The US-China Business Council Comments on Provisional Administrative Measures on National Standards Involving Patents (Draft)

The US-China Business Council (USCBC) and its member companies appreciate the opportunity to provide comments on the latest draft of the Standardization Administration of China’s (SAC) Provisional Administrative Measures on National Standards Involving Patents (“draft Measures”), issued in December 2012. USCBC and its members support the continued efforts of the Chinese government to create a modern standards system that facilitates the creation of internationally accepted, globally competitive products while fostering innovation, and note the progress that has been made in recent years towards achieving these goals. We have benefited from our interaction with SAC on standards-related issues, and look forward to further dialogue on these regulations and other topics of mutual interest.

USCBC represents nearly 230 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 a variety of technology areas. Many USCBC members are also actively engaged in standards-setting activities in China and abroad. Our members’ experience in these areas has helped USCBC formulate these comments, which we hope prove constructive and useful to PRC lawmakers.

We greatly appreciate the significant progress on many areas of concern to our members represented by this draft of the Standardization Administration of China’s (SAC) Interim Measures. Such changes, including adding internationally accepted terms such as “essential patents”; changing language on royalty rates for standards-related licensing; and clarifying language on handling proposed standards that lack the relevant patent licensing agreements, represent progress from previous drafts. Our members appreciate these changes and SAC’s careful consideration of the many recommendations made by Chinese and foreign stakeholders to ensure the best regulatory outcomes. These revisions will better balance China’s dual goals of boosting intellectual property protection and promoting standardization. To further achieve these goals, we respectfully suggest the following clarifications and revisions to some provisions in the draft Interim Measures.

DEFINITIONS OF KEY TERMS: ESSENTIAL PATENTS
USCBC appreciates that SAC included language in Section I, Article 4 to define patents involved in national standards as “essential patents.” Such terminology is common in international practice, and provides greater clarity to both Chinese and foreign companies active in the international standards arena. This represents a definite improvement over the previous draft, which used inconsistent terms, such as “necessary” and “relevant,” throughout the document.

USCBC notes that the definition of an “essential patent” in the current draft—one “that would be required to implement the standard”—remains vague in some respects. Many patents include multiple claims, some of which may be required to implement a given standard and some of which may not. We noted that previous regulations on this topic, including the China National Institute of Standardization’s 2010 Draft National Standard Disposition Rules for the Inclusion of Patents in National Standards, included language that defined “essential patents” as those containing “essential claims.” This is a more precise definition that better allows companies to understand what patents—and what parts of a patent—may be involved in a national standard, and allows companies to better manage licensing arrangements associated with that standard. As such, USCBC respectfully recommends that SAC modify Section I, Article 4 to read: “Patents involved in national standards shall be essential patents, which are defined as patents that have at least one essential claim that would be required to implement those standards.”
PATENT DISCLOSURE

Liability for Failure to Disclose
We appreciate that Sections II and III of these draft Measures provide information about the disclosure and licensing processes that those participating in national standards should undergo, as the language provides important information for companies seeking to understand their obligations. Section II, Article 4 states that those participating in the drafting or revision of a national standard “shall be legally liable” if they fail to disclose their essential patents. The article, however, does not specify what laws would be involved to determine liability or what penalties should be applied. Providing more clarity about the specific negative consequences for failure to disclose and any incurred liability will help to remove confusion among companies considering participation in standards-setting activities, thus making it easier for companies to actively participate.

This policy would be even more effective if it includes provisions that distinguish situations where participants intentionally do not disclose from those situations where they may inadvertently fail to disclose relevant patents. Many patent holders in China have extensive—and growing—patent portfolios, making it increasingly difficult to definitively state which patents in a given standard seem essential. When such an unintentional failure to disclose is discovered, granting those patent holders an opportunity to submit a supplementary patent licensing declaration would provide both the standard-setting organization and the patent holder a reasonable way to address the oversight. This method could also take the place of requiring a costly and time-intensive formal patent search before the disclosure process. These patent searches often tie up key internal resources and delay or discourage patent holders from participating in the standards-setting process, limiting the value and efficiency of patent-search process. USCBC is not aware of any national or international standards organization that requires participating companies to carry out patent searches.

We suggest that Section II, Article 4 be deleted, or revised to read: “Organizations or individuals participating in the formulation or revision of national standards that intentionally fail to follow the aforementioned requirements to disclose the essential patents held by them shall be held accountable. Those that unintentionally fail to disclose should be asked to submit in a timely fashion a supplementary patent licensing declaration, in line with Section III, Article 1.” Additionally, we suggest that language should be added to these draft rules to state explicitly that participating companies and individuals are not required to conduct patent searches as part of the patent disclosure process.

Individual Knowledge
As noted previously, Section II, Article 1 states that organizations or individuals participating in the formulation or revision of national standards should disclose essential patents “known to them.” These draft rules do not define the term “known” or outline standards for how this will be determined. We suggest that disclosure should be based on the personal knowledge of the individual participating in the technical committee that is drafting relevant standards.

In practice, company representatives who participate directly in the standard-setting process are generally selected because of their knowledge of the technology areas related to the standard and the relevant patents. Their participation, based on a reasonable determination of their individual knowledge, should be sufficient to achieve the technical committee’s goals for patent disclosure.

We suggest that Section II, Article 1 be revised to state: “Organizations or individuals participating in the formulation or revision of a national standard shall in a timely fashion disclose to the technical committee or the responsible entity the essential patents known to the participating individual(s), and provide patent information and corresponding verification materials thereof.”

Verification Materials
Section II, Article 1 and Section III, Article 3 both reference “verification materials” that should be submitted to the responsible standard-setting body, but do not provide any further information about these materials. While Article V, Section II notes that other types of required information—such as patent information and patent licensing declarations—will be laid out in the “Special Procedures for the Development of Standards Part 1: Standards Related to Patents,” no further information is included about
where companies can find a list of required verification materials. We suggest that new language be added to Section V to include a list of required verification materials, and that the list of documents is developed in consultation with all stakeholders, including standards-setting organizations and patent holders. Doing so would enable the verification materials to be in line with best practices set by other standards jurisdictions and international standards organizations, and would minimize the amount of confidential information that companies must submit.

**PATENT LICENSING**

**Royalty Rates**

Section III, Article 1 states three options for patent holders to make licensing declarations: license royalty-free on a reasonable and non-discriminatory (RAND) basis, license on a RAND basis with royalties, and refusal to license. We greatly appreciate the revisions made to this language, removing language calling for royalties to be at rates “significantly lower than the normal licensing fee.” This new language is more in line with international RAND practice and will help patent holders to secure more reasonable royalty rates for their licensed patents, which will encourage them to continue innovating. To further strengthen these revisions and clarify that royalties should be determined based on international best practice, we recommend that Section III, Article 1, Item 2, add language to state that the patent holder is willing to license on a RAND basis “at a reasonable royalty rate.”

**Licensing of Essential Patents versus Essential Claims**

We also note that these measures focus on licensing of a patent as a whole, as opposed to licensing specific claims. As noted above, an essential patent may contain multiple claims, some essential and some non-essential. Distinguishing clearly between essential patents and essential claims in those patents will ensure that licensing statements are well-crafted and appropriately defined. Consequently companies will be more willing to disclose and license their patents thus resulting in a more robust standard-setting process. We recommend that the word “his/her patent” in Section III, Article 1, Items 1 and 2 be amended to read “the essential claims in his/her patent.”

**RELATED PROVISIONS**

Section V, Article 2 states that the specific requirements for patent information and patent licensing declaration will be laid out in a recommended national standard, the “Special Procedures for the Development of Standards Part 1: Standards Related to Patents.” It is unclear if these are an updated version of the China National Institute of Standardization’s 2010 Draft National Standard Disposition Rules for the Inclusion of Patents in National Standards, or a new draft standard. In either case, these rules have not been publicly released in either final or draft form, making it difficult for companies to understand and comply with SAC’s plans for patent disclosure.

Given the importance of these rules for the process of setting standards involving patents, we suggest that these rules be released in draft form for a minimum 30-day public comment period.

**CONCLUSION**

USCBC would like to thank SAC again for this opportunity to submit comments on the draft Provisional Measures. We hope that these comments will prove constructive to the positive development of China’s standards system. USCBC appreciates any feedback that SAC may have and is happy to provide further information. We would welcome an opportunity to further discuss the content and various provisions with SAC in person.

—END—

Local Contact:
The US-China Business Council
Contact Person: Piper Stover, Vice President, China Operations
Phone: 010-6592-0727
Fax: 010-6512-5854
E-mail: pstover@uschina.org.cn