

## Client Alert

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### China Patent: Patent donation not a legitimate defense against patent infringement

In China, a patent infringement is triggered when a party exploits a patent without authorization for commercial purposes.<sup>1</sup> This makes "purpose of commerce" a key element in determining patent infringement. If a manufacturer exploits a patent without authorization but donates, without monetary consideration, the finished products in which the patent subsists e.g. for charity, would the donation fall outside the scope of "purpose of commerce" and be a legitimate defense against a patent infringement claim?

We believe not. When examining the "purpose of commerce" element, the core consideration is whether the conduct unreasonably conflicts with a normal exploitation of the patent and unreasonably prejudices the legitimate interests of the patent owner. Specifically, factors including the nature of the party intending to implement the patent, the scope of the conduct, the potential impact of such conduct on a patent holder's existing and potential market and potential benefits to the implementer should be considered. Donation does not satisfy the requirement of "purpose of commerce". We explain this below from the aspects of legislation and judicial practice.

In compliance with the Agreement on Trade-Related Aspects of Intellectual Property Rights ("TRIPs")<sup>2</sup>, China's current patent law also provides certain specific exceptions from infringement<sup>3</sup> to balance between the exclusive rights of a patent owner and the interests of the public. These include non-commercial uses of a patent, such as for

<sup>1</sup> Article 11 of the *PRC Patent Law* provides that: "After a patent right for an invention or a utility model is granted, except where otherwise provided for in the Law, no entity or individual may, without authorization from the patentee, exploit the patent, namely, for production or business purposes; manufacture, utilize, offer for sale, sell or import the patented product thereof; use the patented process; or utilize, offer for sale, sell or import the product directly obtained through the said patented process..."

<sup>2</sup> Article 30 of TRIPs provides that "Members may provide limited exceptions to the exclusive rights conferred by a patent, provided that such exceptions do not unreasonably conflict with a normal exploitation of the patent and do not unreasonably prejudice the legitimate interests of the patent owner, taking account of the legitimate interests of third parties."

<sup>3</sup> Article 69 of the *PRC Patent Law* provides that: "None of the following circumstances shall be deemed an infringement upon a patent right:

(1) using, promising to sell, selling or importing any patented product or product directly obtained under the patented process after the said product is sold by the patentee or by its licensee;

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(4) using relevant patents solely for the purposes of scientific research and experiment; and  
(5) producing, using or importing patented medicine or patented medicinal equipment for the purpose of providing the information as required for administrative examination and approval, and producing and importing the patented medicine or patented medicinal equipment exclusively for the said purpose."





scientific research, and administrative review and approval. However, there is no law or regulation specifying that donation can be exempted from patent infringement.

Judicial practice further stipulates the principle that patent donation is not a legitimate defense against a patent infringement claim, as it *per se* benefits the donor for its reputation and thus brings commercial benefits to the donor — unless the donor has sufficient evidence to prove it does not gain any direct or indirect benefits from such donation. In *Power Machinery v. Vatti*<sup>4</sup>, the patentee claimed that the torch manufactured by Vatti had infringed its utility model patent. Vatti argued that the torches were donated to the committee of the 11th National Games without any gains and such donation did not meet the "purpose of commerce" requirement for constituting patent infringement. The courts of both instances ruled in favour of the patentee. The courts took the position that the donation was within the scope of commercial purpose based on the fact that although Vatti did not directly gain monetary benefits from the manufacture and donation of the infringing torches, it did benefit commercially from media reports about the donation.

As public interest is often associated with the defendant's donation argument, it does make non-infringement arguments appealing before the courts. However, several factors may make it difficult to rely on public interest to justify exception for donation as an infringing act. First, as mentioned above, donation for social welfare does not exclude the commercial benefits to the donor brought about by media exposure, which might be the motive of the donor in the first place. Further, under the current patent regime, licensing and compulsory licensing are available to meet the needs of public interest. The PRC Patent Law expressly provides that compulsory licensing is available upon request in situations such as non-exploitation by the patentee, national emergency, and public health needs for drugs. The National Intellectual Property Administration ("NIPA") has its regulations on the issuance of compulsory licensing.<sup>5</sup> When facing a state emergency such as the coronavirus crisis, if there is a shortage of medical supplies, the China Food and Drug Administration (and not the manufacturer itself) can seek a compulsory license for its designated, qualified manufacturer from the NIPA. The NIPA is required to notify the patentee, who in turn has the right to respond within 15 days of receipt of the notice. A decision to grant the compulsory license, if so decided by the NIPA following prescribed review procedures, must state clearly the conditions of grant (including scope and duration) to control its impact on the legitimate interests of a patentee.

In China, a patentee may claim damages award, preliminary injunction and permanent injunction as remedies in a patent infringement case. As

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<sup>4</sup> Case No.: (2011) Jing Civil Final No. 1639.

<sup>5</sup> Measures for Compulsory License for Patent Exploitation (2012)



for damages, although it is difficult to calculate the infringer's direct and indirect commercial benefits from the donation, the patentee may calculate damages based on the volume of donated goods and the price of the patented products, or based on royalties of a similar licence. Purely from a legal perspective, a donation does pose some challenges for obtaining injunctive relief for patent infringement. A preliminary injunction is generally difficult to obtain in a patent infringement case regardless whether donation is involved. A permanent injunction can still be granted for donations, as in the *Power Machinery v. Vatti* case. However, if the donation is related to events of public interest, the patentee's request for injunction would unlikely be granted, as the impact on public interest is a main factor for granting a preliminary injunction.<sup>6</sup> As for permanent injunction, the court may reject a claim for permanent injunction and order the infringer to pay royalties instead as compensation to the patentee in the interest of the public.<sup>7</sup> In practice, we have seen a few cases where permanent injunction is rejected due to its significant impact on public interest, even though no donation is involved, such as in *Jingyuan v. Fuji Chemical*<sup>8</sup> and *Wanxiang Futai v. Foshan Yueshan*<sup>9</sup>.

In light of the above, "donation" itself is not a legitimate defence against a patent infringement complaint, unless the donor has sufficient evidence to prove it does not gain any direct or indirect benefits from the donation. However, in cases where public interest is involved, courts are likely to consider adjusting remedies claimed by a patentee to mitigate any negative impact on society, such as ordering a compensation for reasonable royalties instead of an injunctive relief. Nevertheless, companies, when changing their production for donation purposes, still should conduct freedom-to-operate assessment and mitigate infringement risks.

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<sup>6</sup> Article 7 of Provisions on Several Issues concerning the Application of Law in Cases Involving Preliminary Injunction in Intellectual Property Disputes

<sup>7</sup> Article 26, Interpretations on Several Issues concerning the Application of Law in the Trial of Patent Disputes Cases No. 2

<sup>8</sup> Case No. (2008) SPC Civil Final No. 8

<sup>9</sup> Case No.: (2014) Yue Civil Final No. 581.