
TAGUNGSBERICHTE

Patent Law and Innovation (Nanjing, December 2-4 2012)

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On December 2-4, 2012 the Sino-German Institute for Legal Studies and the Konrad-Adenauer-Foundation Shanghai jointly held an international symposium on "Patent Law and Innovation". The symposium follows a long term tradition of bringing together academics, practitioners and politicians to discuss current issues that have a high impact on society. One such issue is patent law: The government of the People's Republic of China ("China") seeks to gradually change its production dominated industry into one driven by innovation. Goods shall not only be made, but also be created in China. Therefore the Chinese government has designed different kinds of incentives to promote research and development: local governments could receive a bonus for the number of patents granted in their territory, corporate income tax could be reduced quite significantly when filing many patents, professors who acquire patents are more likely to win tenure, workers and students enhance their chances to earn a *hukou*². In conjunction with a low patent fee these measures have created an atmosphere that has actively encouraged patent application, which has in turn led to a sevenfold growth in patent filings at China's State Intellectual Property Office (SIPO) during the last decade.³

A number of questions arise: How does investment in research and development convert into innovation? How will it increase the competitiveness of Chinese enterprises? On the other hand: How can the quality of patents granted be guaranteed and standardized? How can the abuse of unduly patents be avoided?

The first set of questions were raised and discussed during the morning sessions of the conference. It was mainly academics that analyzed the current draft for the fourth amendment of the patent law⁴ and gave commentary regarding its impact on patent law practice. The pending amendment mainly aims to enhance and facilitate the enforcement of patent rights. It will especially strengthen the authority of the administration: The Local Patent Office will be granted enhanced power and it is anticipated that in the future this Office will not only be limited to imposing fines or issuing administrative injunctions, but will also be able to award damages. SIPO will have the opportunity to self-initiate enforcement cases. Finally the courts will have the opportunity to award treble damages as a punitive measure.

Practitioners dealt with the second set of questions in the afternoon offering their reflections on the current application of the patent law. It is anticipated that his new governmental policy could pose problems for foreign companies. So far it is the foreign companies that have mainly been the victims of patent infringement. However, it appears that foreign companies are increasingly arising as the infringer. Due to the aforementioned incentives, patents are filed with eagerness and granted with generosity. Patent examiners are not encouraged to apply the law strictly and check the premises thoroughly. Once a patent is granted any infringement entitles the patent holder to damages. Thus, foreign companies must continuously conduct thorough research as to whether the techniques that they use already enjoy a patent right in China that is not granted abroad. Otherwise, if they do not actively develop an IP-strategy, they might find themselves defending a patent lawsuit.⁵

After the welcome address by Prof. Dr. FANG Xiaomin, the Deputy Director of the Sino-German Law Institute, the conference started with opening remarks by the dean of the Law Faculty of Nanjing University Law Professor LI Yougen, LOU Xia, judge at the Supreme People's Court, and Dr. Peter Hefele, Director of the Konrad-Adenauer-Stiftung

¹ Dr. iur. The author is Deputy Director of the Sino-German Institute for Legal Studies Nanjing University. The author would like LIN Xu, Taylor Wessing, Shanghai, and Dr. LÜ Bingbin, Nanjing University, for their valuable comments on the paper.

² . The *hukou* is the household registration required for each citizen. It gives the official right to live at a place and enjoy the rights that come along such as the right to get education for children. It is, thus, especially desirable to hold a *hukou* of cities like Beijing or Shanghai where standards are high and prospects are good. Person not born in one of these cities can earn a *hukou* can through e.g. employment with the state or as in our case personal achievements.

³ For a detailed description of the China's innovation agenda see: *Mark Liang*, "Chinese Patent Quality: Running the Numbers and Possible Remedies" in 11. John Marshall Review of Intellectual Property Law, John Marshall Law School, 478 (2012), pp. 483 et seq.

⁴ The Draft Amendments to the Patent Law of the People's Republic of China (draft for comments) was published on August 9, 2012 by the State Intellectual Property Office.

⁵ Shortly after the conference the topic was discussed by the German press: *Christian Geinitz*, "China bremsst Erfindergeist mit staatlichen Belohnungen aus" in *Frankfurter Allgemeine Zeitung* from December 13th, 2012: <<http://www.faz.net/aktuell/unsinnige-innovationen-china-bremsst-erfindergeist-mit-staatlichen-belohnungen-aus-11991471.html>>, visited February 26th, 2013.

Office Shanghai. LI Yougen and Peter Hefele emphasized the importance of innovation for the Chinese society. Peter Hefele mentioned the current fear that China's economy could fall into the middle income gap between rising labor costs on the one side and a lack of highly qualified employment opportunities and people on offer on the other. LOU Xia reported from the Supreme Court explaining that the number of patent cases filed have been increasing dramatically in recent years. For example, the number of patent suits filed has risen by 30 % from 2010 to 2011 nationwide. More and more patent cases were related to high tech areas such as the biomedicine, telecommunication and chemical industry. One problem that the Supreme Court has recently dealt with is circulatory law suits. For example, according to the current legislation, if a patent is invalidated by the Patent Re-examination Board (PRB), the patent owner may file suit at court against the PRB. If the court does not agree with the PRB, the decision will be reverted by the court to the PRB to order PRB to make a new decision (as an alternative to the court making a new decision). So if the patent owner or the other party is not satisfied with the PRB's new decision, they may file another suit against PRB at the court. One can see how this can lead to a situation whereby a case could begin to circulate.

The opening speech was followed by a compact program consisting of four panels. Each panel was comprised of three to four speakers and two to three commentators.

I. First Panel: "Patent Law and Stimulation of Innovation"

The speakers of the first panel discussed the relation between patent law legislation and innovation. Prof. Dr. LI Mingde, Chinese Academy of Social Sciences, started his presentation with a short overview of the history of patent law in the PRC from its first implementation in 1984 to the currently pending revision. The 3.1-renovation, as LI Mingde called it, should speed up the handling of nullification disputes. According to his opinion, patent law is currently politicized. He criticized the expansion of administrative power in handling the patent infringement cases by the amendment draft and predicted that it will have an adverse effect upon practice. He suggested that it was better to handle patent re-examination by a judiciary body, rather than by a political committee, which is currently the PRB of the SIPO. The administrative organs would decide not only on the basis of facts, but also according to political advice. This practice should be eliminated. He opined that the courts should reclaim their "lost land" by including more

expertise within their decision making in this complicated scientific field.

Prof. Dr. XU Difeng, Nanjing University, criticized the 4th draft amendments to Articles 46 and 60 of the Patent Law. He was of the opinion that the amendment to article 46 and 60 could not solve the uncertainty issue of patent rights. In practice it was common for the defendant of a lawsuit in a patent infringement case to delay proceedings utilizing administrative proceedings. These proceedings shall challenge the basis for the law suit by either invalidating the plaintiff's patents or challenging the invalidation decisions voiding the defendant's patent. This could lead to a long drawn out "cycle" of law suits, which was already mentioned by LUO Xia. Indeed amendment of articles 46 and 60 to the Patent Law addressed this issue by commanding the administration and judiciary to act in a timely manner after a decision to invalidate or uphold a patent was made, but they were not sufficient to deal with the addressed problem.

Prof. Dr. LI Yahong, University of Hong Kong, introduced the current patenting trends in China and the United States. According to Prof. LI it is expected that China would continue to focus on the increase of patents filed and the enforcement of patents. Whereas the trend in the US would proceed towards a direction of policy trimmed filing such as the filing of patents for the United States Patent and Trade Mark Office ("USPTO") Humanity Project. The USPTO Humanitarian Project has attempted to create a business incentive for patent holders to engage in humanitarian issues such as life-saving medicines and vaccines, more nutritious and healthier crops, food storage & preservation technology, water sterilization devices, technology for promoting literacy and education. Among all of the patents filed the board ultimately awarded 50 applicants with a patent as winners of the competition. During her reflection she emphasized that the quality of a patent and its impact determined its real innovation. Prof. LI also considered the change of the US law from the first-to-invent to the first-to-file-principle to be a good step forward towards the harmonization of patent laws in the world. She concluded by remarking that adverse effects may be smoothed by the new "one track" process.

The discussion continued with further comments from Prof. Dr. HU Chaoyang, Southeast University Nanjing, who mentioned again the thread of abuse of administrative power whereas WANG Xiaodong, Patent Examiner at the State Intellectual Property Office of the PRC, pointed out that there was still a gap between the developed economies and China. Therefore, it was essential that the

patent practice must take into account the different levels and their special characteristics.

II. Panel: Economic Order, Patent System and Innovation Potential

Prof. Dr. ZHENG Youde, Huazhong University of Science and Technology in Wuhan, opened the second panel that discussed the effects of the patent system on the economic order. In his passionate speech ZHENG Youde called for a greener patent system to tackle climate change. He claimed that the well-being of the planet shall prevail among the motives of innovation. Interdisciplinary efforts should be made to achieve progress for green technology.

SONG Jian, President of the IPR Tribunal of Jiangsu High Court, did not agree on the drafted revision of the patent law. With regard to LI Mingde and his view on the draft amendment she agreed that the court had more capability to handle patent infringement cases than an administrative authority and it was therefore not necessary to further expand the authorities powers. Furthermore, she suggested a system that may be used in court to decide on the suspension of patent infringement cases when the defendant filed for invalidation at the PRB.

Prof. Dr. Max von Zedtwitz, GLORAD Shanghai, reported from an economic perspective regarding the innovation in China. He saw on the one hand prosperous perspectives for the Chinese Research and Development ("R&D") sector. China profited currently from a young, well-educated population that was eager to get things done. However, the big question for the future would be whether China could develop into a country which produced cutting-edge innovation. The incentives to invest in such type of R&D were not given yet. It was still easier to copy than to invent or acquire. Furthermore China still lacked managerial talent within companies. They were often not able to define their own strategic technology roadmaps and managements system. It was, finally, unfortunate that the national security and policy gave preferential treatment to state-owned enterprises.

In his comments Prof. CHU Min, Nanjing University of Finance and Economics, referred to ZHENG Youde's speech. She was of the opinion that it was not a reform of patent law, but alternatively a form of taxation relief that could also promote green technology.

GUO Pengpeng, Patent Examiner at the State Intellectual Property Office of the PRC, commented on the praxis of patent filing. Due to the fact that there was always a large room for discretion the

administrative bodies would have to ensure that the law was applied rationally.

III. Panel: International and Comparative Law

The third panel attempted to broaden the view of the topic by making comparisons with the current developments in the American and the German Patent Law. It started with a presentation of Prof. Dr. ZHANG Naigen, Fudan University, who asked for a more equal and standardized application of the patent law in China. Research capacities needed to be dedicated to the exploration of the actual practice however; results could be interpreted to develop standards for the application of the patent laws.

Dr. LI Kening, Pinsent Mason Shanghai Office, reported that the patent law along with all intellectual property laws underwent challenges in the legal discussion in the US. Its ability to create innovation and wealth was questioned. Unclear rules led to enormous litigation costs and discouraged patent filing. In the smart phone industry alone, US\$ 20 billion has been spent on patent litigation in the last two years. Even the Pharmaceutical Industry blamed the current patent system for the drought of new approved drugs. LI concluded that the recent U.S. case law and legislation had resulted in a shift of the balance away from patentee and patent applicants. Therefore, it was increasingly harder to get a patent granted. This would have a long term effect on innovation and the innovation based economy. Dr. LI finally warned that such drawbacks should be closely monitored by Chinese lawmakers.

Prof. Dr. Hammel, Nanjing Normal University/ Knauthe GmbH, presented the Patent Prosecution Highway (PPH), a project conducted by 26 country patent offices and the European Patent Office (EPO). The project proposed that as soon as a patent is put on the "highway" of examination, this information should be disseminated as quickly as possible in all member states of the PPH-group. An exchange of the examination result as well as a mutual recognition of examination results of the allied offices should also help to accomplish greater cooperation.

Dr. Jan Dombrowski LL.M., CMS Hasche Sigle, illustrated the work of the German Courts. There are 12 specialized district courts that have one chamber to deal with patent law. The three judges of this chamber are experienced in technical issues and highly motivated in this area. Therefore patent law jurisdiction in Germany was deemed to be highly efficient, the costs of a patent suit usually

remained low and the proceeding were finished in a timely manner.

IV. Panel: Patent Law and Innovation in Enterprises

The fourth panel gave insights into patent practice. Dan Prud'homme, Head of the European Chamber of Commerce in Shanghai, presented his report focusing on the following research question: What institutional and regulatory factor(s) closely relate to patents/patent quality that can be remedied in the near future hamper patent quality and related innovation in China? He was of the opinion that the strategy "quantity first, quality can follow" was not appropriate to stimulate healthy innovation and on this basis, the patent filing system needed reform. So far the state had paid for attorney and official filing fees. As a result of these generous financial incentives for indigenous patents, a number of patents lacking innovative potential were granted. Another problem would be the preference for State Owned Enterprises (SOE). The Technical Committees would grant them advantages by *de facto* applying their technical standard. This hindered and excluded competition from small private businesses. So-called "raw-deals" between a foreign company and a SOE that were characterized by the involvement of technology transfer would not result in the transference of high-end technology and knowledge into China. Foreign countries would often consider *the Chinese market too good to give up, but not good enough for breakthrough technology* to be sacrificed. In conclusion Dan Prud'homme stated that he hoped that all of the points that he had mentioned would be included in a comprehensive discussion of the current patent law system of the PRC.

ZHAO Zhiqiang, Dow Chemical Company Asia Pacific, was the first speaker to report from the perspective of an enterprise. He said that China was on the one hand attractive because it offered high-potential talents at low cost. But these talents, on the other hand, did not demonstrate loyalty to foreign companies. They often regarded them as a sort of training center to practice the necessary skills that they had studied during their theoretical university education. Once they had acquired the necessary knowledge they would regularly go back into smaller Chinese companies or even open their own businesses. Currently, he said, the costs for protection of intellectual property rights, i.e. patents and trade secrets were too high; at the same time the low costs in case of infringement would not serve as a deterrent.

Dr. Oliver Lutze, Bayer AG, gave an overview on his work as Head of the Department Intellectual

Property Rights in China, which was primarily prevention. His department conducted intensive research to ensure that Bayer would not infringe any patent rights of Chinese companies. The protection of their own intellectual property was a second important task. This was often threatened from inside the company. To prevent a loss of knowledge he designed programs to bind employees and gain their loyalty. The third task was to protect the company's patent rights against infringement from outside, i.e. filing lawsuits if necessary. The fourth important field that he pointed out was the importance of political work that was undertaken with stakeholders to better influence IP-policies.

Comments from LIN Xu, Taylor Wessing Shanghai, reminded the panel that whereas ten years ago the discussion had been educating the audience on the importance of the patent system, this discussion today was about the potential flaw in the patent system and how one could make it better to promote innovation. She was of the opinion that this was the current issue that needed to be resolved. As a lawyer she had to define an IP-strategy with her clients and advise them they should file quickly for detailed patents otherwise their competitor might be ahead and threaten to sue them.

Dr. LU Bingbin, Nanjing University, remarked that the experience shared from IP managements and IP Strategies from multinational corporations was enlightening both for the academics and Chinese domestic companies. The fact that China's patent policy had promoted innovation to a larger extent could not be underestimated. According to Dr. LU's opinion, any evaluation of China's patent policy should be conducted within a bigger context of China's national condition as a developing country.

After a short discussion of the content of the day the conference ended with closing remarks by Peter Hefele and Prof. SHAO Jiandong, Director of the Sino-German Law Institute Nanjing.

V. Resume

The achievements of the Chinese Patent Law System can be best demonstrated by the fact that the debate about patent rights has completely shifted. Years ago foreign companies criticized the lack of patent protection. Nowadays it is the quality and potential abuse of patent rights that raises concerns. Thus, the speed of the development seems to have outpaced the engine that it is driven by. Currently there are not enough sufficiently qualified patent officers and judges to develop a guaranteed quality of patents. The conference offered a suitable forum

for higher-ranking experts to discuss the problems that they are currently facing from various perspectives. After the conference it is hoped that these experts might take their new insights with them to their home and workplace.