 among 148 nations and regions on the index of 'intellectual property protection'.⁵ In 2013, the author of this article undertook an empirical research on the level of patent protection of 122 countries, including China. The research quantitatively measured the level of protection of patent rights legislation of every country and provided an index to evaluate the level of IPR enforcement, and then obtain the actual level of IP protection. The results showed that the level of China's IP protection legislation significantly improved in the last three decades, especially after 2000. In 2010, China ranked 35th, ahead of most developing countries. However, the enforcement of IPR in China was not so effective, and ranked at 92nd place not only far lower than developed countries, even below the world average. Among the BRIC countries, China ranked lower than India and Brazil, but higher than Russia. Thus, China's actual level of IP protection was far below the level of developed countries, and slightly lower than the world average, ranking 48. However, regression analysis showed that the level of economic development evidently influences the level of IP protection. As a result, if measured by per capita income, China's current actual IP protection level is at par with its economic development.⁶

Major Problems from a Foreign Perspective

Although several countries and international organizations have expressed concern about the enforcement of IPR in China, their opinions remain varied. The developed countries are often critical, but some international organizations and scholars from developing countries have more reasonable views.

A report on effect of IP infringement in China on the US economy, issued by the United States International Trade Committee (USITC) in November 2010 stated that "Enforcement of IPR laws remains a serious problem in China. Significant structural and institutional impediments undermine effective IPR enforcement in China. These include a lack of coordination among government agencies, insufficient resources for enforcement, local protectionism, and a lack of judicial independence. Ineffective enforcement contributes to widespread IPR infringement in China".⁷ Further, in May 2013 the Office of the United States Trade Representative released its 'Special 301 Report 2013', (ref.8) condemning China's IP protection issues for the ninth consecutive year, and put China in the 'Priority Watch List'. In the past, while the United States mainly criticized China's lack of legislation

relating to IP protection, in the recent times, it has conveyed dissatisfaction with the enforcement of IP law in China.

The EU also listed China as the top country where IP protection was the most detrimental to EU right-holders in a report issued in February 2013, stating the situation was caused by decreased access to the China's judicial system in practice, the lack of an effective preliminary injunction system, and the inadequacy of the damages awarded.⁹

However, some international organizations are more considerate in their views on China's IP protection. Francis Gurry, the Director-general of the World Intellectual Property Organization (WIPO) said that "The international community is looking for leadership from China in the field of intellectual property". Intellectual property protection in China has undergone remarkable development since the country joined the WIPO 30 years ago, he added at an international forum in Beijing in 2010 (ref. 10).

Some researchers in the field of IP in developing countries also did not blindly criticize China as those in developed nations. Appaji, an Indian scholar, argued that the crux of the problem in China lay in the lack of efficient enforcement of IP laws, but the underlying reason for it was the clear conflict between Western perceptions of IPR and traditional Chinese culture.¹¹

Major Problems from China's Domestic Perspective

The revision statements for the 'Consultative Draft of the Amendment to the Patent Law' issued by China in August 2012, pointed out the major problems existing in the enforcement of the patent law in China. The extensive patent infringement with serious group and repeated infringements in particular, plus the intangible nature of patent rights, as well as the covertness of infringement practices; lead to difficulty in providing evidence, long cycle length, high cost, low compensation and poor results in patent rights protection, making some innovation-oriented firms in China stuck in a dilemma. Surveys show that while 30 per cent of patent holders in China have encountered infringement disputes, only 10 per cent of those holders have taken action. Most of them have lost trust in the patent system due to the weak and difficult patent rights protection.

According to the statistics obtained from a survey by the author of this paper in 2012 (ref. 12), with respect to 4768 patent infringement litigation cases in China in a span of five years, the average amount for the monetary damages claimed by right-holders was

501,000 Yuan, while the figure decided by courts was 159,000 Yuan. About 97 per cent of the cases were deemed to lack evidence by the courts and the judges decided the amount of compensation within the statutory limits at their discretion. Often, the granted amount of damages was usually even lower at 80,000 Yuan on an average. In contrast, in the United States, from 2007 to 2012, the damages in patent litigations have risen to 29.40 million Yuan on an average.³ This situation has severely dampened the enthusiasm of Chinese inventors to innovate.

This paper argues that there are two levels of causes that are responsible for the problems of enforcement in China. On the surface, inadequate IP protection can be blamed on poor judicial protection (mainly due to low compensation, weak rules of evidence, long periods of time taken), the lack of effective administrative protection,¹³ local protectionism, and a lack of judicial independence. Secondly, and more fundamentally, the IP protection problems can be attributed to the low level of China's economic development and the rule of law, as well as the traditional Chinese culture which does not involve the concept of IPRs. After all, China is a large developing country with 5000 years history and still in transition from agricultural society into industrial society. The IPR regime, as a Western imported system, would take more time to take root in China.

The Ongoing Fourth Amendment to the China's Patent Law

With the resolution of the above problems in mind, China prepares for another amendment (the fourth) to the current patent law. In November 2011, preparation for the amendment began. This round of amendment was included into the legislation work plan of 2012 of the State Council. In the end of August 2012, Draft Amendments to the Patent Law for Comments (henceforth 'draft for comments') was posted on the website of the State Intellectual Property Office (SIPO). More than 80 written comments were collected. On consideration of solicited opinions, the SIPO made some modifications and improvements to the draft. In the end of November 2012, the draft was distributed among the Supreme People's Court, scholars, and other 25 related departments, legislative agencies and judicial offices for comments. And the Amendment Draft (submittal for review) of Patent Law of the People's Republic of China (henceforth 'submittal for review') took form in early 2013.

This amendment of Patent Law intends to solve the problems of 'difficult in providing evidence, long cycle length, high cost, low compensation and inferior effect' in the implementation of patent law, to establish a long-term mechanism of bringing down patent infringement, and to reinforce patent right administrative protection and law enforcement. Eight articles of the 'submittal for review' were modified. Details of amendments are as follows:

Reinforce Administrative Protection by Granting Authority of Enforcement to Patent Administrative Office

One of the major changes in this amendment is the expansion of authority of the patent administrative agency. Patent protection in China includes judicial protection and administrative protection. According to current patent law, the patent administrative office's authority is limited to investigation of patent right infringement. The administrative office can only look into matters of infringement on complaint. The administrative authority is also limited to ordering the infringer to stop infringement, the right to impose penalty is absent. The 'submittal for review' stipulates that: the patent administrative office can investigate group infringement, repeated infringement and other deliberate infringement acts, order the infringer to stop infringement, confiscate or destroy infringement products or device, and impose financial penalty (Article 60). The amendment also stipulates that in case of products of deliberate infringement or counterfeiting, the products can be sealed or confiscated, provided there is substantial proof (Article 64). Needless to say, this change is a major change in patent law. It expands the authority of administrative office and reinforces administrative protection.

Reinforce Patent Infringement Penalty by Imposing Punitive Damages

The amendment added an item to Article 65 of the 'submittal for review': "As for the intentional patent infringement, based on factors, such as the situation, the scale or the damage resulting from the infringement act, the people's court shall double or triple the amount of the damages determined in accordance with the stipulation under the first two paragraphs".

This amendment is intended to solve the inadequate penalty on patent infringement. In civil law, damages are categorized into compensatory (or actual) damages, and punitive damages. For the time being, China's patent law adopts compensatory damages in patent infringement compensation, which

is similar to other civil infringement compensation. According to the principle of compensatory damage, the compensation awarded to the patent owner shall not exceed the actual damage. But such damages cannot effectively protect the interest of patent right owner. Therefore the ‘submittal for review’ apparently proposes to introduce punitive damages into patent law of China.

Enhance Examination of Request for Invalidation and Prescribe Immediate Implementation of the Reexamination Decision

The following item was added to Article 46 of the ‘submittal for review’: “After the decision declaring the patent right invalid or maintaining the patent valid is made, the decision shall be registered and announced by the Patent Administration Department Under the State Council in due time. The decision shall come into effect as on the public announcement.” And the following item is added to Article 60: “After the decision declaring the patent invalid or maintaining the patent valid comes into force, the administrative authority for patent affairs and the People’s Court shall timely hear or handle the patent infringement dispute in accordance with such decision.” In China, the defendant in a patent infringement litigation often files a request for invalidation of the related patent right when charged with infringement. Infringement litigation is suspended in such cases and might get delayed for several years. The effectiveness of an immediate reexamination decision will solve the problem of long delay in patent right litigation.

Improve Rules of Evidence, Shift Burden of Evidence and Grant Investigation Right to the Administrative Office

This amendment aimed to change the rules of evidence to solve the issue of ‘difficult to prove’ in patent right protection.

Shift Burden of Proof

The following content has been added to Article 61 of ‘submittal for review’: Where the court establishes an patent infringing act, it may order the infringer to provide the court with account books, materials concerning the aforesaid infringing act wherein the burden of proof shifts from the patentee since the aforesaid account books and materials are in the charge of the infringer. Where the infringer refuses to provide the account books and materials without reasonable excuse, or provides the court with false ones, the court may decide damages in accordance with the petition and evidence brought by the patentee.

Grant Right of Investigation to the Administrative Office

This change is replicated from the relevant article of the Trademark Law of China amended in 2013. The administrative office is granted the right of investigation and compulsory administrative measures, so as to solve the problem of ‘difficult to prove’ in patent right protection (Article 64 of the ‘submittal for review’).

Extend Protection of Appearance Design

Article 42 of the ‘submittal for review’ stipulates that: “the duration of patent right for designs shall be fifteen years, counted from the date of filing.” The current Patent Law stipulates: “the duration of patent right for utility models shall be ten years, and patent right for designs shall be ten years, counted from the date of filing.”

This modification is related to Geneva Act of the Hague Agreement Concerning the International Registration of Industrial Designs (hence the Hague Agreement). The Hague Agreement concerning registration of industrial design which came into force on 6 November 1925, after its 1999 revision requires the signatory countries to grant at least 15 years of protection on industrial design. Currently, the number of China’s design applications has been increasing at a very fast rate and is currently ranked first in the world. The extension of design protection to 15 years is expected to boost China’s patent design protection and further China’s compliance to join the Hague Agreement.

Impact of the Amendment on Enforcement of Patent Rights in China

The proposed fourth amendment to the patent law in China does not primarily aim at enhancing the protection level of patent legislation, but improving the enforcement of patent law. The amendments mentioned above would bring about the following two effects in patent rights enforcement in China.

Firstly, the amendments would improve the efficiency and deterrent element in China’s legal protection of patents. Improving the processing of requests for invalidation and prescribing that reexamination decisions shall become effective immediately would help to solve the problem of long delay in patent right litigation. However, this author argues that the effect of this revision would be limited. The fundamental problem of China’s patent reexamination system lies in the fact that the suit of patent infringement is subject to the suit of patent

reexamination, but the courts in the two kinds of suits cannot independently conclude the effectiveness of related patent right. Many countries once suffered the same problem in patent reexamination as China is currently. However, they successfully overcame this problem by establishing IPR courts. Therefore, it could be more effective mechanism would be to set up IPR courts. Furthermore, imposing punitive damages and revising the rules of evidence would improve the enforceability and deterrence element of patent enforcement. Patent rights are intangible, and their protection is more difficult and expensive as compared to the protection of tangible assets. As a result, compensatory damages are not enough to cover the losses and litigation cost of a patent right owner. Many patent right owners win the lawsuit but lose money in the end. Punitive damages are often awarded where compensatory damages are deemed an inadequate remedy. Most Chinese IP experts support the imposition of punitive damages for willful infringement and deem it can help to enhance the cost of patent infringement and deter intentional torts.¹⁴ In addition, in most patent right litigation, the judges may not accept all evidences presented by the plaintiff, and this is bound to influence the identification of the act of infringement act and the damage caused by it. The reason behind this problem is that the patent rights are intangible, and patent right infringement is invisible. Account books, documents, molds and manufacturing equipment, and other evidences related to infringement are often held by the infringer, to which the patent right owner has little access. Therefore, revising the rules of evidence will likely help solve this problem.

Secondly, the amendments would significantly strengthen the administrative protection of patent rights by granting the administrative authority more rights to investigate and punish alleged patent infringers. However, this change gives rise to much controversy. Supporting arguments of this amendment are: first, patent right infringement in China is rampant, ineffective patent right protection is a long existing problem, more and more people advocate or demand more stringent patent right protection, and it is a very legitimate demand in light of current IP protection conditions in China. Second, administrative protection has the advantages of low cost, high efficiency and simple procedures compared to judicial protection. Third, administrative protection is not intended to replace

judicial protection. It is intended to complement judicial protection and form a coordinated system. It will not influence the dominant position of judicial protection. On the other hand, some researchers and judicial officials argue that administrative protection is against the principle of the rule of law, is in breach of the TRIPS protocol, and is against the long-term target of market economy strategy of China.¹⁵ Patent right is a private right, and patent right infringement should be solved through civil litigation procedures. The administrative office should not be allowed to interfere in such matters.

This article argues that, only revising the patent law is not enough to solve the problems of patent enforcement in China. Recently, China has proposed to set up intellectual property courts as in Germany, Japan and the United States. In addition, judicial reform aimed at setting up a judicial system, one with more independence and less influence and protectionism from local officials has also been expounded.¹⁶ Since 2008, the Central Government has been implementing the national intellectual property strategy, and has achieved notable success. All these measures should in effect fundamentally help improve implementation of China's patent law.

Conclusion

With respect to the patent protection problems in China, the key issue is the weak and inefficient enforcement of the patent law according to not only western countries like the United States or EU members but also the Chinese stakeholders. Although it appears that poor judicial protection, the lack of effective administrative protection, local protectionism, and a lack of judicial independence are responsible for the weak patent enforcement, the actual problems could be different. The fundamental reasons according to this author lie in China's low level of economic development and the rule of law, and to a great extent the traditional Chinese culture. The currently ongoing fourth amendment to the patent law focuses on addressing the problems of 'difficult evidence rules, long cycle length, high cost, low compensation and poor results', with a view to enhance the administrative protection on patents, and significantly increase penalties for patent infringement. With efforts in the past decades, China has amended its legislation on patents to comply with TRIPS and the IPR laws in developed countries, and now takes the lead in the number of its patent

applications in the world. In the future, through the amendment to its patent law and other more fundamental reforms, China is expected to make further progress on the enforcement of patent rights step by step.

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