

Judge Cheng Reacts to Congressional Characterization of his “Criticism” of U.S. Patent Reform; Explains Academic Study

Last month there was much concern when a famous Chinese leader wrote an article about the United States patent reform proposals, characterized by two Congressmen in a letter to colleagues styled as *Chinese Spell Out Weakness of Patent Reform Act*.

The article’s author – one of the most highly respected former members of the Chinese judiciary who now heads an academic think tank – has provided an analysis of the Congressmen’s translation and a further elaboration (attached, first in Mandarin and then English) to set the record straight.

Regards,

Hal

[Letter from Judge Cheng Yongshun to Catherine Sun]

Lawyer Sun:

Happy New Year!

Thank you for your email informing the feedback of some U.S. congressmen and readers to my published article. I noticed the discrepancies between my original article and the English translation from which the feedback cited, so it may have caused the readers unable to understand the purpose for me to publish the article. Therefore, I wrote a clarification, and hope to publish it in relevant internet sites, so that American readers can understand the original purpose of my article.

Thank you!

Cheng Yongshun

Jan. 2, 2008

Source:

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CHINESE SPELL OUT WEAKNESS OF PATENT REFORM ACT

Dear Colleague,

In September the House passed H.R. 1908, the Patent Reform Act of 2007 by a narrower-than-expected vote of 220-175. During the debate on H.R. 1908, a number of Members noted that the bill would weaken U.S. patent protections and thereby encourage developing nations to do likewise. Now a leading Chinese intellectual property scholar has reinforced this point in an article in China Intellectual Property News, an official government publication.

The author is Yongshun Cheng, former senior judge and Deputy Director of the IP Division of the Beijing High People's Court (the most senior court in Beijing). Mr. Cheng has been nominated as one of the 50 most influential IP figures world-wide, according to the UK publication "Managing IP."

In his article, Mr. Cheng makes the following points concerning H.R. 1908.

**The bill "will weaken the right of patentees greatly, increase their burden, and reduce the remedies for infringement."*

**The bill is "friendlier to the infringers than to the patentees in general as it will make the patent less reliable, easier to be challenged and cheaper to be infringed."*

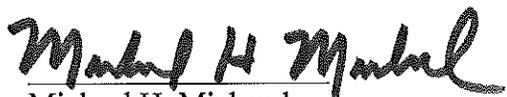
**"It is not bad news for developing countries which have fewer patents. Many of the Chinese companies are not patent owners in the U.S. market and their products are often excluded from the market because of patent infringement accusations. This bill will give the companies from developing countries more freedom and flexibility to challenge the relative US patent for doing business in the US and make it less costly to infringe."*

**The bill conflicts with U.S. Government efforts to pressure the Chinese Government to strengthen its own intellectual property rights."*

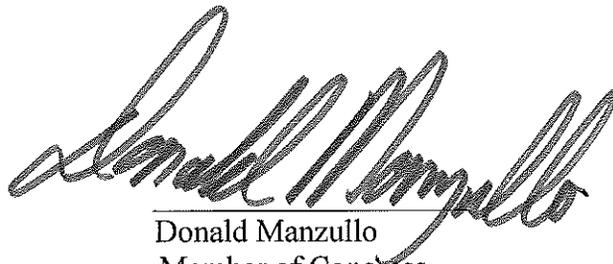
And, ominously, Mr. Cheng suggests to his Chinese readers that "The US law could be used as reference when we make the third amendment of Chinese patent law." Attached is a copy of the article in Chinese and an English translation.

The companion legislation to H.R. 1908 is now pending in the Senate and could be voted on early next year. If a conference report on this legislation returns to the House for consideration, Members are urged to carefully consider its implications for international patent rights and impact on U.S. competitiveness.

Sincerely,



Michael H. Michaud
Member of Congress



Donald Manzullo
Member of Congress

Translation of Cheng Article

as provided by

the

Congressmen:

The Greatest Changes of the U.S Patent System in the Last 50 Years

By Yongshun Cheng and Li Lin

Brief Introduction

The bill passed in the House of Representatives last September is going to make the greatest changes to the U.S. patent system in the last 50 years. Therefore, as soon as the bill was introduced into the House and the Senate, it has drawn great attention not only from the U.S., but also worldwide. Could this bill achieve the expected aim of encouraging innovation, and benefiting both inventors and the whole economy? This article will analyze the issues in the debate in relation to the current Chinese patent law system.

On April 18, 2007, Rep. Howard Berman, a Democrat from California, and Rep. Lamar Smith, a Republican from Texas, jointly proposed a bill to the House of Representatives, entitled "Patent Reform Act, 2007" (hereinafter referred to as "The Bill"). On September 7, the U.S. House of Representatives adopted the Bill by 220 votes in favor and 175 votes against. A bill similar to this Patent Reform Act along the same lines is awaiting a vote by the whole House in the U.S. Senate.

This bill is supported in the U.S. by most large high-tech companies in the U.S., such as Apple and Microsoft. They claimed that this bill could help maintain U.S. leadership in the field of innovations, reduce the number of low quality patents, reduce the number and cost of litigation, and balance the rights of patentees and the rights of defendants. At the same time, we have also learned that this bill faces strong opposition coming from various quarters. The opponents include pharmaceutical, medical technology, and biotechnology companies, such as Bistol-Myers Squibb, Amgen, as well as the venture capital community. The opponents believe that this legislation will weaken the patent protections in the U.S. What makes this bill so controversial? This article will answer this question on the basis of the main provisions included in the bill with the reference of Chinese patent law system.

Changes on the Review Process of Patent Applications

Firstly, this bill changes the U.S. patent system from the "first to invent" rule to the "first to file" rule, makes it easier for the assignees to apply for a patent under the circumstance when the inventors do not cooperate, and eliminates the best mode as the basis for an invalidity action in either litigation or as part of a post-grant opposition procedure. These changes are in conformity with the rest of the world.

One of the main purposes of this patent law reform is to improve the quality of granted patents. Several provisions are proposed in the bill for this purpose, such as allowing a third party to submit relevant prior art within 6 months from publication, requiring patent

applicants to submit a search report and other information relevant to patentability, and providing a new post-grant review procedure to invalidate a patent before the USPTO.

This bill created a new post-grant review procedure before the USPTO, which allows a third party to file a request within 12 months from the date of granting a patent to review the validity of the patent, instead of bringing litigation before the courts. The reason for these provisions is that there are currently two ways to cancel a patent, either by litigation or inter partes reexamination. The newly created post-grant review procedure is alleged to provide an economic and fast way to challenge a patent before litigation becomes necessary. However, the proposed post-grant review procedure would also enable infringers to easily subject legitimate patents to consecutive attacks, creating much expense and uncertainty for the patent holder and those investing in the patent holder's business.

The non-application of 'presumption of validity' under the post-grant review procedure is also an important amendment. Presumption of validity means that all issued U.S. patents are presumed to be valid; therefore the patentee in court does not need to provide evidence that the patent is valid and the burden of proof to show that the patent is wrongly granted by 'clear and convincing' evidence is placed on the accused infringer. However, if there is no presumption of validity in the post-grant review procedure, the patentee will need to prove the validity of the patent, which will increase the burden of proof for the patentee. On one hand, the new post-grant review procedure might be helpful to increase the quality of granted patents. On the other hand, it might be abused by the competitors and result in damages to patent owners, because the burden of proof under post-grant review procedure is different from that in litigation, the new procedure lowers the burden of proof from "clear and convincing" to "preponderance of evidence" standard. By the post-grant review, it is much easier and cheaper for the third party to challenge the granted patents. This will also bring great side effects. Because the burden of proof of the petitioner is less than that in courts, this provision is very easy to be utilized by the competitors, which will surely increase the time and cost for the patentees greatly if they have to raise litigation after this procedure as well as increase the uncertainty, and delay the exploitation of the patent.

Under the current Chinese patent law, there is only an invalidation procedure to challenge the validity of a patent, and the Patent Reexamination Board of the State Intellectual Property Office is in charge of the examination of invalidation requests. Today, there are a lot of invalidation requests made during the patent infringement cases. After the invalidation decision was made, the Patent Reexamination Board could act as one party in the following administrative litigations on invalidation decisions. Practically, the invalidation procedure allows the public to challenge a patent at anytime after it is granted to ensure the patentability and to supervise the legitimacy of issuance; However, once the patentees raise the infringement cases in courts, the invalidation procedure is always used by the defendants as a defensive strategy, even abused in some cases. Since the invalidation decision made by the Patent Reexamination Board might be changed by court during the administrative litigation, the time for confirming the patentability of a

patent, and that for litigating a patent infringement would be prolonged. Recently when considering the third amend of Chinese patent law, many people believe that a new system similar to German or Japanese Patent Court should be created to deal with the validity issue of the patent, which can link up the invalidity procedure and litigation.

Changes on Litigation Procedure

The bill revises the current venue provisions that apply to patent infringement suits. The bill prevents a plaintiff from manufacturing venue, as well as other limitations on defendant venue and infringement act venue. The new provisions limit the patent litigation into a limited exercise before special courts, which are obviously friendlier to the large corporate defendants and will unfairly prejudice patent holders seeking to enforce their patents.

The bill contains a provision creating a right to interlocutory appeal of trial court decisions in patent cases on “determining construction of claims” and mandating that the action in the trial court be stayed. This provision is made to change the high appellate reversal rate of claim construction rulings and the resulted uncertainty. However, interlocutory appeal can do nothing with the reasons for the relatively high reversal rate. The claim construction process is not always a single episode in patent cases; under some circumstance it might be revisited and revised many times. The interlocutory appeal will only pass the cases, which could be handled by trial courts, to the Federal Circuit. Therefore, interlocutory appeal and mandatory stay will not only increase the Federal Circuit's workload, but also lengthen the cases. The prolonging of a suit will result in that patentee can not obtain the remedy in time and the cost for litigation will be increased greatly.

Changes on Patent Infringement Damages

The change on the patent infringement damage calculation method is one of the main subjects of this reform. As the damage calculation will affect both the patentees and the infringers greatly, the provision pertaining to this subject is also a very contentious one, and warrants some detailed discussion.

The current U.S. patent law requires that the claimant be awarded adequate compensation for the infringement, which should not be lower than a reasonable royalty. Under 284 U.S. Patent Law, it is said that, “upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court. When the damages are not found by a jury, the court shall assess them. In either event the court may increase the damages up to three times the amount found or assessed.”

The current law of damages is amended substantially in the bill. According to the bill, the damage should be based on market value which is attributed over prior art by the patent. There are two principal ways to evaluate the effect of different factors on the royalty in courts, namely “entire market value rule” and “apportionment.” If the patented feature is the basis for customer demand for the entire product or process, the patent infringement damages should be based on the full value of the infringing product or process. However some portion of the realizable profit would be subtracted by “apportionment” from the damages, such as the improvement made by the infringers, non-patent factors, and the risks of manufacture and business. The bills change the damages under the 284 US Patent Law greatly, limiting the interest of the patentee to “the economic value properly attributable to the patent’s specific contribution over the prior art” by the new, untested method of prior art subtraction, The damage should only base on the market value of the infringing features in the product, instead of the whole market value of the infringing product. Under the bill, by using the language like “the patent’s specific contribution over the prior art”, the bill enforces the use of apportionment and precludes the usage of entire market value rule in most of the cases. The idea behind apportionment is that customer demand for the infringing product may partly come from the contribution by the infringers, and it is not fair to reward this part to the patentee. However, when all of the marketability to a specific article can be credited to a patented feature, it is appropriate to use the entire market value to reward the inventor. Otherwise it will only encourage the inventors not to file patent applications and delay the disclosure of innovation. In view of operation, it is very difficult to determine the additional value added by the invention over the prior art. Almost all the inventions are made up of combinations of old features to some extent. The determination of the value of the invention is not as simple as one plus one is equal to two. The emphasis of the apportionment will decrease the damages greatly in many cases, if not eliminated totally, therefore reduce the remedies to the patentees.

However, although there are arguments about this prior art subtraction, it is advisable to make it clear in the law about how to determine the damages. There is no detailed provision both under the current Chinese Patent Law and its implementing Regulations. The general provision under the Chinese Patent Law about damage reads as “the amount of compensation for the damage caused by the infringement of the patent right shall be assessed on the basis of the losses suffered by the patentee or the profits which the infringer has earned through the infringement. If it is difficult to determine the losses which the patentee has suffered or the profits which the infringer has earned, the amount may be assessed by reference to the appropriate times of the amount of the licensing royalty.” Because this provision is not operable, the courts can exert a great discretion on determining the damages. The US law could be used as reference when we made the third amendment of Chinese patent law.

The Interest Groups behind the Reform

From the analysis above, we can see that the bill will weaken the right of patentees greatly, increase their burden, and reduce the remedies for infringement. Therefore, it encounters strong opposition from many groups. However, even facing such a strong opposition, it was still passed by the House of Representatives.

The reason for this is partly because it was supported by some of America's largest and most influential companies, which carry much political clout with the US Congress. These companies have organized themselves into several lobbying groups. Many of these companies have been trying to reform the patent law for more than 5 years. They say that they are facing more and more patent infringement litigations and paying increasing amounts of damages in these years. For these companies, a weaker patent system, or one that benefits companies that do not rely on patent protection to obtain market dominance serves their interests.

However, the patent reform should not only benefit a small group, but promote the patent protection as a whole. To apply the same way on products other than software may result in an unfair outcome. For example, it will be very difficult for the biotechnology companies to get investment without patent protection. It takes a long time to make a new medicine, which is normally covered by a single patent. The same is true for start up companies in other market sectors. Therefore the patent is crucial for the patent owners to market and profit from their invention. On the contrary, the IP companies need less time to develop new products, which always combine a great number of features in single products. What is more as the products will become out of date after a short time, the patent protection is relatively less important to them.

There are some provisions in the bill which are consistent with the trend of patent harmonization. However, it is friendlier to the infringers than to the patentees in general as it will make the patent less reliable, easier to be challenged and cheaper to be infringed. It is not bad news for developing countries which have fewer patents. Many of the Chinese companies are not patent owners in the U.S. market and their products are often excluded from the market because of patent infringement accusations. This bill will give the companies from developing countries more freedom and flexibility to challenge the relative US patent for doing business in US and make it less costly to infringe.

The bill passed in the House will weaken the patent protection, and it conflicts with the attitude of the US Government of pressuring the Chinese Government to strengthen the protection on IP rights.

(Mr. Yongshun Cheng used to be the Deputy Director of IP division of Beijing High People's Court, Senior Judge)

Cheng Clarification

(Mandarin)

as provided to

Catherine Sun

followed by English translation

(Catherine Sun):

关于“美国 50 年来最大规模的专利体制变革”一文的说明

2007 年 11 月 7 日中国知识产权报刊登了“美国 50 年来最大规模的专利体制变革”一文，近日我们发现该文章被翻译成英文并在美国引起关注，本文作者对于读者对本文的关注和在专利法上的学术探讨表示欢迎，但我们也注意到，由于该文章的英译文未经本文作者确认，译文不准确，其中出现了多处与原中文文章不一致的重要内容，引起读者对于本文的误解读，对此我们表示遗憾，在此对本文章的客观事实予以如下说明。

一、本文是作者本人对于美国专利法修改进行研究的学术观点，不代表中国的官方意见。

本文作者程永顺先生，原是北京市高级人民法院知识产权庭的副庭长和高级法官，现在是北京务实知识产权发展中心的创始人和负责人；作者林俐女士原是中国国家知识产权局专利复审委员会的审查员，现任北京务实知识产权发展中心的专职研究员，两位作者从事知识产权法律工作与研究工作多年，熟悉中国专利法律制度，并对专利法律制度进行了深入的研究。

在时值中国专利法第三次修改之际，作者对于中国专利法的修改十分关注，中国专利法的制定与修改，除了结合本国现状以外，还大量借鉴外国专利制度的成功经验，因此，我们作为从事知识产权研究的学者也很关注世界各国在专利制度上的变革，对于最近美国专利法的修改议案作者予以高度关注，并进行了研究与分析，作者撰写本文是将美国专利法的修改议案涉及的焦点内容介绍给中国读者，并结合中国专利法的相关内容阐述了作者的学术观点，以期使中国读者了解美国专利制度的变化。

中国国家知识产权局主管的《中国知识产权报》是中国国内关于知识产权的重要专业报纸，该报作为官方知识产权专业报刊，经常刊登关于国内外知识产权动态和知识产权界学者的学术文章，给知识产权界人士提供学术交流的平台，本文作为学术文章在该报上发表，文章内容阐述的只是作者本人的学术观点，并不代表官方观点。

二、关于英文译文不准确的说明。

本文在《中国知识产权报》发表后，该文章被翻译成英文，其译文有几处不准确：

1、中文文章倒数第六段最后一句“在我国修改专利法时，应考虑结合我国的实践和借鉴美国专利修改法案的赔偿计算方式。”(When China makes the third amendment of the Chinese patent law, we should consider combining the Chinese practical experience and the patent infringement damage calculation method proposed in the Bill could be used as reference.)

在美国的英文译文中变成了：“The U.S law could be used as reference when we made the third amendment of Chinese patent law.” 该译文漏译了原文的内容，本文作者在此表述的意思是“借鉴美国专利修改法案的赔偿计算方式”，英文译文表述扩大了参考的范围。

2、中文文章倒数第二段“专利改革法案中提出了一些有利于专利国际协调和提高专利质量的规定。但总的来说这个法案更倾向于侵权人而加重了专利权人的负担。对科技水平较低、专利拥有量相对较少的发展中国家来说，这未必不是一个好消息。由于专利基础薄弱，中国的产品经常在美国市场遇到麻烦。而这一法案将为制定专利挑战的策略提供更多的方式和灵活性，也使侵权的成本降低，侵权变得更加容易。”（There are some provisions in the bill which promote the patent international harmonization and improve patent quality. But in general the bill favors infringers and burdens patentees more. It is not bad news for developing countries which have lower technological development and relatively fewer patents. Due to weak foundation of patents, the Chinese products often encounter trouble in the U.S. market. This bill will provide more mechanisms and flexibilities in making patent challenge strategies, and also lower the cost of infringement, therefore the infringement will become easier.）

在美国的英文译文中变成了：“the bill is friendlier to the infringers than to the patentees in general as it will make the patent less reliable, easier to be challenged and cheaper to be infringed . It is not bad news for developing countries which have fewer patents. Many of the Chinese companies are not patent owners in the U.S. market and their products are often excluded from the market because of patent infringement accusations. This bill will give the companies from developing countries more freedom and flexibility to challenge the relative U.S. patent for doing business in U.S. and make it less costly to infringe.” 该段英文译文增加了原中文文章中没有的内容，所增加的内容不是本文作者原文所表达的意思，并且还有漏译，该段翻译内容不准确。

3、中文文章最后一段“然而已经在美国众议院通过的专利改革法案却在很大程度上降低了专利保护的力度，这与长期以来美国一直向中国施加压力，要求中国加强对知识产权的保护力度的做法明显相矛盾。”（However the bill passed in the house will weaken the patent protection to a large extent, which apparently contradicts to the long term stance

the U.S. has been holding to press China for strengthening the IP protection.)

在美国的英文译文中变成了 “The bill passed in the House will weaken the patent protection, and it conflicts with U.S. Government efforts to pressure the Chinese Government to strengthen its own intellectual property rights.” 译文不准确。

由于上述英文译文翻译不准确，表达的意思与中文原文不一致，易于使读者错误理解本文作者的观点，造成错误的印象，特在此予以澄清。

**The Clarification to the Article Entitled “The Greatest Reforms of the Patent System
for the Past Fifty Years in the U.S.”**

On November 7, 2007, the Chinese Intellectual Property News published an article entitled “The Greatest Reforms of the Patent System for the Past Fifty Years in the U.S.” Recently we have noticed that the article was translated into English and was paid attention to in the U.S. The authors of the article welcome the readers’ attention and academic discussions in patent law. But we have also noticed that because the English translation of the article was not confirmed by the authors, the translation is not accurate, among others, there are several important contents that are inconsistent with the original Chinese article, which may have caused the misunderstandings of the readers to the article. We therefore express our regrets and would like to offer the following clarifications to several objective facts of the article.

I. The Article Expresses the Authors’ Own Academic Views toward U.S. Patent Reform and Does Not Represent the Chinese Official Proposition.

The author Mr. Cheng Yongshun was the Deputy Presiding Judge and a Senior Judge of the Intellectual Property Division of the Beijing High People’s Court, and now is the founder and person in charge of the Beijing Intellectual Property Institute. The other author Ms. Lin Li was an examiner of the Patent Reexamination Board of the Chinese Intellectual Property Office, and now is a full time researcher of the Beijing Intellectual Property Institute. The two authors have been involved in intellectual property legal and research work for many years, are familiar with the Chinese patent system, and have in depth studies over patent legal systems.

At the wake of the third amendment to the Chinese Patent Law, both authors are very concerned about the third amendment. During the course of making and amending the Chinese Patent Law, the successful experience of the patent systems in other foreign jurisdictions should be referred to, in addition to consider the current situation in China. Therefore, as the intellectual property researchers, we have been very concerned about the patent reforms by other countries in the world. We paid special high attention to the recent U.S. patent reform bill, and conducted research and analysis. The authors wrote the article to introduce the contested issues in the U.S. patent reform bill to the Chinese readers, and expressed the authors’ academic viewpoints in comparing the Chinese Patent Law, so that the Chinese readers can understand the evolution of the U.S. patent system.

The Chinese Intellectual Property News under the governance of the Chinese Intellectual Property Office is an important professional newspaper related to Chinese intellectual property in China. As an official professional newspaper, it often publishes academic papers by intellectual property scholars and domestic and overseas intellectual property news, and provides a platform to academic exchanges to intellectual property professionals. The article was published as an academic paper in this newspaper. The viewpoints expressed in the article only represent the authors' academic not the official propositions.

II. The Clarification to the Inaccurate English Translation

After the article was published in the Chinese Intellectual Property News, it was translated into English. There are several inaccuracies in the translation:

1. The last sentence of the sixth paragraph to the bottom in the Chinese article should be: “When China makes the third amendment of the Chinese patent law, we should consider combining the Chinese practical experience and the patent infringement damage calculation method proposed in the Bill could be used as a reference.”

But the English translation in the U.S. became “The U.S. law could be used as reference when we made the third amendment of Chinese patent law.” The translation did not translate the original fully. The authors here meant to express “patent infringement damage calculation method proposed in the Bill could be used as a reference.” The English translation expanded the scope to be referred to.

2. The second to bottom paragraph in the Chinese article has:

“There are some provisions in the bill which promote the patent international harmonization and improve patent quality. But in general the bill favors infringers and burdens patentees more. It is not bad news for developing countries which have lower technological development and relatively fewer patents. Due to weak foundation of patents, the Chinese products often encounter trouble in the U.S. market. This bill will provide more mechanisms and flexibilities in making patent challenge strategies, and also lower the cost of infringement, therefore the infringement will become easier.”

The English translation in the U.S. became

“the bill is friendlier to the infringers than to the patentees in general as it will make the patent less reliable, easier to be challenged and cheaper to be infringed . It is not bad

news for developing countries which have fewer patents. Many of the Chinese companies are not patent owners in the U.S. market and their products are often excluded from the market because of patent infringement accusations. This bill will give the companies from developing countries more freedom and flexibility to challenge the relative U.S. patent for doing business in U.S. and make it less costly to infringe."

This paragraph of English translation added the contents that were not contained in the original Chinese article. The added contents were not meant by the authors in the original article. There are also contents that were not translated in this paragraph. The English translation of this paragraph thus is not accurate.

3. The last paragraph to the Chinese article should be:

"However the bill passed in the house will weaken the patent protection to a large extent, which apparently contradicts to the long term stance the U.S. has been holding to press China for strengthening the IP protection."

The English translation in the U.S. became "The bill passed in the House will weaken the patent protection, and it conflicts with U.S. Government efforts to pressure the Chinese Government to strengthen its own intellectual property rights." The Translation is not accurate.

Due to the above inaccuracies in English translation, and the expressed meanings are inconsistent with the Chinese original, it may be easier to cause readers to misunderstand the authors' viewpoints and make incorrect impression. We therefore make the above clarification.