



NEWSLETTER

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Patent Protection in China

With its population of 1.3 billion and a GNP growth rate of 9.1% in 2003, the People's Republic of China now represents the sixth largest national economy in the world. Its total foreign trade turnover of US\$ 851 billion in the same year meant it was already the fourth largest trading country. The fact that China became a member of the World Trade Organization (WTO) in 2001 clearly underlines the ambitions of the Peoples' Republic to climb into the league of the leading economic nations. The major Chinese commodities are machines, electronic products and textiles.

The Chinese market, and in particular the technological sector, has become increasingly more attractive to foreign investors. Around 70% of all mobile phones produced world-wide, for example, are now manufactured in China. The first commercial Transrapid superspeed maglev train connection between Shanghai's city centre and Pu Dong Airport has not only established China as a site of technological production but it also underlines China's desire to use modern technologies in everyday life. China is therefore becoming increasingly more attractive to foreign investors involved in science and research. Large corporations as well as small and medium-sized companies are transferring more and more of their research activities to China as confidence in the protection of intellectual property, in particular by means of patents, grows.

The Chinese Patent System

In 25 years of policies aimed at reform and increasing openness, the Chinese state has recognized the importance of protecting intellectual property and has established a patent

system which functions well. In its role as central patent authority, the State Intellectual Property Office (SIPO) received patent applications in 2003 on the same scale as the European Patent Authority. 310.000 Chinese applications for patents, utility models and design patents in 2003 represent more than twice the number of applications received by the German Patent and Trademark Office (GPTO) in the same period of time.

Current Chinese Patent Law came into effect in 1985. Following amendments and supplements in conjunction with the Implementing Regulations of Patent Law, it now exists in a modern version which conforms to the TRIPS Agreement on Trade-Related Aspects of Intellectual Property Rights.

Particular Features of Chinese Patent Law

Chinese Patent Law regulates the protection of patents for inventions, utility models and design patents. The State Intellectual Property Office (SIPO), with its main office in Beijing (Peking), checks registered inventions for novelty, inventiveness and practical applicability. In this connection Chinese Patent Law provides a six-month period of grace for patents which have been exhibited at an international exhibition, publicized at an academic or technological meeting or disclosed by a third person without the consent of the applicant. Scientific discoveries, rules and methods for mental activities, methods for diagnosing or treating diseases, animal breeds and plant varieties as well as substances obtained by nuclear transformation are specifically excluded as not patentable. It is however possible to protect methods used in connection with breeding and with obtaining plant varieties. In accordance with the guidelines for the examination of patents, computer programs are definitely patentable if the subject matter of the patent application focuses on solving a technical problem, makes use of technical means and is suitable to achieve a technical result. It is therefore in principle possible to obtain patent protection in China for software which optimizes a manufacturing process or increases the performance of already existing computers. As is the case in most countries, business practices cannot be patented in China either.

Application documentation is accepted by SIPO exclusively in Chinese and is immediately rejected if filed in another language. Foreigners without a residence or a registered business address in China must appoint a recognized Chinese representative.



A Chinese patent application is published 18 months after the date of application. Within 3 years of the date of application the applicant must apply for a detailed substantive examination. Should the applicant fail to adhere to the [three-year deadline for applying for examination](#), the patent application is deemed to have been withdrawn.

International applications under the Patent Cooperation Treaty (PCT) are treated in the same way as Chinese domestic applications. As a rule, the substantive examination is preceded by a search carried out by the Chinese patent authority. The submission of an International Search Report (ISR) and of an International Preliminary Examination Report (IPER) are therefore of subordinate importance when it comes to entering the Chinese national phase of a PCT application.

Should a Chinese patent application be rejected, the applicant can lodge an appeal with the [Patent Reexamination Board \(PRB\)](#) of the Chinese Patent Office. This Board then decides on rejection or granting of the application. The applicant subsequently has 3 months in which to lodge an [appeal](#) against the decision of the PRB with one of the People's Courts. These correspond more or less to district courts. The maximum duration of a Chinese patent is 20 years. Chinese Patent Law [does not include any opposition proceedings](#). The only means of contesting a granted Chinese patent is via the [invalidation procedure](#). Anyone wishing to do so may challenge a Chinese patent right by applying to the PRB and requesting that the patent right be declared invalid. The decision of the PRB as to whether a patent right is to be upheld or declared invalid can, on application, be re-examined by the People's Court.

Protection of utility models is also provided for under Chinese Patent Law. As is the case under the German system, an application for a utility model is only investigated on a formal level and then registered as an unchecked protective right. A utility model offers protection for 10 years. It expires immediately upon the issue of a patent covering the same applicant's identical invention. Should it be necessary to take infringement action on the basis of a Chinese utility model right, it is essential that a [search report](#) on the object of the utility model be submitted when filing the complaint. The SIPO will provide such a utility model search report upon application.

Charges for Chinese patents are relatively moderate. The examination fee is currently around 250 EUR and the highest annual fee in years 16 to 20 amounts to only 800 EUR.

Chinese Patent Law is in many ways modeled on European patent legislation and it would be true on the whole to say that, together with the State Intellectual Property Office (SIPO), it represents a patent system which functions well and which last year granted 182,226 protective rights (patents, utility models and design patents).

Technology Transfer

The People's Republic of China is a large internal market with enormous potential for technological development. The question therefore

arises for the foreign investor as to the transfer of intellectual property or of technologies both into and out of this economic area.

Under the Foreign Trade Law of the People's Republic of China, which came into effect on 1st July 2004, all types of transfer acts, in particular the transfer of patents or of rights to register patents, the licensing of such and the transfer of technology know-how are clearly defined. The 1999 Contract Law of the People's Republic of China furthermore clarifies how contracts on technology transfer are to be structured.

Employers are entitled to [employee inventions](#) inasmuch as no other agreement has been reached in the employment contract. There is no Chinese law on employee inventions such as is the case, for example, in Germany. The right to register an invention remains in principle with the registered Chinese company developing the invention. Generally speaking, the right to register an invention can also be transferred to a foreign partner or to the person contracting the technical development; however an examination of this technology transfer has to be carried out by the Ministry of Commerce (MOFCOM) in its role as the competent authority.

MOFCOM divides technology transfers into three categories: unrestricted, limited and forbidden technology transfers. The category of forbidden technology transfers comprises for example missile technology as well as production technologies for NiCd batteries or network security technologies. In the case of an invention which falls in the category of limited technology transfers, for example genetic engineering procedures, the company based in China has to apply to MOFCOM for official authorization of the transfer contract under which the right to register the invention is to be transferred to a company based outside China - to a foreign parent company for example. A decision as to whether the corresponding technology transfer contract is authorized or not can be expected within 40 days. In the case of unrestricted technologies, registration of the transfer contract occurs within 3 days. An element of uncertainty remains nevertheless due to the changeable nature of the lists of unrestricted, limited and forbidden technologies as these are drawn up by MOFCOM with the economic and technological interests of the People's Republic of China in mind.

A further feature particular to Chinese Foreign Trade Law should be borne in mind when transferring or licensing technologies to a company based in China. The person transferring the technology or the licensor must guarantee that he is the rightful owner of the technology in question and that he is entitled to license it out. He has to assume liability for any deficiency in title and furthermore he has to carry the risk of third party rights being infringed by the licensee, recipient or user of the technology transferred. An examination of currently valid industrial protection rights in China, in connection

with the specific technology to be exported to China, is therefore urgently to be recommended prior to completing a contract for the transfer of such technology to China.

Enforcement of Patent Rights

According to Chinese tradition, learning is basically seen as the result of copying. Keeping intellectual achievements secret or seeing them as an individual's property which can only be used against payment therefore stands in total contradiction to the Chinese way of thinking. Nevertheless, effective means of enforcing patent rights in China have been established in recognition of the major importance of international protection of industrial rights. Chinese Patent Law makes it possible to enforce patent rights in one of two quite separate ways, either via a [local administrative office for patent affairs](#) or via a [People's Court](#).

	SIPO	GPTO	EPA
Patents	105,318	64,518	116 613
Utility Models	109,115	23,408	---
Design Patents	94,054	53,331	---
Trademarks	452,095	62,041	

Providing no complaint has been filed with the People's Court in the same matter, the holder or licensee of a patent can apply to the competent [administrative authority for patent affairs in his area](#) - a branch office of SIPO is to be found in all provinces - for patent infringement proceedings to be opened. Details of the concrete act of infringement must be supplied. The officials responsible in the administrative offices for patent affairs are fully trained both in technical as well as in patent law matters and open patent infringement proceedings within 7 days of receiving the application. After the person charged with the infringement has had an opportunity to respond - in oral proceedings for example - and providing the infringement is proven, a cease-and-desist order is made and a fine imposed against the person infringing. The administrative authorities for patent affairs are not permitted however to decide whether compensation is to be made by the person infringing or to set the level of such compensation. Compensation awards may only be made by Chinese People's Courts. The advantage of opening infringement proceedings with the administrative authority lies in the fact that decision-making is by technically competent persons and is prompt. It is to be

recommended when the value of reaching an agreement with the person infringing seem high. Within 15 days of the cease-and-desist order being issued or refused by the administrative authority, the parties may institute legal proceedings with the People's Court. Special [chambers dealing with disputes over patents, trademarks and technology contracts](#) have been set up in many People's Courts, for example in the cities of Beijing, Shanghai, Tianjin and in the provinces Guangdong, Jiangsu and Fujian.

Instead of filing a complaint at the local administrative office for patent affairs, it is possible to file a lawsuit with the People's Court either in the area in which the person accused of infringing has his permanent residence or in the area in which the infringement had an effect, for example where the sales' outlet is located. In most cases therefore proceedings can be started with the People's infringement suits. Temporary legal protection can be achieved under Chinese Patent Law by means of a cease-and-desist order together with provisional seizure prior to filing the lawsuit against the person infringing. Such provisional enforcement can be ordered by the competent People's Court if either the patent infringement has already occurred or the owner of a patent could suffer damages as a result of an impending infringement. In this case the applicant may be obliged to provide security. The relevant court decides within 48 hours following receipt of the application for provisional seizure. The applicant must then file a lawsuit within 15 days.

The level of compensation to be paid as a result of a patent infringement is calculated on the basis of the loss suffered by the patent holder, the profit made by the person infringing or on the basis of license analogy. According to the statutory rules of interpretation issued by the Supreme People's Court of Justice in Beijing, compensation of up to 500,000 Yuan (ca. 50,000 Euro) may be determined should it not be possible to ascertain the loss suffered, the profit gained or appropriate license fees.

Court fees are relatively low in China. They amount to only around 200 Euro for example for proceedings with an average duration of one year and a jurisdictional value of 70,000 Euro.

Conclusion

In 25 years of policies aimed at reform and at increasing openness, the Chinese state has established a well-developed patent system. By means of a cost-effective procedure for the granting of patents, inventions can be protected for an entire economic area on behalf of foreign companies. Enforcement of protective rights follows a two-track system: the administrative track and the judicial track. Provisional measures can be taken by the People's Courts which offer the licensee or patent holder - providing he is located in China - a workable means of enforcing his patent rights. When setting up contracts, the influence of the government on the transfer of know-how should always be taken into consideration.

Amendment of German Patent Act

Since February 28, 2005, an amended Patent Act is in effect in Germany. The amendments refer to patent protection for biological material and are required in order to implement the Biotechnology Directive 98/44/EC of the European Union of July 1998.

According to section 1 (2), patents may be granted also for products which contain or comprise naturally occurring biological materials or for methods for producing or processing such biological materials. The biological materials, however, have to be isolated from their natural environment by means of a technical process. This mainly corresponds to existing Rule 23c EPC.

A new Section 1 a has been introduced into the German Patent Act. It deals with the human body and its elements, corresponding to Rule 23e EPC: An element isolated from the human body, e.g. a gene sequence, may be patentable even if this element is identical to a natural element. The industrial applicability and function of such a gene sequence must also be disclosed in the patent application. Contrary to EPC, the intended use of the sequence must be incorporated into the patent claims. It is thus in Germany not possible anymore to obtain absolute protection for a natural human gene sequence or a part thereof. The scope of protection is restricted to the use indicated in the claims. Also germ line cells have been literally excluded.

Section 2 has been amended to exclude methods for cloning of human beings, modifications of the germ line genetic identity of human beings and the use of human embryos for industrial or commercial purposes. This is in line with Rule 23d of the EPC.

A new Article 2a is directed to patent protection for plant varieties, animal varieties as well as microbiological methods. Patents may be granted for plants or animals if the technical feasibility of the invention is not confined to a particular plant variety or animal race.

Since February 28, 2005, biotechnological inventions are excluded from protection by the German Utility Model Act.

Changes of the EPC

3.1 Electronic publication

As from April 1st 2005, applicants will no longer receive a paper copy of the patent application. The certificate for the European patent will continue to be supplied to the proprietor in paper form.

3.2 Amendments of Rule 51(4) EPC

The time limit set in the communication under Rule 51(4) EPC will be 4 months without the possibility of extension for all applications. If an applicant has problems meeting the time limit, he could still wait for a loss of rights communication and request further processing.

3.3 Amendments of Rule 108 EPC

An additional time limit of two months for paying designation fees for European Regional Phases of PCT-applications after having received the notification of the communication of loss of rights has been introduced. A surcharge of 50 % has to be paid together with the designation fees. The fees for further processing and the fees for reestablishment of rights have been set to EUR 200,00 and EUR 350,00, respectively.

3.4 Introduction of new Rule 44a EPC

Furthermore, an extended European search report will be issued for future applications. The European Search Report will be accompanied by an opinion on whether the application and the invention to which it relates seem to meet the requirements of this Convention. This applies to European applications and Regional Phases of a PCT-application and will take effect for applications filed on or after July 1st 2005. Simultaneously, the search fee has been set to EUR 960,00 and the examination fee to EUR 1280,00.

All amendments have been published in the Official Journal EPO 1/2005 and 2/2005.

Please, note that this newsletter provides information about recent developments in national and international IP matters. We have carefully elaborated the contents, however, do not take over any liability for its correctness and completeness.

Should you have specific questions on these subjects, please feel free to contact us by email or under the address given below.



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