



The US-China Business Council Comments on Provisional Administrative Measures for the Formulation and Revision of National Standards Involving Patents (Draft)

The US-China Business Council (USCBC) and its member companies appreciate the opportunity to provide comments on the draft Provisional Administrative Measures for the Formulation and Revision of National Standards Involving Patents (“draft Interim Measures”), issued in November 2009. USCBC and its members support China’s efforts to create a modern standards system that facilitates the creation of internationally accepted, globally competitive products while fostering innovation. We note the steady progress China has made in recent years on standards and intellectual property rights (IPR) issues and the growing recognition by PRC officials of the tradeoffs between IPR and a robust standards system.

USCBC represents more than 220 US companies that are actively engaged in business across all industry sectors in China and that have considerable experience and expertise in US and international standards-setting processes. Many of these companies are global leaders in innovation and hold thousands of Chinese and foreign patents in manufacturing, information technology, pharmaceuticals, services, and other areas. Our members’ experience in these areas has helped USCBC formulate these comments, which we hope prove constructive and useful to PRC lawmakers.

The Standardization Administration of China’s (SAC) draft Interim Measures address a number of important issues, including patent rules for mandatory national standards, requirements for technical committees to disclose project proposals related to patents to the public, and required negotiations between SAC and patent holders when mandatory national standards involve outside patents. At the same time, we respectfully suggest the following clarifications and revisions to some provisions in the draft Interim Measures to ensure that the interests and obligations of all parties are adequately balanced.

Essential Patents

USCBC appreciates that SAC included language in Article 3 to define the scope of patents that are directly involved in national standards as those covering technologies “necessary to the implementation of a standard,” and for which “no substantive reason...exists to reject the involvement of the respective patent.” Such language is important for implementing the draft Interim Measures and conforms more closely to international practice and the widely accepted concept of “essential patents.” Articles 5 and 6, however, use a different, undefined term—“relevant patents”—and are unclear on whether this term is intentionally different from the language in Article 3. Furthermore, within the context of the PRC legal system, clearer definitions for several of the terms in these articles—including “necessary” and “substantive reason”—would help companies operating in China better determine whether a particular standard-setting process would affect their patents.

We respectfully suggest revising the term “necessary technology” to “essential technology” in Article 2 and revising “relevant patents” to “essential patents involved in that national standard” in Articles 5 and 6. These slight changes would increase the internal consistency of the draft Interim Measures and promote even implementation. In addition, we recommend that the measures clearly define the term “essential” in accordance with existing international best practice. For example, the European Telecommunications

Standards Institute sets the standards for essential patents as those whose products cannot be made, sold, leased, disposed, repaired, or used on technical (but not commercial) grounds without infringement. These changes would reduce uncertainty for Chinese and foreign companies that are already familiar with international definitions and best practices governing “essential patents,” thus encouraging these companies to participate in the standard-setting process.

Disclosure of Patent Information

Article 5 requires patent disclosure by “organizations or individuals involved in the process of formulating or revising a national standard” but does not define appropriate criteria for judging an organization or individual’s involvement. The term “involved” is vague and does not specify what level of participation constitutes involvement. We suggest that adding the word “directly” before “participation” or identifying voting members of relevant SAC technical committees as direct participants would provide greater clarity. Creating a clearer definition of participation makes it easier for companies to understand whether they are required to submit patent information and for SAC and technical committee officials to determine from whom patent information should be collected.

We suggest that the measures include new language stating that: “For the purposes of requiring disclosure of essential patents in these draft Interim Measures, involvement in the process of formulating or revising a national standard shall be defined as having voting membership on the relevant technical committee drafting the standard.” Such language would increase clarity for government officials and companies about which patents—and whose patents—would be included in a standard, allowing all participants to focus their time and resources appropriately.

Statements on License of Patent Rights

Article 9 includes language that allows patent holders three specific choices when their patents are involved in the drafting of a national standard: (1) issue royalty-free licenses on a reasonable and non-discriminatory (RAND) basis; (2) issue licenses on a RAND basis with a royalty price that is “significantly lower than the normal licensing fee”; (3) or neither of the above, in which case the standard will not include the patent. The provision allowing a patent owner to refuse the inclusion of his or her patent in the standard is a positive step. The phrase “significantly lower than the normal licensing fee” in the second option raises key concerns that companies will be unable to receive fair and reasonable compensation for their IPR and that they may face arbitrarily defined thresholds for acceptable royalty payments. Furthermore, the condition that a royalty must be “significantly lower than the normal licensing fee” is not consistent with “reasonable” in the internationally accepted interpretation of RAND and could cause problems not only for foreign companies looking to participate in Chinese standard-setting processes, but also for Chinese companies and Chinese standards as they seek to expand to international markets.

We respectfully suggest that the phrase “significantly lower than the normal licensing fee” be removed from Article 9, Section (2), and that the final article be amended to read: “The patent holder is prepared to grant a license for its essential patent(s) to any organization or individual on a reasonable and non-discriminatory basis for the purpose of implementing the said national standard.” This will increase clarity and encourage more patent holders to participate in the licensing and standards-drafting process.

Royalty Negotiations and Mandatory National Standards

USCBC notes with interest Chapter IV of these draft Interim Measures, which states that mandatory national standards, in principle, shall avoid involving patents and that for standards that must incorporate patents, patent holders may negotiate with SAC on how to do so. Article 13 does not state if SAC, a separate government authority, or the patent holder determines whether the patent holder shall grant a royalty-free license or whether a royalty will be negotiated. In addition, the article does not provide guidelines or criteria to determine the success of the negotiations. Additional guidance on the structure and process of these negotiations would

improve transparency and allow both sides to enter negotiations with clear expectations, allowing for more open and effective discussions.

Separately, USCBC notes that the State Intellectual Property Office (SIPO) and other key PRC agencies have made a considerable effort to ensure that recently revised IPR-related regulations, including the PRC Patent Law, are consistent with the restrictions and procedures contained in the World Trade Organization Agreement on Trade-Related Aspects of Intellectual Property Rights. Increased consistency with international practices on IPR and standards can greatly help to avoid uncertainty, promote innovation, and encourage the development of a stronger PRC standards system. As the draft Interim Measures also address TRIPS-related issues and are closely linked with a number of key provisions in the PRC Patent Law, we encourage SAC to review these regulations—and particularly Articles 9 and 13—for consistency not just with China’s international IPR requirements, but also with key PRC laws and regulations, including the PRC Patent and Antimonopoly laws.

We suggest that Article 13 be reworded to read: “If a patent is deemed to be essential for a given mandatory national standard, and if the patent holder does not voluntarily grant a royalty-free license, the Standardization Administration of China shall request that the relevant authority negotiate with the patent holder on how to deal with the patent. If the relevant authority and the patent holder fail to conclude an agreement on how to deal with the patent after a reasonable time and effort by both parties, the corresponding national standard shall temporarily not be approved and published, or a compulsory license may be issued in accordance with the PRC Patent Law, PRC Antimonopoly Law, and other relevant laws and regulations.” SAC should consult closely with its departments charged with negotiating and industry representatives to define “reasonable time” and “reasonable effort.”

Related Provisions

Article 17 states that specific implementation of patent disclosure and licensing shall be carried out in accordance with provisions in the Rules of Treatment of Patents Involved in National Standards. To our knowledge, these rules have not been publicly released, making it difficult for companies to understand and comply with SAC’s plans for patent disclosure. If these rules have been approved, we suggest that they be publicly posted on the SAC website before finalizing the draft Interim Measures. If the rules have not yet been approved, we respectfully suggest that they also be issued for public comment.

Conclusion

USCBC would like to thank SAC again for this opportunity to submit comments on the draft Interim Measures. We hope that these comments will prove constructive to the positive development of China’s labor regulation. USCBC welcomes any feedback that SAC may have and would be pleased to further discuss the content and various provisions at SAC’s request.

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