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# PATENT LAW IN THE PEOPLE'S REPUBLIC OF CHINA: A PRIMER

## I. China's Protection Of Intellectual Property

### A. Introduction

The People's Republic of China (PRC)<sup>1</sup> now has a comprehensive patent law, which became effective on April 1, 1985.<sup>2</sup> This is not news as the PRC Patent Law approaches its second anniversary, but packed within this statement is the realization of topics which prove more important, more interesting, and more far-reaching than simple posted notice of the drafting and passage of this law. New and untested political, social, economic, and legal considerations arose along with this legislation. This Note proffers a brief examination of the legal issues<sup>3</sup> created by the new law and attempts to develop a sense of what ramifications may await the practical use of the PRC Patent Law by American intellectual property owners.

### B. Whence Came the PRC Patent Law?

The promulgation of written laws in China is representative of new and carefully considered official attitudes in the current PRC government and, indeed, new to China historically,<sup>4</sup> though the PRC Pat-

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1. Unless otherwise indicated, all references to "China" apply to the People's Republic of China (PRC) only.

2. Patent Law of the People's Republic of China of March 12, 1984, art. 69 [hereinafter PRC Patent Law], reprinted in FAR E. L. DIV. OF THE LIB. OF CONG., H.R. REP. SPECIAL SUBCOMM. ON UNITED STATES TRADE WITH CHINA, 98th Cong., 2d Sess., CHINA'S NEW PATENT LAW AND OTHER RECENT LEGAL DEVELOPMENTS 18 (Comm. Print 1984) [hereinafter CHINA'S NEW PATENT LAW].

3. Of necessity, deference must be paid to the political, social, and economic factors at play in the conception, birth, and life of the PRC Patent Law. See respectively, *infra* notes 16, 32, 12 and accompanying text for discussion. Yet, a complete integrated analysis of the PRC Patent Law in the world market would require tomes of epic proportions, and falls beyond the ambit of this Note. China has always been viewed with a certain intrigue by even the casual Western observer. Questions about this large, ancient, and intriguing nation are often so broad that a response is necessarily difficult and frequently vague:

*Amanda:* China must be very interesting.

*Elyot:* Very big, China.

N. COWARD, PRIVATE LIVES 19 (S. French ed. 1947).

4. "China, the conventional wisdom has it, is not and has never been a law-oriented culture. It elevates personal relationships and moral duties tied to such relationships [above] abstract, impersonal laws or rights." Tay & Kamenka, *Law, Legal Theory and*

ent Law is not new. The first Chinese patent law was enacted in December 1911, well before the Communist Revolution, and was entitled the "Provisional Rules of the Encouragement of Arts and Crafts."<sup>6</sup> The law granted five-year patent protection, and was in force in several forms until 1963. At that time, the Chinese leadership decided that patents were ideologically unacceptable<sup>6</sup> and adopted the Regulation on Awards for Technical Improvements on November 3, 1963.<sup>7</sup> Under this regulation, China no longer granted patents, and all inventions were considered property of the State.

The official attitude of the PRC had steadfastly held that protection of intellectual property was contrary to the socialist development of the country.<sup>8</sup> Recently, however, (especially after the death of Mao Tse Tung in September 1976 and the fall of the Gang of Four one month later) official concern has shifted to China's economic and industrial growth.<sup>9</sup> Modernization—the development of a sound economic foundation, the encouragement of domestic inventiveness and international exchange—has become the order of the day, perhaps even at the expense of communist and socialist ideals.<sup>10</sup>

Industrial modernization is a major objective of developing countries throughout the world. Essential to such industrial growth is the advancement of science and technology.<sup>11</sup> China recognized that in order for it to accelerate economic development it must look to foreign

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*Legal Education in the People's Republic of China*, 6 N.Y.L. SCH. J. INT'L & COMP. L. 1 (1986).

5. See generally CHINA'S NEW PATENT LAW, *supra* note 2; see also A. PONTIUS, PROTECTION EXTENDED TO PATENTS, DESIGNS, TRADEMARKS AND COPYRIGHTS IN CHINA, JAPAN AND KOREA (1909).

6. Communist governments face a political dilemma in dealing with inventions. On the one hand, they naturally wish to encourage innovation, but on the other hand, Marxist philosophy regards the creations of individuals as basically social productions. The idea of giving an individual exclusive rights to profit from an invention, which can be considered a form of technological capital, may be felt to be inconsistent with the basic nature of a socialist society.

CHINA'S NEW PATENT LAW, *supra* note 2, at 19.

7. *Id.*

8. *Id.* at 18. See also J. Manak, Trademark Protection in the Peoples Republic of China 1 (Mar. 1985) (unpublished manuscript, available at N.Y.L. SCH. J. INT'L & COMP. L. Library).

9. See, e.g., Silk, *Where China is Blooming*, N.Y. Times, Oct. 4, 1985, at D2, col. 1; see also CHINA'S NEW PATENT LAW, *supra* note 2, at 22 ("Over the years, some comrades within the Party have formed a prejudice against intellectuals. It's time to rectify this.").

10. Cf. CHINA'S NEW PATENT LAW, *supra* note 2, at 25.

11. Note, *Paris Convention, Patent Protection, and Technology Transfers*, 3 B.U. INT'L L.J. 209 (1985); see also WORLD INTELLECTUAL PROPERTY ORGANIZATION (WIPO) PUB. NO. 620(E) LICENSING GUIDE FOR DEVELOPING COUNTRIES 17 (1977). [hereinafter WIPO LICENSING GUIDE].

investment and technology.<sup>12</sup> In addition, China realized "that to attract this foreign [largely Western] investment a reasonable profit margin and other incentives will have to be offered . . . ."<sup>13</sup> In view of the cooperative agreements entered into by China and the United States following the Shanghai Communiqué of 1972,<sup>14</sup> and the establishment of formal diplomatic relations in 1978,<sup>15</sup> it is clear that China seeks Western, particularly American, capital and technology. Following in the spirit of expanding "understanding and friendship between the peoples of the two countries [thereby] promoting economic and technological cooperation,"<sup>16</sup> the Chinese and American governments signed agreements in the areas of science and technology,<sup>17</sup> trade exhibitions,<sup>18</sup> trade relations,<sup>19</sup> shipping,<sup>20</sup> civil aviation,<sup>21</sup> food export,<sup>22</sup> investment guarantees,<sup>23</sup> and postage,<sup>24</sup> among others.<sup>25</sup> China was indeed willing and eager to receive foreign technology,<sup>26</sup> and the United

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12. See Note, *Foreign Investment in the People's Republic of China: Compensation Trade, Joint Ventures, Industrial Protection and Dispute Settlement*, 10 GA. J. INT'L L. 233, 234 (1980).

13. *Id.* One key "other incentive" is a viable patent law. See *infra* note 28 and accompanying text.

14. The communiqué issued at Shanghai following President Nixon's visit to China in 1972. Joint Communiqué, Feb. 28, 1972, United States-People's Republic of China, reprinted in 66 DEP'T ST. BULL. 435, 11 I.L.M. 443 (1972).

15. Joint Communiqué on the Establishment of Diplomatic Relations Between the United States and the People's Republic of China, Jan. 1, 1979, reprinted in 79 DEP'T ST. BULL. 25, 18 I.L.M. 274 (1979).

16. Zhao, *The Main Legal Problems in the Bilateral Relations Between China and the United States*, 16 N.Y.U. J. INT'L L. & POL. 543 (1984) (Professor Zhao's characterization of the objectives of the 1972 Shanghai Communiqué and the 1978 establishment of formal diplomatic relations).

17. See Agreement on Cooperation in Science and Technology, Jan. 31, 1979, United States-People's Republic of China, 30 U.S.T. 35, T.I.A.S. No. 9179.

18. See Agreement of Trade Exhibitions, May 10, 1979, United States-People's Republic of China, 30 U.S.T. 4472, T.I.A.S. No. 9470.

19. See Agreement on Trade Relations, July 7, 1979, United States-People's Republic of China, 31 U.S.T. 4651, T.I.A.S. No. 9630 [hereinafter Trade Agreement].

20. See Agreement on Maritime Transport, Sept. 17, 1980, United States-People's Republic of China, \_U.S.T.\_, T.I.A.S. No. 10244.

21. See Agreement Relating to Civil Air Transport, Sept. 17, 1980, United States-People's Republic of China, \_U.S.T.\_, T.I.A.S. No. 10326.

22. See Agreement on Grain Trade, Oct. 22, 1980, United States-People's Republic of China, 32 U.S.T. 4121, T.I.A.S. No. 9930.

23. See Investment Incentive Agreement and Letters of Understanding, Oct. 30, 1980, United States-People's Republic of China, 32 U.S.T. 4010, T.I.A.S. No. 9924.

24. See Parcel Post Agreement with Detailed Regulation, Nov. 8, 1980, United States-People's Republic of China, 32 U.S.T. 2919, T.I.A.S. No. 9887.

25. See generally Zhao, *supra* note 16, at 545.

26. It has been suggested that China's eagerness to allow an invasion of capitalism

States was only too willing to send it.<sup>27</sup>

The economic potential of PRC technology consumption had unquestionably been within reach of the American businessman for several years. Nevertheless, prior to the PRC Patent Law, a major obstacle remained.<sup>28</sup> Even though most American attorneys and businessmen involved in trade with China were unaware of instances of Chinese copying or re-exporting United States technology,<sup>29</sup> the risk of such copying remained very real. Contractual protection was available to owners of intellectual property, but this legal convention left much to be desired, since intellectual property owners were left to the whims of contract semantics vis-à-vis the staid promulgations of a Patent Office under government auspices. In addition, the Chinese Government reserved the right as owners of all new inventions and technology to

(albeit strictly controlled) stems from two concerns: "a need to cope with a growing urban unemployment problem and a desire to let private businesses provide services which the state-run economy cannot handle as efficiently." Note, *supra* note 12, at 234; see also Kramer, *China Allowing Limited Return of Capitalism*, *Asian Wall St. J.*, Aug. 16, 1979, at 1, col. 6.

27. China may well represent the final economic frontier: one billion people, waiting for industrialization, American-style. Witness, for example, the introduction of typically American fast food and drink: Big Mac™ and Coca Cola™. Surely no sane businessman could resist such a vast consuming public. Indeed, the dramatic trade increases following the Shanghai Communiqué created "near euphoria over opportunities—or potential opportunities—to sell . . . equipment and technology to China." Note, *Copyright Relations Between the United States and the People's Republic of China: An Interim Report*, 10 BROOKLYN J. INT'L L. 403, 404 (1984) (quoting Theroux, *Technology Transfer to China: Policy, Practice and Law*, in *CURRENT INTERNATIONAL LEGAL ASPECTS OF LICENSING AND INTELLECTUAL PROPERTY* 293, 304 (W. Brookhart, S. Leach & B. Tobor, eds. 1980)).

28. The limited monopoly granted under a patent has been recognized for centuries as a strong (if not the strongest) incentive for technological advancement. To give the individual (or sole business concern) exclusive rights to inventions is simply common sense. James Madison, for example, stated that "the utility of this power will scarcely be questioned. . . . The right to useful inventions seems to belong to the inventors." *THE FEDERALIST* No. 43 (J. Madison), (discussing U.S. CONST. art. I, § 8, cl. 8 (the patent and copyright clause); see also *V. WRITINGS OF THOMAS JEFFERSON* 75-76 (Thomas Jefferson, author of the Patent Act of 1793, averred that "ingenuity should receive a liberal encouragement."); *Grant v. Raymond*, 31 U.S. 217 (1892). See generally B. BUGBEE, *GENESIS OF AMERICAN PATENT AND COPYRIGHT LAW* (1967).

29. Note, *supra* note 12, at 257-58. Yet, practically speaking, with or without patent law protection, if China wished to copy foreign technology, it could easily do so without disclosure by maintaining its copying within the confines of still off-limits areas. See *id.* On the other hand, this is not likely to be a problem in the early stages of technology importation. For example, in one case where the Chinese desired to copy the design and manufacture of a West German steel plant producer, the PRC wound up hoist by its own petard, and unable to complete the project for lack of trained designers and workers. Complex intellectual property—the type, of course, China needs to become more modernized—is therefore safe for the time being.

"sell that technology to foreigners through the Ministry of Foreign Trade if the State Scientific Commission [so] approves."<sup>30</sup>

Clearly, to achieve a successful vehicle for technology transfer,<sup>31</sup> a viable law was necessary to allay the fears of foreign intellectual property owners and to provide the "other incentive" to bring in foreign investment. Huang Kunyi, the Director General of the Chinese Patent Office, affirmed that these considerations fueled the creation of the PRC Patent Law: "To have respect for knowledge, and respect for persons of ability, to open up a technology market, and to open the outside world are part of a long-term basic policy of our country. . . . We shall establish a patent system which will provide effective protection to inventions . . . ."<sup>32</sup>

True to their word, the Chinese set out to develop and implement the most comprehensive patent law in their history. The Far Eastern Law Division of the Library of Congress aptly summarized the development process:

Initially, the responsibility for considering and evaluating patent systems was given to the State Scientific Commission. The first steps were taken in 1978, when delegations were sent to Japan, the United States, France, West Germany, Switzerland, Australia, Brazil, Romania, and Yugoslavia to study patent laws there. In March of 1979, the drafting committee for the law itself was formed. It consisted of jurists and experts in foreign trade, science, and technology. The laws of 29 countries and regions were reviewed. . . . The committee solicited views of cadres in factories, scientific research institutes, universities, and government agencies in charge of industry; in all 190 opinions were received. The State Council approved the Scientific Commission's report concerning the establishment of a patent system in January 1980 and a Patent Bureau was established.<sup>33</sup>

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30. Note, *supra* note 12, at 255; see also U.S. DEPT. OF COMM., DOING BUSINESS WITH CHINA 19 (1979).

31. There are two principle types of technology transfer: patent licenses, see *infra* text accompanying note 75, and technology transfer agreements for commercial transfer of unpatentable technology, see, e.g., *infra* text accompanying note 83. See generally Note, *supra* note 11, at 212; see also F. Leung, *Recent Technology Transfer Regulations*, E. ASIAN EXEC. REP., Mar. 1985, at 9.

32. 29 Pat. Trademark & Copyright J. (BNA) 359 (Feb. 7, 1985).

33. CHINA'S NEW PATENT LAW, *supra* note 2, at 23 (citations omitted).

### C. *An Introduction to the PRC Patent Law and Regulations*

#### 1. Patent Law Overview

The Patent Law adopted by the Fourth Session of the Standing Committee of the Sixth National People's Congress offers no real surprises and does not differ drastically from United States patent law<sup>34</sup> or that of the Paris Convention members.<sup>35</sup> The PRC Patent Law was enacted by the People's Congress to "encourage invention-creation, foster the spreading and application of invention-creations, and promote the development of science and technology for meeting the needs of the construction of socialist modernization."<sup>36</sup>

"Invention-creations" are subdivided into three categories<sup>37</sup>: 1) invention—"any new technical solution relating to a product, a process or improvement thereof";<sup>38</sup> 2) utility model—"any new technical solution relating to the shape, the structure, or their combination, of a product, which is fit for practical use";<sup>39</sup> and 3) design—"any new design of the shape, pattern, color, or their combination, of a product, which creates an aesthetic feeling and is fit for industrial application."<sup>40</sup>

Any invention or utility model for which a patent right may be granted must possess novelty, inventiveness, and practical applicability.<sup>41</sup> "Novelty" is generally defined as a negative; patent protection will be denied where public disclosure or use was made prior to the date of filing. "Inventiveness" means that, as compared to the technology existing before the date of filing, the invention has "prominent substantive features and represents a notable progress" or the utility

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34. 35 U.S.C. §§ 101-104 (1982).

35. Paris Convention for the Protection of Industrial Property, Mar. 20, 1883, 25 Stat. 1372, T.S. No. 379, revised Dec. 14, 1900, 32 Stat. 1936, T.S. No. 411, revised June 2, 1911, 38 Stat. 1645, T.S. No. 579, revised Nov. 6, 1925, 47 Stat. 1789, T.S. No. 834, revised June 2, 1934, 53 Stat. 1748, T.S. No. 941, revised Oct. 31, 1958, 13 U.S.T. 1, T.I.A.S. No. 4931, revised July 14, 1967, 21 U.S.T. 1583, T.I.A.S. No. 6923 [hereinafter Paris Convention Treaty]. "The [Paris Convention] provides minimal international standards for the protection of industrial property and the repression of unfair competition. In particular, the Paris Convention provides sanctions through which its member countries combat abuses of patent rights. . . ." Note, *supra* note 11, at 210 (citations omitted).

36. PRC Patent Law, *supra* note 2, art. 1.

37. *Id.* art. 2.

38. Implementing Regulations of the Patent Law of the People's Republic of China, Rule 2 (Patent Documentation Publishing House, Jan. 19, 1985) [hereinafter PRC Regulations].

39. *Id.*

40. *Id.*

41. PRC Patent Law, *supra* note 2, art. 22.

model has "substantive features and represents progress."<sup>42</sup> To have "practical applicability," an invention or utility model must be manufacturable and produce effective results,<sup>43</sup> although the patentable design requires only novelty.<sup>44</sup> No patent right shall be issued for any invention-creation that is contrary to social morality, violates state laws, or is detrimental to public interest.<sup>45</sup> Moreover, those invention-creations for which no patent protection will be granted include scientific discoveries, rules and methods for mental activities, methods of medical diagnosis or treatment, food, beverages, drugs and other chemical products, substances obtained by nuclear transformation, and plant and animal varieties.<sup>46</sup>

The Patent Regulations provide no further insight or standard for many of these PRC Patent Law terms.<sup>47</sup> The Chinese Patent Office, however, like the United States Patent Office, has been given broad powers to apply the language of the PRC Patent Law to the application at hand,<sup>48</sup> during the examination<sup>49</sup> and re-examination<sup>50</sup> phases. Since the Patent Office is obligated to provide each applicant with its decision for rejection after re-examination,<sup>51</sup> it is likely that a body of

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42. *Id.*

43. *Id.*

44. *Cf. id.* art 23.

45. PRC Patent Law, *supra* note 2, art. 5.

46. *Id.* art. 25. Production processes are eligible for patent protection, however, for food, drugs and other related chemical products, and plant and animal varieties. PRC Regulations, *supra* note 38, Rule 25. Patents on production processes may essentially patent products otherwise excluded by the PRC Patent Law. For example, were a patent granted for a microbial process, and were the resultant microbe so inextricably a part of the invention-creation, the microbe, itself, would become effectively patented. *Cf., e.g.,* *Diamond v. Diehr*, 450 U.S. 175 (1981).

47. China had promised to supplement the PRC Patent Law with "detailed implementing rules." *China's Developing Legal Structure for Trade and Commerce: Hearings Before the Special Subcomm. on U.S. Trade with China of the House Comm. on Energy and Commerce*, 98th Cong., 2d Sess. 32 [hereinafter *China's Developing Legal Structure*] (written statement of John J. Byrne and Eugene Theroux). The regulations that were issued, however, have not proven to be very illuminating, lacking policy interpretations or examples ("as applied" illustrations for given rules and applications for patents) and frequently proffering definitions as broad as the patent law itself.

48. *See generally* PRC Regulations, *supra* note 38, Rule 53 (compliance with the PRC Patent Law's provisions).

49. *See* PRC Patent Law, *supra* note 2, art. 34 (preliminary examination), art. 35 (examination of substantive claim), art. 41 (collection of opposing views), and arts. 37 and 39 (notification of nonconformity and conformity, respectively).

50. "The Patent Office shall set up a Patent Re-examination Board." *Id.* art. 43. "The Patent Re-examination Board shall consist of experienced technical and legal experts designated by the Patent Office." PRC Regulations, *supra* note 38, Rule 58.

51. PRC Regulations, *supra* note 38, Rule 61. Such decisions will likely not differ substantially in form from typical United States patent Examiners' reasons for rejection.



case law will develop to provide indicia of current trends of the Patent Office. Interpretation and understanding, then, are matters of time and patience. The parameters should become clearer as the number of applications reviewed increases, and as appeals to the People's Court arise.<sup>52</sup>

## 2. Application Contents

Presently, the patent application for an invention or utility model must be accompanied by the following: 1) a request stating the title of the invention or utility model, along with the name, address, and general information about the inventor or creator; 2) a description specifying the technical field applicable; 3) the prior art (documented) that could be regarded as useful in understanding the invention or utility model; 4) the merits or effective results of the use of the invention or utility model as compared with the prior art; 5) a description of any figures or drawings present in the application, and a detailed description of the best mode contemplated for carrying out the invention or utility model; 6) an abstract of the main technical points; and 7) a claim, supported by the description and stating the extent of protection asked for.<sup>53</sup>

## 3. Filing Procedure

Foreign intellectual property owners are invited to apply for patents through patent agents designated by the State Council for the People's Republic of China.<sup>54</sup> As of March 1986, these authorized agents include: the China Council for the Promotion of International Trade (CCPIT), in Beijing; the Shanghai Patent Agency; and the

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This is not, however, necessarily reassuring. United States Office Action rationale are not infrequently rife with vagueness and incongruity. Often, clearly reasoned rejections (or allowances) require several back and forth arguments with an Examiner or appeal to the Board of Appeals or the federal courts.

52. Judicial review is guaranteed by the PRC Patent Law, *supra* note 2, art. 43. However, a decision by the Patent Re-examination Board to declare a utility model or design patent right invalid is final. *Id.* art. 49.

53. *Id.* art. 26; PRC Regulations, *supra* note 38, Rules 17, 18. All documents must be submitted in duplicate. *Id.* Rule 16. Complete procedures are detailed in Chapter II of the PRC Regulations. Note, however, that utility model applications, as well as design applications, are subjected only to nominal examination. PRC Patent Law, *supra* note 2, art. 40; *see also infra* note 57 and accompanying text. This may mean that the application materials for utility models need not be as comprehensive as the regulations might suggest, since no substantive examination will be made.

54. PRC Patent Law, *supra* note 2, arts. 18, 19. This convention may lessen the burden of foreign intellectual property owners to supply all documents in Chinese, as required by PRC Regulations, *supra* note 38, Rule 4.

China Patent Agency Co. Ltd., in Hong Kong.<sup>55</sup> Priority rights will be given to applications for inventions or utility models received within a twelve-month period (six months for designs) after application in another country, i.e., the date of the foreign application will become the date of the Chinese application.<sup>56</sup>

Neither the PRC Patent Law nor the PRC Regulations contain time frames under which the Patent Office is obligated to act upon and grant or deny an application. The invention patent applicant, however, has three years from the date of filing in which to request a substantive examination by the Patent Office, and failure to make such a request constitutes a withdrawal of the application.<sup>57</sup> The Chinese patent system is, therefore, a delayed, substantive examination system, designed to avoid the problems inherent in *pro forma* examination systems.<sup>58</sup> The chief concern, however, is that this delayed system will create a large backlog of examinations, during which time no protection will be extended to the applicant.<sup>59</sup>

Once granted, the duration of the patent right is fifteen years for inventions and five years for utility models and designs, with the latter two being entitled to one three-year renewal.<sup>60</sup> Patent rights cease if the patentee abandons the rights by failure to pay the annual fee, by written declaration,<sup>61</sup> or by revocation subsequent to re-examination of the patent initiated by third party objections.<sup>62</sup>

Outside the scope of the PRC Patent Law and its regulations are, of course, the great socio-political differences that must be bridged, and the economic and legal compromises that must inevitably be made for successful international trade of intellectual property. The interest of American intellectual property owners in the PRC Patent Law must begin, then, with practical applications from the American perspective.

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55. PRC Regulations, *supra* note 38, Rule 14. The State Council reserves the right to designate other agencies as necessary. *Id.*

56. PRC Patent Law, *supra* note 2, art. 29.

57. *Id.* art. 35. Question arises as to whether this also constitutes a waiver of ownership rights in general. The Patent Office may, however, proceed with an examination on its own initiative. *Id.* Applications for utility models or design patents are subject only to nominal (i.e., *pro forma*) examination. *Id.* art. 40; see *supra* note 53.

58. CHINA'S NEW PATENT LAW, *supra* note 2, at 30. "If applications are only examined as to form, too many items will be accepted for patents that are not of a high technical level. The pre-1979 French patent system is illustrative of such problems; 40 percent of the inventions accepted for patents in France were not accepted elsewhere." *Id.* (citations omitted).

59. CHINA'S NEW PATENT LAW, *supra* note 2, at 30.

60. PRC Patent Law, *supra* note 2, art. 45. The periods covered by these patent rights are tolled as of the date of filing. *Id.*

61. *Id.* art. 47.

62. *Id.* art. 48.

## II. THE IMPACT IN THE UNITED STATES:

### A. Introduction

Uncertainty may indeed be at the heart of the United States' concerns. Consider the basic question put forward by Congressman Tauke of the Special Subcommittee on U.S. Trade with China, shortly after the PRC Patent Law was proffered: "[F]rom a very practical standpoint, what difference does this patent law make to U.S. businesses that are attempting to do business in China?"<sup>63</sup> The response, though not profound, was nonetheless summarily accurate:

[That] remains to be seen. [One doubts] very much that it will make a big difference any time soon, partly because . . . companies that have existing patents that are valuable will not be able to get patent protection on those patents in China the way the Chinese law is written so we are only talking about inventions that are patentable that are developed basically from now on.

But research, improvements, and inventions are occurring all the time and we think and . . . hope that we can look forward to a long future of trade and business relations with the Chinese. So, in the coming years the [PRC Patent Law] should make a positive difference in the level of trade.

For some companies that have things that are ready for patent applications now, it can make a difference. [Perhaps] the busiest participants in the Chinese patent law area may be lawyers in China and maybe overseas who become involved in the preparation of the submission of patent applications.

It will take a while . . . before there will be a major impact on trade.<sup>64</sup>

In short, China's Patent Law presents intellectual property owners with neither a bleak outlook nor *carte blanche* for the protection of technological secrets. Impact predictions are, therefore, necessarily vague. Before more absolute judgments on the international impact of the PRC Patent Law may be made, the United States and other foreign investors must simply wait for the PRC Patent Office and appeals courts to make practical applications of the patent law, and for the Chinese government to make and implement policy changes, if any. In the interim, however, careful observation of the differences between the PRC and United States patent law, the extent and types of protec-

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63. *China's Developing Legal Structure*, *supra* note 47, at 69.

64. *Id.* at 69-70.

tion now available in China, and the remedies available for patent infringement may help predict what ramifications await the American intellectual property owners.

### B. Major Issues

#### 1. West Meets East

As mentioned above,<sup>65</sup> the differences between the Chinese and United States patent laws are not profound. The differences that do exist, however, should be examined carefully.

First, the PRC patent law forbids a patent for an invention used or otherwise disclosed domestically or described in publications in China or abroad before the filing date of the application; there is no grace period.<sup>66</sup> Further, the PRC did not choose the route hoped for by some foreign investors, to allow retroactive applications or patent applications for inventions developed prior to the inception of the PRC Patent Law. The PRC Patent Law forbids patent rights to inventions patented, or under application abroad.<sup>67</sup> Such provision exacerbates the lag-time effect referred to above in response to Congressman Tauke and discounts the hundreds of thousands of patented processes and products owned by American individuals and companies. While this proscription is not unusual, foreign intellectual property owners ought to be aware that China offers no concession simply because the PRC Patent Law is new.

The PRC Patent Law is necessarily, of course, a give-and-take piece of legislation, prone even to international politics. One cannot lose sight of this concept when examining the PRC Patent Law's variances and exclusions. For example, while a short-term disincentive for

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65. See *supra* notes 34-62 and accompanying text.

66. PRC Patent Law, *supra* note 2, art. 22. Article 24 allows a six-month grace period carefully circumscribed to allow disclosure under three approved circumstances: 1) government sponsored or recognized exhibitions; 2) academic or technological meetings; and 3) disclosure beyond the control of the applicant. This differs from the one-year grace period granted to United States patent applicants by 35 U.S.C. § 102(b) (1982).

67. PRC Patent Law, *supra* note 2. Article 22 sets forth the three basic requirements for the grant of a patent: "Any invention or utility model for which patent rights may be granted must possess novelty, inventiveness and practical application." *Id.* art. 22. Article 22 goes on to define each of these three required attributes. *Id.* The PRC Patent Law, unlike United States Patent Law, is a first-to-file system not first-to-invent. American inventors have the option to "swear back" prior to the date of filing to the date the invention was first reduced to practice to overcome prior art. 37 C.F.R. § 1.131 (1987).

Art. 29, however, provides for a twelve-month grace period for foreign applicants from the date of application abroad for inventions and utility models; six months for designs. *Id.* art. 29. This twelve-month grace period is similar to United States law. See 35 U.S.C. § 102 (1982).

foreign investors, the inclusion of foreign patents in the novelty requirement (i.e., where the mere existence of a foreign patent or application constitutes failure of the law's novelty requirement) protects China's short-term interests in the technological race.<sup>68</sup> This rationale helps explain several exclusions present in the PRC Patent Law.

China's desire to protect its short-term interests in technology has required the exclusion of chemicals and pharmaceuticals from patent protection, since it is believed that "granting protection to these items may diminish the well-being of their people more than it will help their economy."<sup>69</sup> Like methods of medical diagnosis and treatment, and food and beverage products, pharmaceutical products are considered too close to the health and welfare of the people and, hence, improper subjects for patent protection.<sup>70</sup>

Exclusion of chemical products, however, is difficult to justify in terms of public policy. For example, while some proffer: "It is possible that a chemical could be created through more than one process [and, therefore,] patenting the product would restrict research,"<sup>71</sup> such thesis ignores the concepts that patent protection, both in China and the United States, may be granted to any novel process, regardless of the lack of product novelty, and that cross-licensing product and process patents is a proven way to maximize the economy of manufacturing a desired product by efficient means. It is more likely that China wishes to protect an industry not yet highly developed. China's industrial situation is similar to that of Japan's prior to the 1970's when they, too, prohibited patent protection of chemical products to allow domestic industry to grow.<sup>72</sup> Many believe that China, like Japan, will reconsider extending protection to chemical products and other currently excluded products and processes once China's industry is more developed.<sup>73</sup>

The patent holder's major obligation under the PRC Patent Law is to manufacture the patented product or use the patented process in

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68. Cf. CHINA'S NEW PATENT LAW, *supra* note 2, at 25. ("[T]he patent system has been justified on two basic grounds. First, it will facilitate foreign interchange, trade, and investment and the resulting acquisition of advanced technology. And second, it will stimulate and protect domestic scientific research and encourage the use of new inventions in production.").

69. *China's Developing Legal Structure*, *supra* note 47, at 25-26 (statement of John J. Byrne, Esq.).

70. CHINA'S NEW PATENT LAW, *supra* note 2, at 28.

71. *Id.*

72. *China's Developing Legal Structure*, *supra* note 47, at 64 (statement of Tao-tai Hsia).

73. *Id.*

China himself, or do so vicariously.<sup>74</sup> If the product or process is not manufactured or used within three years of the patent grant, the Patent Office may require compulsory licensing to a party showing inability to establish a license with the patentee and the ability to exploit the patent.<sup>75</sup> This is a remarkable contrast to the patent rights granted in the United States. In the United States, the patentee has "the right to exclude others from making, using, or selling the invention throughout the United States" whether or not the product or process is exploited.<sup>76</sup> The PRC provision is intended to prevent patent holders from dampening technological progress.<sup>77</sup>

Less controversial by American business standards is the issue of computer software. The question whether to protect computer software has not been resolved by the current PRC Patent Law. Earlier drafts of the patent law specifically excluded software, but the final version contained no mention of the subject.<sup>78</sup> The Chinese remain uncertain whether to protect software under a future copyright law or to extend protection under the patent law. China is not alone in this quandary and, like most countries, including the United States, is expected to adopt the view that computer software is more copyrightable than patentable.<sup>79</sup>

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74. CHINA'S NEW PATENT LAW, *supra* note 2, art. 51.

75. *Id.* arts. 52, 54. Compulsory licensing does not, however, exclude the patentee from licensing negotiations with parties chosen by the State to receive a license. Moreover, dissatisfaction with the patent office adjudication of the "exploitation fee" is appealable to the people's courts. *Id.* art. 58.

"In order to achieve the legislative purpose of promoting the development of science and technology and of meeting the needs of the construction of socialist modernization, the Chinese patent law attaches very much importance to the exploitation of the patents." 1 CHINA PATENTS & TRADEMARKS 17 (1985) (quoting Huang Kunyi, Director General PRC patent office) (official PRC publication).

76. 35 U.S.C. § 154 (1982). A widely exercised practice in the United States is the accumulation and shelving of patented inventions—the so-called "paper patents." Such patents are used solely to exclude others from the market during the term of the patent. The compulsory licensing provision prevents this "stockpiling" approach to patent protection.

77. CHINA'S NEW PATENT LAW, *supra* note 2, at 31.

78. See *id.* at 21 (written statement of Tao-Tai Hsia, Chief, Far Eastern Law Division, Library of Congress).

79. See *id.* at 67 (statement of John J. Byrne, Esq.). By omitting any reference to software patentability, the PRC leaves open the floodgates of foreign applicants seeking greater secrecy protection for valuable computer software. Although the general view in the United States is that computer software is a proper subject of copyright protection, see, e.g., *Apple Computer v. Franklin Computer*, 714 F.2d 1240, 1249 (3d Cir. 1983) ("[A] computer program . . . is a 'literary work' and is protected from unauthorized copying. . . ."), patent office reviewers and United States courts remain unable to draw a clear line, allowing or disallowing patent protection of software *qua* software. See,

China's choice to exclude plant and animal species reflects a view, no longer accepted in the United States,<sup>80</sup> that one cannot patent natural vis-à-vis man-made objects. The Chinese believe that "[l]iving examples of the same species . . . are not identical, and the variations might make them difficult to patent."<sup>81</sup> PRC officials are not unanimous in this thinking, however, and the director of the Patent Office has suggested that animal and plant species may be offered protection in the future under a separate, specialized law.<sup>82</sup>

## 2. Alternative Protection

To be sure, exclusion of certain invention-creations under public policy and economic rationales is reasonable in the eyes of the PRC, despite any chilling effect it might have on putative foreign applicants. It is clearly in the interests of China, as in other economically developing nations, to avoid unnecessary perpetuation of security in technologies crucial to their modernization process. Arguably, however, foreign investors are not without other measures sufficient to protect their technological inroads into China. Foremost among these is the Trade Agreement of 1979,<sup>83</sup> which was couched in careful terms in an attempt to embrace both arms-length bargaining desired by the Chinese and secrecy protection desired by intellectual property owners.<sup>84</sup> The key section of the Trade Agreement is Article six, which provides, *inter*

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*e.g.*, *In re Bradley*, 600 F.2d 807, 811 (C.C.P.A. 1979) ("[not] all computer program or program-related inventions are nonstatutory under [35 U.S.C.] § 101."; *Paine, Webber, Jackson & Curtis v. Merrill Lynch, Pierce, Fenner & Smith*, 218 U.S.P.Q. 212, 218 (D. Del. 1983) (a computer program is a proper subject matter for patent protection under 35 U.S.C. § 101). If China decides to extend copyright protection to computer software, as it is expected to do, then it may be most prudent to enter a specific exclusion into the patent law in an effort to eschew obfuscation regarding in which domain software belongs.

80. *See, e.g.*, *Diamond v. Chakrabarty*, 447 U.S. 303 (1980) (a genetically-engineered micro-organism found not otherwise naturally occurring constitutes a "manufacture" or "composition of matter" within the meaning of 35 U.S.C. § 101); U.S. Pat. No. 4,736,866 issued April 1988 (Patent for a "Transgenic Nonhuman Eukaryotic Animal," assigned to Harvard University) covers a cancer prone mouse; the first multi-cellular, higher animal patent).

81. CHINA'S NEW PATENT LAW, *supra* note 2, at 28.

82. *See id.* at 29.

83. Trade Agreement, *supra* note 19, art. vi.

84. It has been suggested that the United States lacks adequate guidelines in its foreign trade agreements to protect American interests in high-technology industries. *See generally* Note, *United States-Japan Trade Relations: Meeting the Japanese Challenge*, 10 BROOKLYN J. INT'L L. 157, 178-80 (1984). The Trade Agreement of 1979 is a careful attempt to maintain American interests in the PRC, but, as noted below, its practical efficacy is questionable. *See infra* notes 86-88 and accompanying text.

*alia:*

1. Both contracting parties in their trade relations recognize the importance of effective protection of patents, trademarks, and copyrights. Both contracting parties agree that on the basis of reciprocity . . . persons of either party may apply for . . . exclusive rights . . . in the territory of the other party in accordance with its law and regulations.

3. Both contracting parties agree that each party shall seek, under its laws and with due regard to international practice, to ensure . . . protection of patents and trademarks equivalent to the . . . protection accorded by the other party.

4. Both contracting parties shall permit and facilitate enforcement of [protection rights] and . . . provide means, in accordance with their respective laws, to restrict unfair competition involving unauthorized use of such rights.<sup>85</sup>

Many believe that the terms of this agreement sufficiently protect American patents on a basis co-extensive with United States patent law.<sup>86</sup> It is not clear, however, whether protection granted to American intellectual property owners pursuant to the Trade Agreement is the same as that available to the Chinese under United States laws, or whether China need only extend Chinese laws for property protection.<sup>87</sup> If only the latter were true, current patent owners<sup>88</sup> would be strictly limited to expressed contractual remedy, without additional remedies implied by the Trade Agreement.

With the subtle meanings of the 1979 Trade Agreement in doubt, elevating the importance of the written contract, it behooves the intellectual property owner to pay special attention to contract negotiations. Thus, not only would investments initiated by contract require careful scrutiny, but since "[d]rugs, foods, plant [and animal] species, and chemically-produced products cannot be patented under [the PRC Patent Law,] . . . investment projects that involved new developments in these areas would also need carefully written contracts."<sup>89</sup>

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85. Trade Agreement, *supra* note 19, art. vi.

86. See *China's Developing Legal Structure*, *supra* note 47, at 67 (written statement of John J. Byrne and Eugene Theroux to the Special Subcommittee on U.S. Trade with China).

87. See *id.* at 30-31.

88. "Current patent owners" refers to those patent owners unable to receive patent protection in the PRC. See *supra* notes 66-67 and accompanying text.

89. CHINA'S NEW PATENT LAW, *supra* note 2, at 34; cf. *China's Developing Legal Structure*, *supra* note 47, at 24 ("we advise American firms to negotiate the very strong-



Fortunately for the concerned intellectual property owner, China has drifted away from the Japanese-style foreign exchange contract—typically, a one-page document which purports to work out the given project and its difficulties by discussing them at the end<sup>90</sup>—to the longer and more complex American style contract, having found the latter more useful in getting important matters under control.<sup>91</sup>

Chinese firms have generally been faithful to contracts effectively creating private patent protection, which parallel protection granted in the United States. Problems begin, however, with third parties in China. Regrettably, "there has been no really effective remedy at law in China against [third parties violating contractual agreements] because civil remedies in the nature of a restraining order, or damages, are not available in China—and the enactment of [the Patent Law] will not change this situation. . . ." <sup>92</sup> Thus, without broad meaningful enforcement and remedy at law, contract protection is not without risk.

Finally, the last vestige of the PRC's first patent law,<sup>93</sup> now entitled "Regulation for Reward and Encouragement of Natural Science"<sup>94</sup> (Regulation), coexists with the PRC Patent Law, creating a two-track system of patents and certificates of merit and award. This regulation covers some items excluded by the PRC Patent Law, such as plant and animal species, and while it does not offer protection from infringement, it does make monetary awards—albeit marginal—for innovation and achievement.<sup>95</sup>

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est possible language in a license agreement where secrecy and nondisclosure provisions—and remedies for their breach—are concerned.") (statement of Eugene Theroux, Esq.).

90. See *China's Developing Legal Structure*, *supra* note 47, at 213.

91. See *id.*

92. *Id.* at 24 (statement of Eugene Theroux, Esq.).

93. See *supra* notes 5-7 and accompanying text.

94. The Regulation on Awards for Technical Improvements (see *supra* text accompanying note 7) was so renamed and revised in 1979. See CHINA'S NEW PATENT LAW, *supra* note 2, at 22.

95. Rather than being assuaged by small monetary awards for innovation, patience may prove more prudent. As discussed above, *supra* notes 69-73, 78-82 and accompanying text, critics of the PRC Patent Law's exclusionary clauses believe that practical experience will ameliorate the fears of the Chinese, who will discover that their industry will be best advanced "if they extend [patent] protection to products because that is how they are going to get [American] companies to give their know-how to them." *China's Developing Legal Structure*, *supra* note 47, at 67 (statement of John J. Byrne, Esq.).

### 3. Remedy

Generally, any exploitation unauthorized by the patent holder is considered to be an infringement.<sup>96</sup> Typically, within two years from the date on which the patent holder knew or should have known of the infringement,<sup>97</sup> a request for injunction or damages or both may be made to either the Patent Office or the Supreme People's Court. In the event of an unsuccessful request to the former body, an appeal to the latter may be made within three months of the Patent Office's decision.<sup>98</sup> In serious cases of infringement, criminal sanctions may be applied under Article 127 of the Criminal Code, designed originally for violations of the trademark control laws.<sup>99</sup>

Certain acts, however, will not be considered infringements. These acts include: 1) the use or resale of a product sold by the patentee or licensee; 2) the use or sale of a product which the user or seller did not

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96. PRC Patent Law, *supra* note 2, art. 60.

97. *Id.* at 61.

98. *Id.* art. 60. The scope and methods of determining damages, pending promulgation of a Civil Code, are to be determined from and preferred as follows: 1) the PRC Constitution; 2) the laws and regulations promulgated by the National People's Congress or its Standing Committee; 3) the regulations and orders enacted by the State Council; 4) rulings and orders of various ministries and commissions under the State Council; 5) the laws and regulations of local people's congresses, people's governments, or autonomous regions; 6) directives "of an instructive nature" of the Supreme People's Court; and 7) practice, where it is not in conflict with any written law. See CHINA'S NEW PATENT LAW, *supra* note 2, at 32, n.62.

99. PRC Patent Law, *supra* note 2, art. 63. Sanctions include terms of imprisonment not exceeding three years, detentions, and fines. See CHINA'S NEW PATENT LAW, *supra* note 2, at 32. Actions applying *mutatis mutandis* Article 127 of the criminal code are considered appropriate in three circumstances of criminal acts against the PRC Patent Law (not the individual):

1. Where there is an unlawful imitation of the patent of another person and the circumstances are serious, the person or persons who bears or bear responsibilities shall be sentenced to less than three years' imprisonment or detained or fined by applying *mutatis mutandis* Article 127 of the Criminal Law.
2. Where any person, in violation of the provisions of Article 20 of the Patent Law, unauthorizedly files in a foreign country an application for a patent that divulges an important secret of the State, and the circumstances are serious, he shall be sentenced to less than seven years' imprisonment, or detained or deprived of his political rights by applying *mutatis mutandis* Article 187 of the Criminal Law.
3. Where any (official) of the Patent Office or any (official) concerned of the State acts wrongfully out of personal considerations or commits fraudulent acts, and the circumstances are serious he shall be sentenced to less than five years' imprisonment or detained or deprived of his political rights by applying *mutatis mutandis* Article 188 of the Criminal Law; if the circumstances are extremely serious, he shall be sentenced to more than five years' imprisonment.

1 CHINA PATENTS & TRADEMARKS 8 (1985) (official PRC publication).

know was made or sold without authorization; 3) third parties who independently invent the product or process or make necessary preparations for its making or using before the filing date of the complaining patentee's application; 4) the use of a product or process used in foreign transport equipment that temporarily crosses PRC territory, territorial waters, or airspace, or foreign use for its own needs in its devices and installation; and 5) the use of a product or process in scientific research.<sup>100</sup>

These exculpatory categories are largely similar to acts of noninfringement in the United States and other countries. The second of these exceptions, however, is potentially dangerous to foreign patent holders in that it essentially allows "good faith" infringement. Under United States law, on the other hand, actual notice or knowledge of the patent is not required to find infringement. Rather, lack of notice serves only as a limitation on damages.<sup>101</sup> Arguably, however, China included this clause to protect the majority of Chinese industries which, at this time, are unfamiliar with patent matters.<sup>102</sup> The problem, however, is that "if the [alleged] infringer claims a lack of knowledge, it will be difficult for the patent owner to prove knowledge. It is hoped that at least the burden of proof will be on the [alleged] infringing user and seller to prove such a lack of knowledge."<sup>103</sup>

### III. CONCLUSION

The implementation of a patent law in the People's Republic of China is an impressive reconciliation of individual monopoly in modern trade with a historically socialist culture. The governmental support and proliferation of economic laws during the past decade reveal a sincere interest of the PRC to reform and modernize their industry.<sup>104</sup>

The realization of [China's] reform and modernization program depends greatly on imported capital and technology. Along with other recent pieces of legislation, . . . the Patent Law is an important step to facilitate foreign trade. In addition, it can be seen as a part of the development of a legal framework for

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100. PRC Patent Law, *supra* note 2, art. 62.

101. 35 U.S.C. § 287 (1982).

102. See *China's Developing Legal Structure*, *supra* note 47, at 26 (statement of John J. Byrne, Esq.). Exclusion of prior third party inventors was designed to protect those instances in which substantial preparations for production were made. See *CHINA'S NEW PATENT LAW*, *supra* note 2, at 32.

103. *China's Developing Legal Structure*, *supra* note 47, at 26 (statement of John J. Byrne, Esq.).

104. See *Tay & Kamenka*, *supra* note 4, at 1.

economic life that has since 1979 gradually been strengthening the status of law in general in the People's Republic [of China].<sup>105</sup>

The PRC Patent Law is, by all appearances, fair and straightforward. "[The] protection United States patentees will receive in China will be largely determined, however, by how the Chinese administer their law."<sup>106</sup> The PRC regulations have helped to fill in the gaps of the patent law, but only when individual controversies have arisen and been judicially determined will a more profound understanding of the PRC Patent Law develop.

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105. CHINA'S NEW PATENT LAW, *supra* note 2, at 35.

106. *China's Developing Legal Structure*, *supra* note 47, at 26 (statement of John J. Byrne, Esq.).

