

Exceptions and limitations to patent rights - China's Experience

1. Provisions in the Patent Law

Article 69 (1) of the Patent Law of the People's Republic of China provides that:

None of the following shall be deemed as infringement of the patent right:

(1) where, after the sale of a patented product or a product obtained directly by a patented process by the patentee or any entity or individual authorized by the patentee, any other person uses, offers to sell, sell, or imports that product;

(2) ...

2. Purpose of the principle

The patent exhaustion principle is a very important limitation on patent validity, and its purpose is to prevent the patent protection from exceeding reasonable limits, which has a negative impact on the normal economic and social order.

The fundamental purpose of the system is that anyone from the public is entitled to the freedom of disposing of his/her legally purchased product which is a patented product or a product obtained directly by a patented process and is sold by the patentee or the licensee. Afterwards the purchaser is free to use, offer to sell, or sell the purchased product without infringing the patent in question.

The rationales for establishing the exhaustion of patent rights are on the one hand to safeguard the legitimate interests of the patent holders when they are granted exclusive rights within a limited period of time which allows them to exert control over the manufacturing and first sale of the product, and with such advantage they can get compensation for their cost spent on the invention and creation, thus safeguarding their legitimate interests. On the other hand, from the perspective of the legitimate interests of the general public, if the succeeding wholesale, sale, assignment and use of the patented product needs to get authorization from the patent holders after the patent holder or his/her licensee has launched the patented product to the market, the free circulation and normal use of the patented product will be impeded and hence produce negative impact on the

normal manufacturing and distributing activities as well as on the economic and social orders.

3. Several issue regarding the patent exhaustion principle

First, the patent exhaustion principle applies to every piece of patented product launched to the market. The so-called "exhaustion" means the patentee exhausts his/her control over the patented product which is sold by himself/herself or by the licensee and he/she has no right to interfere into the use, offer for sale, or sale of the patented product by anybody else in any manner. But it does not mean that the entire patent rights are exhausted.

Secondly, the principle of patent exhaustion applies to "legally sold patented products", which means the sale by the patentee or by the licensee of a patented product or a product obtained directly by a patented process. If the purchased product is sold without authorization by the patentee or the licensee, the exhaustion principal cannot be applied as a defense.

Thirdly, Exhaustion of patent rights includes national exhaustion and international exhaustion. It is a case of international exhaustion of patent rights when the law stipulates that legally sold products may be imported, which means the parallel importation of patented products is allowed by the laws in China.

4. Judicial Practices in China

(1) Low Utilization Rate of the Patent Exhaustion Principle

In the judicial practice in China, the use by parties of patent exhaustion as an infringement defense is uncommon mainly due to the following reasons.

(a) In a patent infringement dispute, the defendant may use the following as defenses: invalidation of the patentee's patent, the implemented technology to be prior art, the implemented technology not included in the scope of patent protection, evidence for the goods sold to be of legitimate sources, and other exceptions that are regarded as non-infringement of patent rights. The application of patent exhaustion as defense must meet certain conditions, and therefore it is relatively normal to find the utilization of patent exhaustion uncommon.

(b) In fact, from the perspective of the patentee, once the product is sold by the patentee or by entities and individuals with the authorization of the patentee, the patentee seldom files lawsuits if other people use, offer to sell, sell or import the sold product.

(2) Analysis of typical cases

(a) The focus of some cases lies in whether the allegedly infringing product is sold by the patentee or by entities and individuals authorized by the patentee. In those cases, the defendant argues that the product in question is patented product purchased from the plaintiff or patent licensee, thus the patent exhaustion principle applies. But the plaintiff maintains that the product in question is manufactured by the defendant, thus suing the defendant for manufacturing patented products without authorization. Therefore the focus of the case is whether the defendant's product is manufactured by himself or purchased from the patentee.

(b) Some cases involve the recyclable used bottles. The plaintiff holds an industrial design patent for the bottle. The defendant argues that the patent exhaustion principle should apply when he has reclaimed the used bottles and filled them with new alcohol. Some courts hold that "the used bottles purchased by the defendant are equivalent to raw materials for the new bottles, and the cleaning and disinfection processes are a form of processing in disguise, after which the used bottles embody the function of new bottles and become new products to reenter the circulation of bottles. It is therefore assumed that the using of used bottles for new alcohol by the defendant has gone beyond the traditional sense of use. Such activities in essence are manufacturing new bottles or the re-production of bottles, which should be deemed to be a violation of the plaintiff's patent right". Nevertheless, some other courts believe that such a case should be considered exhaustion of patent. How to handle this kind of cases remains controversial.

(c) A certain case involving patent exhaustion is a classic one, which illustrates the theory of implied license. The Supreme People's Court holds that "if the sole reasonable commercial use of certain item is to be utilized to exploit a patent, the sale of the said item by the patentee or by a third party authorized by the patentee means implied license on the part of the purchaser to exploit the patent." The case also demonstrates the differences between implied license and patent exhaustion. The principle of patent exhaustion in Article 69 can only involve the exhaustion of the legitimately sold product itself, instead of other patent rights associated with the legitimately sold product. Therefore judging from this point of view, implied license theory has a broader scope than the exhaustion of rights theory.

Patented Technology Transfer - Experiences of China

1. To implement the patent navigation pilot project to foster an industry patent market with assembled resources and active circulation.

The State Intellectual Property Office launched in April 2013 the patent navigation pilot project which is based on the utilization of patent information resources and patent analysis and which absorbs the utilization of patent into industrial technology innovation, product innovation, organizational innovation and business model innovation, to lead and support the scientific development of industries. One goal of the project is to initially cultivate a patent market system with industrial features that is rich in resources, fair in price, active in circulation and strong in protection. For patent-intensive industries, the State Intellectual Property Office has selected eight industrial parks for pilot work to attract various service resources with a view to especially promote the industry patent market featuring whole process development of services from the creation of invention, patent application to patented technology transfer.

2. To carry out the Patent Exhibition and Trading Platform programs to serve the transfer and commercialization of patented technology.

The State Intellectual Property Office implemented the "National Patented Technology Exhibition and Trading Platform Program" since 2006 which promoted the construction of national patented technology marketplace. After years of rapid development, as of now, the State Intellectual Property Office has identified and reserved 41 patented technology exhibition and trading centers. A primary national service system and network platform with visibility and credibility for patented technology exhibition and trade was established. Each patented technology exhibition and trading center provides permanent exhibition and trade sites that are fair and cost-effective with a commonweal nature to suppliers and users of patented technology, especially to non-service inventors and small and medium enterprises. This has effectively complemented the government's role in providing public service to SMEs and non-service inventors.

3. To intensively organize technology fairs to facilitate the transfer of patented technology.

More than a dozen technology fairs are held annually across the country to promote the dissemination, protection and transfer of IPR as well as to provide a service platform for the transfer of patented technology. The main contents include: First, to carry out surveys on needs before the fair and organize mass numbers of exhibitors to participate in the fair. Second, to hold information sessions and set up negotiate

zones. Third, to set up the IP helpdesk and service teams which provide services regarding the transfer, licensing, pledge, evaluation and retrieval of patent. Fourth, to organize forums and publicity activities in various forms. Fifth, to set up the Office for Intellectual Property Protection with the aim to protect intellectual property and to mediate intellectual property disputes during the exhibition.

4. A relevant case

Shenzhen Lianchuang Intellectual Property Service Centre (hereinafter referred to as the "Center") is recognized by the State Intellectual Property Office the second batch of national patented technology (Shenzhen) exhibition and trading center. Since its establishment in 2008, the center has vigorously engaged in the patented technology transfer and has specially set up a trading department of eight full-time staff. In the transaction of low value patents, the Center has completed 116 deals with a trading volume of RMB 1,632,000 and the actual profit of RMB 309,300 as of 2013. There are more than 80 intended deals with intended contract volume of RMB 1,500,000 odd. In terms of high value transactions of patents, the Center has signed cooperation agreements with such renowned companies as Tencent to help them acquire high value patents to be used as their patent reserve and defenses against litigation by charging them a fee that accounts for certain percentage of the final turnover costs.