

E-ALERT | China Practice

January 4, 2013

CHINA RELEASES DRAFT ADMINISTRATIVE RULES ON NATIONAL STANDARDS INVOLVING PATENTS (INTERIM)

On December 19, 2012, the Standardization Administration of the People's Republic of China ("SAC") released a notice to solicit public comments regarding the updated draft *Administrative Rules on National Standards Involving Patents (Interim)* (Draft for Public Comments) (the "Latest Draft"). The Latest Draft proposes a set of rules and procedures that would govern the treatment of patent rights in the context of national standards and is the third such draft. The public comment period runs from December 21, 2012 to January 20, 2013.

Standard-Setting in China

Unlike the US and Europe, where standards are generally initiated and developed by private Standard-Setting Organizations ("SSO") with voluntary participation from industry, China's standardization system is a government-led administrative process. In China, national standards are formulated by "technical committees" made up of industry experts that are selected and led by the SAC and the relevant government departments for the corresponding sector. Technical committees typically solicit participation from major Chinese industry players. Other enterprises, including non-Chinese enterprises, may apply to participate, but their participation is left to the discretion of each individual committee.

China currently does not have any regulation that specifically addresses the treatment of patent rights in setting standards. Previous proposals—released in 2004 and 2009 (the "2009 Draft"), respectively—attracted widespread criticism from various international stakeholders and ultimately were not adopted.

Highlights of the Latest Draft

The Latest Draft largely follows the framework and principles set forth in the 2009 Draft, but with several important changes. (Note that since the Latest Draft uses the phrase that a standard "involves [a] patent," which presumably means that the standard incorporates technology covered by a patent, we use the term "involve" in the summary below to be consistent with the terminology of the Latest Draft.)

National Standards Should Involve Only "Essential Patents," But Responsibility for Key Determinations Not Assigned

- The Latest Draft states that (i) Chinese national standards should only involve "essential patents," *i.e.*, those that are "indispensable to the implementation of the standards," and (ii) "patents" covered under the Latest Draft include both patents and patent applications.
- The Latest Draft also makes it clear that the State Council's administrative branch in charge of standardization is not responsible for determining (i) whether a national standard involves a patent, (ii) the accuracy of materials submitted by patent holders, (iii) the validity of patents

involved in national standards, or (iv) the scope of patent applications involved in national standards. The Latest Draft is silent regarding who is responsible for the foregoing determinations and how such determinations are to be made.

Patent Disclosure Obligations

- Like the 2009 Draft, the Latest Draft sets out various patent disclosure obligations. Organizations or individuals that participate in the setting or revision of national standards will be obligated to disclose “essential patents” that are “known to them.”
- The Latest Draft does not explain whether participants in the standard-setting process are required to perform a portfolio search, or whether they are only obligated to disclose patents within the actual knowledge of the individuals involved in setting standards.
- It is also unclear whether the “essential patents known to them” are limited to essential patents owned by such participants, or are intended to cover more broadly all essential patents known to such participants, and if the latter, whether the above disclosure obligation requires a patent search by such participants.
- Under the 2009 Draft, the failure of a patent holder participating in the standard setting process to disclose the patent would result in a compulsory free license of such patent. The Latest Draft simply provides that failure to disclose will result in legal liability, without specifying what such legal liability may be, and without explicitly mentioning compulsory free licensing.
- Organizations or individuals that do not participate in the process are “encouraged” to disclose.

Patent Licensing Statements

- Similar to the 2009 Draft, the holder of a patent involved in a proposed standard must make a patent licensing statement choosing one of the following three options:
 1. An agreement to grant royalty-free licenses;
 2. An agreement to grant licenses on a reasonable and non-discriminatory basis. (Unlike the 2009 Draft, the Latest Draft does not require that a RAND royalty rate be considerably lower than normal royalties); or
 3. A refusal to grant licenses under the above terms.

In the event that the patent holder chooses Option #3 above, the relevant standard would not include such patent.

- In the event that the technical committees developing the standards have not secured licensing statements from the patent holders, national standards that involve such patents will not be published – or, if already published, may be suspended or modified.
- The Latest Draft also provides that holders of patents that are the subject of patent licensing statements already submitted to the technical committees developing the standards must ensure that any assignees agree to be bound by such statements.

Mandatory National Standards – No Compulsory Licensing

- Like the 2009 Draft, the Latest Draft states that, in principle, mandatory national standards should not involve patents.
- In contrast to the 2009 Draft, the Latest Draft does not provide for compulsory licensing of patents that are required to implement mandatory national standards. In the event that the agency developing such a standard is unable to negotiate license terms with the holder of

patents involved in a mandatory national standard, the Latest Draft states that the standard would not be published.

Adoption of International Standards

- Under the Latest Draft, Chinese agencies adopting international standards developed by the International Organization for Standardization (ISO) or International Electrotechnical Commission (IEC) must accept licensing statements that were made to those organizations by patent holders.
 - The adoption of international standards by Chinese agencies must otherwise comply with the Latest Draft.
-

If you have any questions concerning the material discussed in this client alert, please contact the following members:

Weishi Li	86.21.6036.2502	wli@cov.com
Yan Luo	86.10.5910.0516	yluo@cov.com
Joanne Sum-Ping	86.10.05910.0517	jsumping@cov.com
Evan Cox	+1.415.591.7073	ecox@cov.com
James O'Connell	+1.202.662.5991	joconnell@cov.com

This information is not intended as legal advice. Readers should seek specific legal advice before acting with regard to the subjects mentioned herein.

Covington & Burling LLP, an international law firm, provides corporate, litigation and regulatory expertise to enable clients to achieve their goals. This communication is intended to bring relevant developments to our clients and other interested colleagues. Please send an email to unsubscribe@cov.com if you do not wish to receive future emails or electronic alerts.

© 2013 Covington & Burling LLP, 2301 Tower C Yintai Centre, 2 Jianguomenwai Avenue, Chaoyang Dist., Beijing 100022. All rights reserved.