



**Written Comments to the Office of the United
States Trade Representative in Response to
Federal Register Notice Regarding 2014 Special
301 Review: Identification of Countries under
Section 182 of the Trade Act of 1974**

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I. INTRODUCTION

The Semiconductor Industry Association (SIA) is submitting this document in response to the request by the United States Trade Representative (USTR) for comments involving the “Special 301” provisions of the Trade Act of 1974.

The Semiconductor Industry Association (SIA) is the voice of the U.S. semiconductor industry, one of America's top export industries and a key driver of America’s economic strength, national security and global competitiveness. Semiconductors – microchips that control all modern electronics – enable the systems and products that we use to work, communicate, travel, entertain, harness energy, treat illness, and make new scientific discoveries. The semiconductor industry directly employs nearly a quarter of a million people in the U.S. and supports more than one million additional American jobs. The U.S. semiconductor industry leads the world in market share with 51 percent of the \$306 billion global market in 2013. Semiconductors make the global trillion dollar electronics industry possible. Founded in 1977 by five microelectronics pioneers, SIA unites companies that account for over 80 percent of America’s semiconductor production. Through this coalition, SIA seeks to strengthen U.S. leadership of semiconductor design and manufacturing by working with Congress, the Administration and other key industry stakeholders to encourage policies and regulations that fuel innovation, propel business and drive international competition.

Semiconductor companies typically spend 15-20 percent of revenue on research and development (R&D), making intellectual property (IP) protection of utmost importance. In 2012, U.S. semiconductor companies invested \$32 billion in R&D, totaling 22 percent of their total sales. The failure of some foreign governments to adequately protect IP is damaging the semiconductor industry and ultimately will impede the technological progress that has benefited consumers around the world.

Moreover, policies and regulations that require disclosure of IP or include incentives or government procurement preferences for domestically generated IP are creating trade distortions that impede market access. These initiatives and regulatory requirements directly impact the competitiveness of U.S. technology companies doing business in overseas markets.

While this submission calls attention to IP concerns in four specific markets, SIA’s IP priorities extend to a broader set of regions in which U.S. semiconductor companies do business. SIA’s top IP concerns can be categorized as follows:

1. Patent Quality

SIA has significant concerns about rapidly declining patent quality in emerging markets, particularly in China. As many governments seek to improve domestic innovation capability, there appears to be an overemphasis on quantitative patent targets versus patent quality. The status of utility model patents (UMPs) in China is one such example. Utility Model Patents in China have lower inventiveness criteria than invention patents and are granted without examination. The Utility Model Patent system in China has the potential to substantially increase unproductive litigation, undermine key innovation policy objectives, and disrupt normal business growth.

2. Patent Remuneration

Some jurisdictions have unclear and unreasonable rules for how companies should offer rewards and remuneration for an employee invention. These rules often impose an undue burden of compliance and litigation risk for employers, and can impede corporate R&D investments. SIA believes that inventor remuneration should be determined between the employer and employee to ensure freedom and flexibility to design optimal, fair incentive policies that meets the needs of both parties.

3. Copyright

Although some of the regions are continuing to update their copyright laws, for example to extend protection to performing rights, SIA still has significant concerns regarding the piracy of various types of copyrighted works. These include software, not only generally, but the software used in providing much of the functionality of semiconductor devices and for business applications, as well as music, games and movies, all of which drive the sale of products which include semiconductor components. Continued efforts are required to crack down on these unlawful practices and revise laws to provide heavier penalties and stronger deterrents to discourage the piracy of copyrighted works.

4. Trademark Protection and Enforcement

There are many significant issues in other countries' trademark laws that make it very difficult for rights holders to protect and enforce those rights. Issues include significant case backlog and pendency of actions at Trademark Offices and courts, among others.

5. Counterfeit semiconductors

The process of salvaging semiconductors for remarking them for sale or reverse engineering and manufacturing counterfeit semiconductors can introduce numerous defects in a chip, resulting in unpredictable performance, erratic computing and/or sudden failures during system use. Semiconductors are used in a wide array of "life, health, safety and mission critical" applications, including medical devices, communication networks, vehicle safety and braking systems, electric grids, and transportation systems. Given the criticality of these end-use products and systems, counterfeit semiconductors pose risks to health and safety wherever they are used worldwide. It is imperative that governments and industry of all countries develop and implement effective programs to combat the manufacturing, distribution and sale of counterfeit semiconductors.

6. Trade Secrets

There are two trade secret issues that raise significant concerns for SIA members:

First, there is a dramatic increase in trade secret theft due to the shift from analog to digital technologies, as evidenced by the rapid adoption of devices capable of connecting to the internet and other networks; evolving business models built on new strategies for collecting, managing and distributing data; increasing employee expectations to have real-time, unlimited access to both personal and work-related data; and a geopolitical shift driven by rising cross-border trade flows and rapid economic growth in emerging markets. There have been significant efforts to steal trade secrets from advanced manufacturing and technology companies because they are highly valuable.

Second, foreign governments are developing an increasing number of overbroad certification systems and other regulatory schemes that require the unnecessary disclosure of trade secrets as a condition of market access. Examples include unnecessarily broad disclosures of product content, source code, product design, and compositional information. The risk that the required sensitive information will leak to domestic competitors is compounded by the reality that many governments have inadequate safeguards to protect such information, and some of those same governments desire to increase technology transfer from developed to their developing markets.

7. Trade distorting incentives linked to generation of domestic IP

Our concern refers to policies specifically designed to help develop and then unfairly promote the use of indigenously developed IP in domestic information and communications technology (ICT) infrastructure, often in violation of WTO law.

8. Compulsory licensing

Some of the BRIC countries are pursuing liberal compulsory licensing policies with regard to (i) key biomedical and environmental technologies where access is deemed to be in the public interest, and (ii) critical technologies owned by dominant companies where access by smaller competitors is allegedly needed to compete. Because U.S. semiconductor technology is critical to the global economy, SIA wants to ensure the exclusive patent rights of SIA member companies are fully protected.

9. Government procurement preferences for domestic IP

Certain BRIC countries are experimenting with using government procurement powers as a means to favor domestic IP. Linking market access to the origin of IP can disrupt the global digital infrastructure and distort trade.

SIA is very pleased to have the opportunity to submit these comments, and respectfully requests that USTR consider the following remarks.

II. CHINA

A. Overview

SIA requests that USTR maintain China on the Priority Watch List. Although China has made important improvements to its intellectual property system in recent years, areas of concern remain in regard to counterfeiting, customs practices, the treatment of business proprietary information, adherence to international standards, and China's patent law.

The topics that will be discussed in more detail below include: Counterfeit semiconductors, China's Customs White List program, SAIC's Proposed Overbroad Determinations of Abuse of IP Rights, Compulsory Licensing, Utility Model Patents (UMPs), protection for computer implemented inventions, the proposed 4th Amendment to the China patent law and the proposed regulations for Service Invention Remuneration (SIR). Aspects of these topics as implemented in the law and regulations create a chilling effect on conducting business in China and otherwise investing in China.

China is an important market for semiconductors, representing approximately 30-40% of the \$306 billion worldwide market in 2013. Semiconductors represent China's largest import. Given this large demand for our products, it's essential that China continues to improve intellectual property protection and enforcement.

SIA constructively works with Chinese industry counterparts and government officials. Some of the issues discussed below are also a focus of the World Semiconductor Council (WSC) forum. The WSC brings together CEO-level representatives of the semiconductor industry associations in the U.S., Korea, Japan, Europe, China and Chinese Taipei to promote global semiconductor industry activities, cooperation, and growth through joint recommendations to the government officials/authorities of each region.

SIA applauds several of China's recent IP commitments outlined in the 24th U.S.-China Joint Commission on Commerce and Trade (JCCT). China's commitment to adopt and publish an Action Program on trade secrets protection and enforcement as well as cooperate with the U.S. on proposals to amend its relevant laws is commendable. The JCCT commitment that MIIT will not require applicants to divulge source code or other sensitive business information in order to comply with ZUC encryption provisions is also consistent with the WSC principles on encryption that China has endorsed. At the same time, however, SIA is concerned that MIIT's commitment indicates it plans to mandate the ZUC algorithm that was supposed to be voluntary.

SIA is also greatly encouraged that the US and Chinese governments have formally recognized and prioritized the issue of semiconductor counterfeits. This groundbreaking outcome is a good first step for cooperative action in 2014 to strengthen efforts to halt the proliferation of semiconductor counterfeits.

As China continues to develop its domestic innovation capabilities, SIA hopes to see continued commitments from Chinese leaders that regulations should not directly or indirectly favor specific technologies, limit market access or lead to forced transfer of intellectual property.

B. Counterfeit Semiconductors

Semiconductors are the building blocks that allow our lives to be connected to others anywhere in the world at any time. Almost everything that uses power -electrical or mechanical- has a semiconductor that acts as the brain to process and send instructions to make every imaginable system. Examples include:

- Everyday communications, entertainment - computers, servers, cell phones, video games, digital cameras and camcorders, televisions, security systems, electronic tolls, networking, cell phones, etc.;
- Education and advanced research into every facet of our world from the: environment; study of inner and outer space; cures for health issues; creation of products and systems that make our lives safer and more enjoyable;
- Healthcare and medical equipment – patient monitoring including bedside- to-server data exchange systems, medical imaging including x-ray and CAT scan systems, pacemakers and defibrillators that now can be controlled wirelessly, blood pressure and heart rate monitors, robotic surgery equipment, etc.;
- Critical infrastructure - electric power grids including nuclear and solar power generation systems, banking and stock market systems, local and national communication networks, emergency response systems, etc.;
- Industrial and automation systems - motor control systems, thermal and vibration sensors, factory control systems, etc.; and
- Transportation systems and controls – engine controls, automobile braking, air bag systems, seat belt tensioners, GPS navigation systems, flight control systems, etc.

Due to the criticality of having these products and systems function as expected for many years, semiconductor companies spend billions of dollars per year to design and manufacture products to the highest quality and reliability levels. By adhering to rigorous Quality Management Systems and by conducting manufacturing operations in pristine factories called wafer fabs that, with necessary equipment, can cost anywhere from one to more than five a billion dollars each, failures of legitimate products are extremely rare. Industry data has shown that <0.01% of *legitimate* semiconductor products will ever fail during operation in electronics systems.

However, *counterfeit* semiconductors have much higher failure rates. Failures of counterfeit semiconductors are not predictable; counterfeits may initially work as expected and suddenly fail catastrophically without warning. The sudden failure of counterfeit semiconductors can jeopardize the health and safety of everyone who is relying on critical electronic systems, particularly in the case of systems related to infrastructure, communications, healthcare, and transportation. Over the last few years there has been a significant rise in warranty fraud from counterfeit and remarked semiconductors. This form of fraud is based on access to inexpensive semiconductor products that resemble the original manufacturer's products and that can be remarked to resemble the real semiconductor component. Data from SIA member companies and other sources indicate that semiconductor counterfeiting is a major issue. In April 2012, market research firm iHS iSuppli reported that "The five most prevalent types of semiconductors

reported as counterfeits represent \$169 billion in potential risk per year for the global electronics supply chain.”¹

The data also shows that a significant percentage of counterfeit semiconductor products originate from China. In many cases, these counterfeit products are traced to electronic waste where the components are removed from old circuit boards, the original component markings are removed, and the components are re-marked in a manner to indicate that they are new. SIA considers these steps to constitute counterfeiting since the components are usually re-marked with the trademarked logo of a semiconductor company without their knowledge or authorization, with the intent to make the buyer believe they are getting a newer and often higher performance product.

More specifically, the process of manufacturing counterfeits can introduce numerous defects, including: corrosion of chip circuitry due to use of chemical etchants; cracking of semiconductor chips and/or the surrounding packages; and electrostatic discharge (ESD) damage due to lack of controls against static electricity buildup. These defects can result in immediate failure of the semiconductor component. However, more insidiously, these defects can remain undetected during testing of electronic systems, and later result in sudden failures during system use. One of the more serious problems is with products that are expected to work in environments beyond normal operating conditions such as high heat, altitude, radiation exposure, etc. that are found in aircraft and high-temperature control systems for utility power generation (among other examples). As another example, if the flight control system for a jet plane has a counterfeit semiconductor with a crack in the silicon chip, the mechanical stress on the chip from flight turbulence could cause the crack to propagate, resulting in complete electrical failure of the component. The resulting failure of the flight control system could result in loss of control of the plane, jeopardizing the lives of everyone onboard.

Due to the worldwide risks to health and safety posed by counterfeit semiconductors, it is in the best interest of the governments of all countries to develop and implement effective programs to combat the manufacturing, distribution, and sale of these inferior products. In addition to counterfeit semiconductors creating a clear and present danger to the public, counterfeits also result in the loss of intellectual property for the original manufacturer. The sale of counterfeits erodes sales of legitimate products and causes job losses and damage to world economies.

SIA applauds China’s commitment in the 24th JCCT deliverables to continue the dialogue on increasing enforcement against counterfeit and substandard semiconductors and enhancing cooperation with the U.S. on cross-border investigations. The SIA requests that the U.S. government strongly encourage the Chinese government to follow similar actions of other countries around the world interested in stopping the production and export, and/or the import of counterfeit products, which include:

- (1) Strengthen anti-counterfeit/intellectual property laws, and enable prosecutors to more easily investigate and prosecute criminals involved in counterfeiting;

¹ IHS ISuppli press release, “Top 5 Most Counterfeited Parts Represent a \$169 Billion Potential Challenge for Global Semiconductor Market,” April 4, 2012: [http://www.isuppli.com/Semiconductor-Value-Chain/News/Pages/Top-5-Most-Counterfeited-Parts-Represent-a-\\$169-Billion-Potential-Challenge-for-Global-Semiconductor-Market.aspx](http://www.isuppli.com/Semiconductor-Value-Chain/News/Pages/Top-5-Most-Counterfeited-Parts-Represent-a-$169-Billion-Potential-Challenge-for-Global-Semiconductor-Market.aspx).

- (2) Develop and implement effective training programs for Chinese Customs authorities to enable the detection of counterfeit semiconductors and to prevent their import/export. Where possible get training from other governments and companies from around the world that can provide updated training;
- (3) Identify counterfeiting operations in their country involving semiconductor products, and permanently terminate these operations, arrest and prosecute the criminals involved, and confiscate and destroy the counterfeit making equipment and supplies. Where possible, cut-off support networks such as other businesses supplying support, materials, transportation or operating facilities where landlords knowingly rent facilities to counterfeiters and their sales channels;
- (4) Devote appropriate resources to support both China-only enforcement actions as well as joint multi-national operations with law enforcement from other countries including investigations, information sharing, raids, seizures and arrests of both the criminals carrying out the operations and the people that finance and manage the operations that may not always be at the site of the counterfeit operation;
- (5) Vigorously prosecute those who are knowingly involved in the manufacture, distribution, and sale of counterfeit semiconductors;
- (6) Provide education programs for Chinese consumers that will help them learn about the dangers of using counterfeit semiconductors;
- (7) Continue supporting business/industry associations working with the Chinese government to stop counterfeiting, such as the SIA and the Quality Brands Protection Committee; and
- (8) Support the efforts of the newly-formed World Semiconductor Council Anti-Counterfeiting Task Force which China helped initiate at the Government Authorities Meetings on Semiconductors (GAMS) in Berlin, Germany, in September of 2012. With China's support, the new Task Force will be able to bring new strategies, processes and tools to bear on the fight against counterfeits and counterfeiters worldwide.

With China's support and focus, the World Semiconductor Council, the various Semiconductor Industry Associations in the six major semiconductor producing countries/regions, the World Customs Organization and local, regional and national law enforcement in most countries will be able to put counterfeiters either out of business, in jail or in a position where it is no longer safe and profitable to operate their dangerous businesses of producing and distributing counterfeit semiconductors.

C. China Customs White List Program

China Customs has been asking foreign companies to sign "white list agreements" that allow their contracted suppliers/manufacturers from China to export products without inspection by China Customs. It is not clear what the intention of the program is but it appears to be a way to reduce inspection of exports from Chinese companies and thereby reduce the inspections at the border by China Customs. The pressure is put on the exporting company, by China Customs, to get the company contracting for the products produced in China, to approve the supplier's additions to the "white list." In some cases the China suppliers have complained that their shipments are being stopped, detained and inspected more where they have not gotten the company they are producing products for to make the appropriate approval.

On the one hand, this approach may be a cost savings for China Customs and may improve efficiency for companies trying to speed their products to their end destination. On the other hand there is a concern that once the foreign company, like a semiconductor company, signs the agreement on behalf of the Chinese supplier/manufacturer there are no controls on what is shipped and to whom by the Chinese company. This program may have other controls and functions, but they have not been made clear to companies being asked to sign the documents. As a result there is a concern that not only the contracted products would be shipped to the expected destinations, but that the China supplier/manufacturer may ship other products to other destinations completely unintended under the foreign company's white list agreement.

D. SAIC's Proposed Overbroad Determinations of Abuse of IP Rights

The State Administration for Industry and Commerce (SAIC) is experimenting with new and novel determinations of what constitutes IP abuse that could easily undermine domestic innovation and foreign investment in strategic economic sectors such as the semiconductor industry. Specifically, as explained below, a number of provisions in SAIC's draft IPR enforcement regulation issued to implement the anti-monopoly law (hereinafter "Draft IPR Regulation") fall outside of mainstream antitrust law and undermine legitimate IPRs.

Well established antitrust agencies with decades of experience have struggled in many cases to determine whether the anti-competitive effects from certain exercises of IPRs outweigh their pro-competitive effects. For this reason, they have proceeded with significant caution in this area.

For instance Hewitt Pate, a former Assistant Attorney General in the Antitrust Division of the U.S. Department of Justice, noted that "[c]alls for more aggressive antitrust enforcement as a vehicle for cabin[ing] the enjoyment of intellectual property rights should, however, be viewed with great caution."² More recently, FTC Commissioner Maureen K. Olhausen pointed out: "My belief in the long-term benefits of a strong intellectual property regime lead me to be very cautious about taking actions that could chip away at patent rights, particularly under the banner of promoting competition. Before I vote for an action to limit these critical rights, even indirectly, I look for strong competitive justifications for the need to act and for clear limiting principles to narrowly define the scope of any such action."³ And Daniel J. Swanson, a well known economics professor and William J. Baumol, a highly regarded antitrust practitioner,

² R. Hewitt Pate, Assistant Attorney General, Antitrust Division, U.S. Department of Justice, "Refusals to Deal and Intellectual Property Rights," 10 Geo. Mason L. Rev. 429 (2002).

³ Maureen K. Olhausen, "A Pragmatist's Approach to Navigating the Intersection of IP and Antitrust," (Dec. 4, 2013), at 9; available at: <http://www.ftc.gov/public-statements/2013/12/pragmatists-approach-navigating-intersection-ip-antitrust>. Commissioner Olhausen also has stated, "I believe dynamic markets need a lighter touch to allow them the flexibility to develop. Government bureaucrats, while well-intentioned ... simply are not businesspeople. The danger of hindering dynamic efficiency with government intrusion is especially high in technology businesses, which are fluid, fast-paced, and very sensitive to regulatory intervention. They are also the most likely to create legal issues implicating both the antitrust and intellectual property laws. I am therefore generally circumspect about injecting the government into these markets. This is a principle I have referred to as 'regulatory humility.'" *Id.* at 5.

have stated: “Antitrust enforcement must always proceed with particular caution when touching the intellectual property system in light of the acknowledged importance of innovation to the U.S. (and world) economy, ... and in view of the need to avoid adopting or applying antitrust rules in a manner that unduly chills the creation and exercise of the legitimate rights bestowed by the patent, copyright and other intellectual property laws.”⁴

In contrast, SAIC’s experimental approach appears to be anything but cautious, and the Draft IPR Regulation contains few governing principles to ensure that IPRs are not undermined. For instance, various provisions of the Draft IPR Regulation (such as Articles 9-11, 13 and 14) would impose liability for abuse of IPR unless the undertaking’s conduct is “justified.” The undertaking appears to have the initial burden to justify its conduct, however that is defined, when the government should be the one proving it has a prima facie case of IPR abuse. As the U.S. Department of Justice (DOJ) and Federal Trade Commission (FTC) IP licensing guidelines recognize, “intellectual property licensing . . . is *generally* procompetitive”⁵—even where “[f]ield-of-use, territorial, and other limitations” are placed on the IP licenses by the IP owner.⁶ USTR should work with U.S. antitrust agencies to help SAIC understand how to analyze routine licensing transactions where there may be suspected IP abuse.

Most importantly, if finalized as written, several of the provisions in the Draft IPR Regulation clearly will interfere significantly with the legitimate and common exercise of IPR in ways that fail to protect or stimulate innovation and thus undermine one of the SAIC’s key regulatory objectives.⁷ For example, as noted in more detail below, the draft IPR Regulation’s new Article 13(b) would force dominant companies to license their standard essential patents (SEPs) on fair, reasonable and non-discriminatory terms (FRAND) unless they are otherwise justified. Such mandatory licensing would enable a Standard Setting Organization (SSO) to misappropriate IP, deliberately or otherwise, by putting it in a standard that triggers a licensing obligation even if the SEP owner would rather not license its IP or do so on terms that are different than FRAND. Licensing commitments on FRAND or other terms made anywhere else in the world are voluntary agreements so that IPRs are respected and don’t lose their value. SAIC should not dictate licensing terms for patents, whether SEPs or non-SEPs. And, any enforcement of licenses for FRAND-encumbered SEPs that have allegedly been breached should be confined to the patents that the IP holder has voluntarily agreed should be treated as SEPs. Otherwise, SAIC will become more of a patent regulator than an AML enforcer.

Similarly, characterizing a unilateral refusal by dominant companies to license their “essential IP” to competitors and others per Article 7 of the Draft IPR Regulation is another form of misappropriation that undermines the very essence of IPRs—that is, the right to exclude others to enable inventors to recoup their investment. This right to exclude applies regardless of the

⁴ Daniel J. Swanson and William J. Baumol, “Reasonable and Nondiscriminatory (RAND) Royalties, Standards Selection, and Control of Market Power,” 73 *Antitrust L.J.* 1 (2005).

⁵ Antitrust Guidelines for the Licensing of Intellectual Property, Issued by the U.S. Department of Justice and the Federal Trade Commission on April 6, 1995, Sec. 2.0 (emphasis added).

⁶ *Id.*, Sec. 2.3.

⁷ See Draft IPR Regulation, Art. 1 (“*For the purposes of protecting and stimulating innovation and prohibiting abuses of intellectual property rights for eliminating or restricting competition, this Regulation is enacted in accordance with the Anti-Monopoly Law of the People’s Republic of China.*”)(emphasis added).

dominance, type of company, or nature of the IP involved.⁸ To SIA's knowledge no other antitrust agency in the world has even tried to establish such a broad essential facilities clause because it would undermine the purpose of IP rights, create uncertainty, and impair investment and innovation.

We note that SAIC's broad IP abuse and related compulsory licensing provisions in Articles 7 and 13(b) are inconsistent with the licensing provisions in other Chinese laws and regulatory measures. Specifically, nothing in China's patent law or international law allows compulsory licensing for patents simply to enable competitors to compete. Instead, China's patent law preserves the fundamental right to exclude others regardless of the nature of the patent or patent owner and allows compulsory licensing only where there has been a case specific and formal adjudication of anti-competitive conduct, as required by WTO law.⁹ In addition, and for similar reasons, China's patent law does not allow compulsory licensing for categories of patents such as SEPs. Moreover, SIPO and the Standardization Administration of China (SAC) just issued regulatory measures that recognize a patent owner's ability to refuse to license its patented technology to standards implementers if it has not participated in the standard setting activity that incorporates its technology.¹⁰

The U.S. government should point out to SAIC these conflicts between applicable laws and regulations that will create a confusing investment climate unless resolved. In brief, if charges of IP abuse involving routine and legitimate exercises of intellectual property are given credence, Chinese innovation and competition could be seriously impacted.¹¹ Some of the provisions in the Draft IPR Regulation, including especially Articles 7 and 13(b), would produce such results. And ironically these results would contradict Article 2 of the Draft IPR Regulation, which states in part that "[t]he AML does not apply to undertakings' exercise of their intellectual property rights in accordance with laws and administrative regulations relevant to intellectual property rights."

E. Patent Law

a. Compulsory Licensing

The lack of clarity surrounding the conditions for compulsory licensing in China remains problematic. For example, the Patent Law currently permits compulsory licensing when a patentee has failed to sufficiently exploit the patent, without providing guidance as to how

⁸ See e.g., China Patent Law, Article 11; WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), Articles 16, 17, 28, 39.

⁹ See e.g., China Patent Law, Article 11; WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), Articles 16, 17, 28, 31(a) & (k), 39.

¹⁰ See 2013 *Regulatory Measures on National Standards Involving Patents (Interim)*, jointly by Standardization Administration of China and State Intellectual Property Office, Articles 9 & 15, effective January 1, 2014. According to these SAC/SIPO *Measures*, a SEP holder who has not participated in a national standard setting activity is not required to license its patents even if those patents are essential for implementing the national standard.

¹¹ Article 1 of China's Patent Law, for example, makes it clear that patent rights exist to further innovation: "This Law is enacted to protect legitimate rights of patent owners, to encourage inventions-creations, to propel the utilization of inventions-creations, to enhance the capability of innovation, and to promote the advancement of science and technology and the development of economy and society."

“sufficient exploitation” would be determined. Major research and development enterprises are reluctant to develop their most valuable innovations without specific guidance as to the provisions under which their innovation could be subject to compulsory license.

While we are aware that the Chinese government has not abused its compulsory licensing powers in Chapter 6 of the Patent Law in the past, industry invests and operates more eagerly within a regulatory environment that provides clarity and certainty. In addition to a lack of clarity, some of the existing provisions in Chapter 6 still do not comply with all compulsory licensing restrictions in Article 31 of TRIPS. For instance, Article 49 of the law permits compulsory licensing when it is in the “public interest” without defining those words. The substantive grounds referred to in TRIPS Article 31 which governs compulsory licensing are very narrow; they include “national emergencies or other circumstances of extreme urgency,” but not the general “public interest” recited in Article 49. In China, given the central government’s heavy involvement in planning the economy, “public interest” might be defined very broadly.

This same issue also is raised by Article 52 of the Patent Law, which allows compulsory licensing of semiconductor technology in the “public interest,” even though TRIPS Article 31(c) makes it clear that compulsory licensing “in the case of semiconductor technology shall only be for public non-commercial use or to remedy a practice determined after judicial or administrative process to be anti-competitive.” The important and limiting term “public non-commercial use” in TRIPS Article 31(c) is significantly more restrictive than the “public interest.”

Additionally, under TRIPS Article 31(h) compensation needs to be based on “the economic value of the authorization.” Article 57 of the Patent Law proscribes for an award of “reasonable royalties” for a compulsory license grant. We recommend that any damages award for a compulsory license be on terms that make the coerced licensor whole, such as the Patent Law Article 65’s lost profits remedy. There is no rationale for a patent holder to receive less compensation under Article 57 than he would under Article 65 just because, for example, his patent is deemed important (e.g. for public health). Rather, it is equally important, indeed more so, that compulsory license awards fully compensate the patent holder for his losses as required by Article 31(h) of TRIPS.

China is in the midst of amending its patent law for the fourth time. We urge USTR to encourage SIPO to use that opportunity to close the remaining gaps between Chapter 6 of its patent law and TRIPS Article 31.

b. Proposed 4th Amendment to the China Patent Law

The proposed broad expansion of administrative remedial powers to local patent agencies is of greatest concern to SIA members, as it creates many additional opportunities for local protectionism and decisions that are not based on sound, judicially developed principles. Those powers are already available through specialized courts in the judicial system and yet are not used as often as they should. Encouraging more consistent and careful use of such powers by the courts in China (most of them being at the intermediate level), which have been selected by the Supreme People's Court due to concerns about the complexity of patent cases, makes more sense than incurring the expense of establishing similar administrative authority that would be capable of imposing not only injunctive relief, but also damages, fines and penalties for patent infringement. The law of patent damages and the new civil procedure law for injunctive relief is

still evolving in China, so the Chinese government should allow more time for these areas to mature and provide more guidance, before expanding authority to administrative bodies, if at all, which have no IP expertise. If such proposed expanded authority is not significantly delayed, or preferably withdrawn altogether, there may be severe unintended consequences for foreign entities doing business in China as well as for innovative businesses in China.

This proposed dual system of enforcement -- with its expected increase in litigation, expense, conflicts with judicial actions, and options to forum shop for the most attractive venue -- will greatly increase the potential for abuse by patent holders that seek not just appropriate compensation, but also to harass and burden competitors so as to impede their competitiveness and innovation capabilities in China. Moreover, as drafted, proposed Articles 60 and 65 of the 4th Amendment would allow awards of excessive damages and fines even in routine, good faith patent disputes and thus encourage even more administrative cases and undermine the fundamental objectives of patent systems. This concern for excessive litigation, damages and fines is augmented by (i) the reality that an increasing number of lower quality utility model patents are being filed in China, (ii) an administrative officer, often with little or no patent dispute experience, would have authority to initiate its own actions, confiscate illegal earnings, and then impose an additional fine of up to four times the illegal earnings under proposed Article 60 where the market order may be disrupted; and (iii) patent holders would be able to receive three times the profits, losses or royalties for willful infringement under proposed Article 65.

There is no data available to suggest that the administrative agencies are better positioned to determine monetary damages or to determine willfulness than the courts. And, by increasing the number of venues that can determine patent damages to include the more than 300 intellectual property offices in local and provincial governments—a 500% increase in available venues—there is a significant risk of inconsistent holdings among the administrative agencies themselves and between the administrative agencies and the courts. That inconsistency, along with the ability to impose and collect large fines, will undermine U.S. investment in China.

We encourage the U.S. government to continue to work with SIPO to reconsider its proposed dual enforcement system in China, and at least delay such a decision until local administrative authorities have gained sufficient experience and expertise with the current system to effectively handle significantly broader remedial powers.

c. Utility Model Patents

China's current utility model patent (UMP) system continues to undermine the efficiency and sophistication of its intellectual property rights (IPR) system, raising serious concerns for Chinese and foreign patent holders alike. In most jurisdictions, the subject matter that is eligible for UM protection relates to an intended narrow category of shapes and/or structures of products. The intent of UM protection is to cover more trivial, incremental improvement in simple devices.

However, China's interpretation of the UMP system has resulted in expansion of the subject matter that is made eligible for UM protection. According to the State Intellectual Property Office of China (SIPO), over 36 percent of all patent applications in China—a little more than 740,000 applications in 2012—are for UMPs that have the same scope, presumption of validity

and enforcement (or threat) value as substantively examined invention patents—despite contributing at most only an incremental advancement to technology. The problem is compounded by shortcomings in the enforcement system; and by subsidies and quotas that encourage the filing of UMPs merely to raise patent numbers regardless of quality or the innovative contribution.

Further, the increased damages, fines, and other remedial measures in the proposed fourth amendments to China Patent Law, would lead vast to over-compensation and wasteful litigation for such trivial advances and would impair more significant innovation and competition in China. We do not believe the original drafters of China’s Patent Law intended the UMP system to have such an outcome and it is certainly not the approach taken by other countries with similar systems, which have increasingly begun to implement various safeguards to protect against many of the problems that are inherent in China’s UMP system. To enable this significant change to the current system, five improvements are recommended:

- 1) The criteria for inventiveness should be raised to the same level as that for invention patents, seeing as how the same remedies are available for UMPs when infringement is established even though they are easier to obtain. Otherwise, it is unfair to the patentee of an invention patent who must overcome a substantive examination without compensating factors;
- 2) The applicant should be required to sign an oath or declaration attesting to the genuineness of the invention;
- 3) More robust deterrents should exist for abusive assertion of invalid UMP rights;
- 4) Evaluation reports should be mandatory if a UMP is to be asserted; and
- 5) Government subsidies for filing patent applications should be eliminated as they create a strong incentive to overload SIPO with low to no-quality patents.¹²

Ultimately, the SIA suggests that the U.S. government encourage China to review its UMP system and adopt safeguards contained in other UMP systems to ensure that the Chinese UMP system does not inhibit, rather than promote, real innovation.

d. Patent Protection Expansion

Invention patent protection should as a minimum be extended to include computer medium claims (“Beauregard” or computer program product claims). Design patent protection should be extended to include Graphical User Interfaces (GUIs), computer icons, and screen captures. The Patent Law should incorporate the protection of such designs in computer programs, phones and other handheld devices. Protection of such patents would bring China into conformity with its key trade partners and benefit China’s own innovative industries.

¹² See Thomas T. Moga, *China’s Utility Model Patent System: Innovation Driver or Deterrent*, 16 (November 2012) (urging lower damages for such “lesser technical achievements”).

e. Service Invention Remuneration

In November 2012, China's State Intellectual Property Office (SIPO) released draft Service Invention Remuneration (SIR) Regulations. The proposed regulations represent a step backwards from the clarity which was created by the 3rd amendment to the patent law and corresponding implementing regulations, namely that "An entity which has been granted a patent can reach an agreement with the inventor(s) or designer(s), or stipulate in its legally formed company rules with regard to the form and amount of rewards and remunerations as mentioned in Article 16 of the Patent Law." The proposed amendments impose additional onerous terms to be included in the employer and employee agreements and make it unclear if the aforementioned regulation is superseded or not by the proposed regulations. Further, the proposed amendments attempt to apply not only to patents but also to copyrights and trade secrets, creating an impractical and unworkable burden on industry members.

We believe that inventor remuneration should be determined between the employer and employee and that the employer and employee should be given the flexibility to craft agreements that meet the needs of both parties. High uncertainty, imposes an undue burden of compliance on employers, leaves the employer exposed to a risk of constant litigation, and deflects potential investors and investments in China. We encourage the Chinese government to continue to engage industry in their considerations on this issue.

F. Trade Secret Protection & Enforcement

Trade secrets are a critical asset to high tech companies, with studies indicating that they can comprise up to 80% of the value of a company's IP portfolio. Yet despite their tremendous importance, trade secrets remain extremely vulnerable, especially in jurisdictions with weak laws or enforcement practices

SIA is encouraged by China's commitment in the JCCT to adopt and publish an Action Program to strengthen trade secrets protection and enforcement with concrete actions, a public awareness plan about the penalties for trade secret infringement, and requirements for strict compliance with all trade secret protection laws and regulations.

China has also indicated that it will welcome U.S. suggestions for actions to be taken to implement the Leading Group's Action Program and has committed to cooperating in 2014 on proposals to amend its laws containing trade secret provisions.

SIA encourages the U.S. government to propose the following recommendations to China related to trade secret protection that are also being developed in the World Semiconductor Council:

1. Incorporate Elements of a Model Trade Secret Law in Legislative Reforms

A model trade secret law should contain at least the following elements:

- Expressly recognizes trade secrets as a form of IP (per TRIPS Article 1.2)
- Defines key terms as follows:

- “Trade secret” includes any information that (1) derives economic value, actual or potential, from not being generally known to the public; and (2) is the subject of reasonable efforts under the circumstances to maintain its secrecy.
 - “Misappropriation” means (1) acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; or (2) disclosure or use of a trade secret of another, without consent, by a person who used improper means to acquire the trade secret or who knows or has reason to know that the trade secret: (i) was acquired by improper means; (ii) was derived from or through a person who acquired it by improper means; (iii) was acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or (iv) was derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use.
 - “Improper means” includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means. Reverse engineering or independent derivation alone shall not be considered improper means.
 - “Person” means a natural person, corporation, business trust, estate, trust, partnership, limited liability company, association, joint venture, government, government division or agency, or any other legal or commercial entity.
- Criminal Action:
 - Intent/Knowledge: The knowing misappropriation of a trade secret shall be a criminal offense.
 - Penalties: In criminal actions, the law shall impose criminal penalties that are sufficient to deter such offenses, including fines, damages, and/or imprisonment. In cases of repeated misappropriation, the courts shall have the authority to impose additional penalties.
 - Civil Action:
 - Cause of Action: A person who misappropriates a trade secret shall be liable in a civil action brought by the owner or lawful possessor of the trade secret. The misappropriation of a trade secret does not require its actual use to be actionable.
 - Damages: The courts shall have the authority to award damages against a person found to have violated applicable law. Damages shall be based on the greater of (i) the actual loss caused by the misappropriation, or (ii) the amount by which the offender was unjustly enriched because of the misappropriation.
 - Injunctive Relief: The courts shall have the authority to grant injunctive relief, including preliminary and final injunctions, where necessary to prevent actual or threatened misappropriation.
 - Preservation of Evidence / Protection of Confidential Information:

- Preservation of Evidence: Courts shall have the authority to issue orders to preserve relevant evidence and to compel parties to produce relevant evidence in the appropriate circumstances.
 - Protection of Evidence/Information: All evidence shall be subject to a protective order to ensure that confidential, private, proprietary, or privileged information is appropriately protected and that access is appropriately restricted. The courts further shall take reasonable measures to preserve the secrecy of the alleged trade secret(s). In addition to protective orders, such measures may include holding in-camera hearings, sealing filings or records, or ordering parties not to disclose the alleged trade secret without prior court approval.
- General Procedures:
 - Expedited Procedures: Procedures in misappropriation cases shall not be unnecessarily complicated or costly, or entail unreasonable time limits or unwarranted delays. Remedies shall be expeditious to prevent misappropriation and sufficient to constitute a deterrent to further misappropriation.
 - Fair Proceedings: Parties shall be entitled to substantiate their claims and to present probative evidence in fair proceedings, regardless of whether the evidence is in written, oral, or other form. Parties shall be permitted to present testimony from qualified experts. A written record of the evidence shall be maintained by the court.
 - Decisions. Decisions on the merits of a case shall be in writing where possible, and shall be made available without undue delay.
- Jurisdiction:
 - A court should be entitled to exercise jurisdiction over persons who misappropriate trade secrets outside its jurisdiction so long as the misappropriation causes economic injury within its jurisdiction.
 - This exercise of jurisdiction overseas shall pertain equally to private rights of actions and government prosecutions.

2. Conformity Assessment Information Requirements

To minimize the potential loss of trade secrets through overbroad conformity assessment procedures, we believe that governments should build on the relevant provisions in the WTO Agreement on Technical Barriers to Trade to ensure their respective laws and regulations require the following:

1. *Explain in writing with sufficient detail the reasons for any and all requested product-related information, and how and why it relates to showing conformity*
2. *Provide (i) any affected person of a Party the right to an expedited review of its complaint that a confidential business information request is unnecessary and a prompt appeal of any negative decision; and (ii) the government of affected persons*

- the right to consult with the requesting government where multiple complaints involving the same confidential information requests are raised*
3. *Implement adequate protections that prevent external dissemination, and broad dissemination within the government, of confidential business information that governments receive as part of legitimate conformity assessments requirements*
 4. *Impose on their officials civil liability for inadvertent governmental disclosures and criminal liability for intentional disclosures of confidential information*

III. INDIA

A. Overview

SIA believes that India should remain on the Priority Watch List. Although the Government of India (GoI) continues gradual progress towards an improved administrative, legislative and enforcement infrastructure for IP rights protection, the GoI recently has proposed a number of new intellectual property (IP) initiatives which are very troubling for U.S. companies that own critical technologies. The initiatives include incentives to generate IP in India that violate WTO law, troublesome government procurement preferences for Indian IP, and a push for broad compulsory licensing, including targeting environmental technologies, which is not consistent with the TRIPS Agreement. SIA is concerned that these initiatives will not only hurt Indian consumers and multi-national companies doing business in India, but also set a negative precedent in other countries which, like India, are developing new policies to increase their innovation capabilities.

Some of these new initiatives are specifically aimed at the electronic sector while others will impact that sector indirectly. The semiconductor industry provides the components for many electronic products and is the foundation of the ICT eco-system that sustains our global digital infrastructure. This ICT eco-system, which encompasses a host of downstream assemblies and finished electronic products as well as upstream semiconductor tools, is driven by large economies of scale generated by free trade and global production networks. We are concerned that India's initiatives, and the precedent they set in other countries that like India are considering how to increase their innovation capabilities, will fracture the ICT eco-system on which both IT and non-IT manufacturing industries depend.

Additionally, there are several issues in India's trademark law that makes it very difficult for rights holders to protect and enforce those rights. Of most concern, India suffers from (i) a significant case backlog and pendency of actions in its Trademark Office and courts; and (ii) a failure to extend protection of well-known *marks* to include protection against similar trade *names*. These issues will impact the competitiveness of U.S. technology companies doing business in India.

It is well known that India is currently seeking to build and operate several domestic semiconductor fabs to enable the implementation of some of its industrial policies that provide preferences for local IP, R&D and manufacturing of ICT products. Building a fab is a multi-billion dollar investment that requires an extensive supply chain for components, machinery,

equipment, and expertise, most of which India cannot supply domestically and must import from abroad. In order for India to best attract foreign investment and maintain the supply chain necessary to build the desired fabs, it must work toward creating a competitive intellectual property regime that does not discriminate between foreign and domestic IP.

B. Trade Distorting Incentives Linked to Generation of Domestic IP

Pursuant to its National Telecom Policy 2011 (NTP), the government of India (GOI) will grant incentives to those who use indigenously developed products in India's telecom infrastructure, with an emphasis on products created with Indian IP. For example, NTP Section IV.2.6 states: "To **create** [a] **fund** to promote indigenous R&D, IPR creation, entrepreneurship, manufacturing, commercializing and deployment of state-of-the-art telecom products and services. (Emphasis added.) And NTP Section IV.2.9 states: "To incentivise telecom service providers to use indigenous products by encouraging: 2.9.1. Commitment to purchase Indigenous products that are comparable in price and performance to imported products" and "2.9.3. Funding R&D and support Indian IPR creation and participate in creation of standards."

Any type of financial assistance intended to stimulate the creation of local IP, and the deployment of domestically manufactured products based on that IP, likely would violate India's WTO commitment not to condition subsidies on the use of local content. *See* Article 3.1(b) of the WTO Agreement on Subsidies and Countervailing Measures. If implemented, such incentives will hurt U.S. technologies that sell components used in India's rapidly expanding telecommunications infrastructure. Those incentives, ironically, also will hurt consumers in the long run by distorting the telecom market and undermining India's goal of becoming a globally-competitive exporter of electronic products.

C. Preferences for Domestic Products Made Based on Indian IP

In 2012, the Government of India (GOI) promulgated various measures that grant preferential market access (collectively "PMA Measures" or "PMA Mandate") to domestically manufactured electronic products purchased for certain uses. Due to significant pressure exerted by industry and agencies such as USTR, those measures were cut back to government procurement in 2013. To qualify, electronic products must contain a certain amount of domestic input (value addition) in relation to their bill of materials (BOM). These domestic content requirements increase from 30% the first year, up to as high as 100% in the fifth year (depending on the product). The PMA Mandate is intended to create India's own ICT manufacturing industry, enhance employment, and address security concerns stemming from a perception that at least some foreign electronic products are not trustworthy. At least one of the guidelines implementing the PMA Mandate for smart cards purchased for government use would include the value of domestic IP as part of the "value addition required for the input to be classified as domestic BOM." Department of Electronics and Information Technology (DeitY) Notification, p. 2 (January 9, 2013).

Several of GOI's other national policies also grant procurement preferences for domestic products that are made with domestic IP. For example, an earlier draft of the National Telecom Policy (NTP), Section III.9, states: "Provide preferential market access for domestically

manufactured telecommunication products including mobile devices, SIM cards with enhanced features etc. *with special emphasis on Indian products for which IPRs reside in India* to address strategic and security concerns of the Government, consistent with international commitments." (Emphasis added.) The final NTP states: "***Provide preference*** to domestically manufactured telecommunication products, in procurement of those telecommunication products which have security implications for the country and in Government procurement for its own use, consistent with our World Trade Organization (WTO) commitments." A less specific provision in GoI's National Manufacturing Policy (NMP) states: "The government will also consider use of public procurement in specified sectors *with stipulation of local value addition* in areas of critical technologies and wherever necessary such as . . . electronic hardware, fuel efficient transport equipment and IT based security systems." (NMP, Section 1.22).

D. Telecoms Testing Requirements

The Government of India has established a deadline of June 30, 2014 to commence in-country testing of certain Information Communications Technology (ICT) equipment to strengthen cyber and network security. Although the deadline for this new requirement is fast approaching, the government has not issued any guidance or details about the process, scope and coverage of the testing requirements. This lack of clarity has created enormous uncertainty for ICT, as well as major Indian telecom operators.

In the ICT sector, where providers, networks, products, services, equipment, suppliers, and customers are international in nature, a country-specific rule would raise costs for IT and telecommunication equipment providers and create interoperability problems for domestic telecom equipment manufacturers and operators. Any Indian testing and inspection regime should, therefore, conform to established global standards, such as the Common Criteria. However, Indian government officials have indicated that certain products, despite being certified under Common Criteria, will have to be tested in India labs. It is unclear who would control these labs and what safeguards will be put in place to protect sensitive and proprietary information. These requirements could lead to the forced transfer of IP, source code, and other sensitive design elements as a condition of selling to telecom licensees.

SIA recommends that USTR work with the Government of India (GOI) to break the link between domestic IP and government incentives or procurement preferences, just as it did in 2011 with the Chinese government. The GOI is developing policies intended to make its industries more innovative and competitive. But when IP systems are weak and/or favor domestic innovation at the expense of foreign innovation, then competition, FDI and innovation decrease.¹³ Studies have found that both the quantity and quality of technologies transferred from

¹³ Many economists have explored the question of whether developing countries are better off if they ignore intellectual property rights. "A clear consensus has emerged in this literature," which concludes that "[t]he costs to a developing nation of ignoring the intellectual property rights of foreign companies significantly *exceed* any benefits." "The Economic Value of Intellectual Property," Robert J. Shapiro & Kevin A. Hasselt, p. 8 (Oct. 2005); available: <http://www.sonecon.com/docs/studies/IntellectualPropertyReport-October2005.pdf>. For an example of this consensus, see D. M. Gould and William C. Gruben, "The Role of Intellectual Property Rights in Economic Growth," *Journal of Development Economics*, Vol. 48, No. 2, 1996).

developed to developing countries increase as IPR enforcement increases.¹⁴ And with increased IP enforcement, more R&D from multinational companies is imported which in turn benefits domestic companies, as they often generate their own IP from foreign technologies.¹⁵ Robust IP law -- which is not undermined by contradictory policies like trade distortive incentives, discriminatory procurement policies and broad compulsory licensing (see below) -- upgrades the technical base of the country, enables both the *creation* and *exchange* of advancing technology, and fosters greater human resource development in technical fields.¹⁶

E. Compulsory Licensing that Extends Far Beyond TRIPS Safeguards

The Government of India is experimenting with broad compulsory licensing as a way to accelerate technology transfer.

a. Compulsory Licensing Under India's Patent Law

In 2010, a department in the Ministry of Commerce issued a discussion paper which concluded that “compulsory licensing has a strong and persistent positive effect on domestic invention” and “[e]ven without any effects on innovation, compulsory licensing may create significant positive welfare effects on consumers in developing countries as a mechanism to maintain product variety.”¹⁷ The paper encouraged the Controller General of Patents to grant a compulsory license under the India Patent Act if, among other things, he was satisfied that (i) the patented invention is not being worked (i.e., manufactured) in India, or (ii) the working of the patented invention is hindered by imports of the patented article.¹⁸

Two years later, that is exactly what the Controller did. In March, 2012, he issued the first compulsory license in India to a domestic company to manufacture Nexavar, a cancer drug produced by Bayer. The Controller independently justified the compulsory license on three separate grounds: (i) the patent holder was able to supply its drugs to only 2% of the country's patient population; (ii) its price was not “reasonably affordable,” and (iii) it was imported and not manufactured in the country. *In the Matter of Natco Pharma Limited and Bayer Corporation, Application for Compulsory License Under Section 84(1) of the Patents Act, 1970, in Respect of Patent No. 215758, C.L.A. No. 1 of 2011 (March 9, 2012).* This is only the first of several

¹⁴ See, e.g., Sharmila Vishwasrao, “Intellectual Property Rights and the Mode of Technology Transfer,” *Journal of Development Economics*, Vol. 44., No. 2 (1994); Carsten Fink & Carlos A. Primo Braga, “How Stronger Protection of Intellectual Property Rights Affects International Trade Flows,” The World Bank, Policy Research Working Paper Series 2051 (1999).

¹⁵ See, e.g., “The Economic Value of Intellectual Property,” Robert J. Shapiro & Kevin A. Hasselt, pp. 2-3 (Oct. 2005); available: <http://www.sonecon.com/docs/studies/IntellectualPropertyReport-October2005.pdf> (summarizing significant research on conditions affecting technology transfer). The World Bank reported that “since 1980, the world's greatest economic gains have been achieved by developing nations that aggressively opened their economies to foreign technologies and business methods and *protected the intellectual property rights of their developers.*” *Id.* p. 5 (citing World Bank, *World Development Indicators, op. cit.*) (emphasis added).

¹⁶ Robert M. Sherwood, “Intellectual Property Systems and Investment Stimulation: The Rating of Systems in Eighteen Developing Countries,” *IDEA: The Journal of Law and Technology*, 37 *IDEA* 261 (1997).

¹⁷ Discussion Paper, Par. 70, Department of Industrial Policy and Promotion (August 2010).

¹⁸ (Par. 64; 29). Local working requirements are not consistent with the objectives of the WTO TRIPS Agreement because they undermine IP rights. TRIPS Article 27 reads in part that “patents shall be available and patent rights rights enjoyable without discrimination as to the place of invention, the field of technology and whether products are imported or locally produced.”

notable patent losses by pharmaceutical companies in India; Roche, Merck, and Pfizer also have lost cancer drugs to patent revocation proceedings in 2012. These actions have spawned compulsory license debates across the globe. See Archana Shukla, *Developing World Supports India's Compulsory License Policy* (Aug. 17, 2012) (“China is also concerned about the health of its people and availability of medicine. India’s move has led China to revisit its laws.”) Although some have claimed that this is “only a pharma problem,” India’s patent laws are technology neutral and clearly pose a threat to non-pharma innovation as soon as India chooses to use them against other technologies that GOI deems essential to public interests. Indeed, only one of the more than a dozen grounds for a compulsory license in India is specifically health related. In truth, the Bayer ruling appears to be more about enabling India’s large generic drug industry than it is about the health of India’s poor.

In any event, a compulsory license issued by a government because the patented product is not being manufactured domestically violates TRIPS Article 27.1, which states that patent rights shall be enjoyable “without discrimination as to the place of invention, the field of technology and *whether products are imported or locally produced.*” (Emphasis added.) At least part of the rationale in the Bayer case was not consistent with TRIPS.

The Controller now requires every patentee *and* licensee to furnish annual statements that include significant details of how they are working *each* patented invention on a commercial basis in India or, if not worked, the reasons why and the steps being taken to work the invention.¹⁹ This requirement is extremely burdensome, ineffective, impractical and even infeasible – especially for technology products that are each based on hundreds or even thousands of patents. Further, confidentiality provisions in licenses often prohibit disclosure of such information. This working statement requirement needs to change. Such a requirement exists in no other major patent system in the world. And, industry believes that the information from working statements will be used to create a database from which India can more easily justify future compulsory licenses. Indeed, there appears to be no other rationale for this requirement than to create such a database.

b. Compulsory Licensing Under India’s National Policies

The GOI has repeatedly argued that it should be free to issue compulsory licenses on whatever grounds it saw fit. As far back as the TRIPS negotiations, India has strongly advocated that “[i]t would be wrong to restrict the grounds for grant of compulsory license” and that “each country must be free to specify the grounds on which compulsory licenses can be granted under its law and the conditions for such grant.” Communication from India, *Standards and Principles Concerning the Availability, Scope and Use of Trade-Related Intellectual Property Rights*, ¶ 13, MTN.GNG/NG11/W/37 (July 10, 1989). The GOI has recently implemented legal and policy measures that implement its longstanding desire to ease TRIPS restrictions on technology transfer. For instance, India, along with China and Brazil, has strongly advocated over the last several years during the United Nations Framework Convention on Climate Change (UNFCCC) negotiations that compulsory licensing of environmentally sound technologies is in the public’s best

¹⁹ The Controller’s burdensome demands are based on Section 146(2) of the Indian Patent Act, which was not enforced until recently when he issued a public notice making it mandatory for all patentees and licensees to file the working statements annually.

interest. And India's 2011 National Manufacturing Policy encourages compulsory license grants for "the latest green technology" when a right holder refuses to license on reasonable terms or is not working the patent in India.

India's UNFCCC advocacy and National Manufacturing Policy are not consistent with articles 28 and 39 of the TRIPS Agreement, which grant owners of patents and trade secrets exclusive rights²⁰ that are subject only to certain very limited exceptions.²¹ As a WTO member, the Government of India cannot undermine these exclusive rights via national law or policy. TRIPS severely limits the instances when WTO members can create exceptions to the rights conferred to owners of patents and trade secrets. Such limited exceptions (see Articles 30 and 39.3) do not include, within their narrow scope, the broad essential facilities provision proposed in the draft National Competition Policy.

Indeed, with regard to patents, TRIPS Article 31 specifically and significantly limits the ability of a WTO member to issue compulsory licenses. WTO members may only issue compulsory licenses on a case-by-case basis (Article 31(a)), generally only after negotiations with the patent holder have failed (Article 31(b)), and typically they must be to fulfill a significant public interest and not simply to empower a competitor (see Articles 31(b) and (c)).²² In addition, any such authorizations must be subject to judicial or other independent review (Article 31(i)). Proposed Section 5.1.vi of the Draft NCP includes none of these safeguards.

With regard to trade secrets, TRIPS has no provision allowing their compulsory licensing. This makes sense because once a trade secret is disclosed to even a single person it becomes public and can no longer be protected, thus losing all of its value.²³

In summary, SIA strongly recommends that USTR work with its counterpart in India to (i) narrow the grounds for compulsory licensing in its patent law so they are consistent with TRIPS; (ii) remove the compulsory licensing provisions in its NMP; and modify the essential facilities provision in its Draft NCP so that it no longer applies to IP.

F. Significant Trademark Enforcement Concerns

SIA has two main concerns with trademark enforcement in India.

1. Case Backlog

²⁰ We assume Section 5.1.vi of the Draft Policy is intended to apply to patents and trade secrets, but TRIPS also provides exclusive rights to owners of trademarks and copyrights subject only to limited exceptions. (E.g., TRIPS Articles 3, 9, 16, 17).

²¹ See TRIPS Articles 30 and 39.3.

²² Articles 31(b) and (c) specify a few substantive grounds on which a compulsory license may be issued: (i) national emergency; (ii) extreme urgency; (iii) public non-commercial use; (iv) to remedy anti-competitive practices; and (v) where needed to permit the exploitation of a dependent patent. The TRIPS drafting history indicates that this short list of substantive grounds in Article 31 was not meant to be exclusive, and yet they all have a strong public interest component that is far different from simply ensuring that a smaller competitor has access to IP it did not develop.

²³ Based on the language and purpose of Section 5.1.vi of the Draft NCP, SIA assumes that it applies to both patents and trade secrets. In any event, we note that TRIPS Article 21 expressly prohibits the compulsory licensing of trademarks and nothing in TRIPS expressly allows compulsory licensing of copyrights.

India has a well-defined administrative process for the protection of trademarks. This Based on the language and purpose of Section 5.1.vi of the Draft NCP, SIA assumes that it applies to both patents and trade secrets. In any event, we note that TRIPS Article 21 expressly prohibits the compulsory licensing of trademarks and nothing in TRIPS expressly allows compulsory licensing of copyrights of existing registrations. In addition, a mark owner can seek recourse in the courts via a lawsuit alleging trademark infringement and/or unlawful passing off to enforce trademark rights.

In practice, however, these processes do not provide adequate protection of IP rights. The time period for courts or the Trademark Office to reach a decision is far too long.

- Specifically, once a trademark opposition or cancellation is filed before the Trademark Office it will usually take around seven years before a ruling is issued. A cancellation action filed with the Intellectual Property Appellate Board takes an average of approximately 5 years.
- Litigation matters before the courts in India are no faster -- the time from filing a complaint to a decision following trial varies between five and seven years. The delay in obtaining judicial or administrative agency relief severely undermines a mark owner's ability to protect its trademark rights in India. The lack of near-term consequences means that the threat of filing an action has no effect on infringers. As a result, many defendants refuse to settle matters, preferring instead to continue their infringing activities unobstructed for multiple years. The lack of an effective judicial system denies rights owners a means for effective recourse.

The backlog can only be solved by additional staff and grater automation in the courts and at the Trademark Office. India has failed to grow its resources to meet the increase in trademark applications, registrations and related disputes.

2. Well-known Mark Protection Against Trade Names

India needs to broaden its protection of well-known marks to prohibit the use of trade names that are similar to such marks. India's Trade-mark Act provides for protection of well-known marks against use *as a trademark* by another entity, but the statute does not prohibit use of a well-known mark *as a trade name*. (Compare the language of Section 29(4) of India's Trademarks Act with Section 29(5). In 2010, the Delhi High Court in *Raymond v. Raymond* interpreted Section 29(4) and (5) to mean that a well-known trademark is *not* infringed or diluted by use of a trade *name* in connection with goods different from those covered by the well-known mark. The court held that Section 29(5) governs infringement claims based on use of a trade name and that under the statute, infringement occurs only when the goods are similar.²⁴ The case is on appeal before the Supreme Court of India.

Differing treatment in India of infringing or dilutive trademarks versus trade names, especially in cases regarding well-known trademarks, ignores marketplace realities of infringement and dilution and severely limits the ability of a well-known mark owner to enforce its rights. To fix the problem, USTR should request GOI to amend the Trade-mark Act to impose liability when a

²⁴ The case is currently the subject of an appeal before the Supreme Court of India.

well-known mark is used by another entity regardless of the goods or services involved or whether the mark is used as a trademark or trade name. Without such change, owners of well-known marks have no recourse to enforce their rights against third party trade names used in connection with dissimilar goods and services.

G. Potential Adoption of a Utility Model Patent System

USTR should encourage India to proceed cautiously in considering the enactment of any UM law. If compelled to establish a UM law, India should limit the subject matter of UM protection to simple mechanical devices and provide clear criteria for obtaining a UM, limiting damages,²⁵ eliminating injunctive relief and not allowing enforcement until validity through substantive examination is determined,²⁶ at the expense of the UM holder. Otherwise, they will experience the same problems that China is experiencing with its UMP system. Without appropriate safeguards, foreign UMP systems can have a chilling effect on domestic innovation, protection/enforcement of invention patents, and US investment.

H. Patentability of Computer Related Inventions

The India Patent Office released its draft “Guidelines for Examination of Computer Related Inventions” on June 28, 2013. SIA is concerned that the draft Guidelines have interpreted and applied Section 3k of the India Patent Act 1970 (as amended) in a way that is inconsistent with the law and reaches problematic and restrictive conclusions on patentability of Computer Related Inventions (CRI). Computer related inventions- enabled by semiconductors- form the heart of innovations that have created the Information Age.

Presently, there are numerous computer programs that are of a technical character and have a technical effect when run on a computer. More and more technical innovation is arising from software development and reflected in technical software products. In order for innovators that develop and commercialize such software products to realize the full value of their investments and innovations, it is imperative that they be able to protect their inventions. If they cannot, then they will be discouraged from protecting their inventions and enforcing their patents, resulting in erosion of their markets, product prices and return on investment. This in turn will stifle further R&D, stagnate further innovation, and negatively impact job growth and the broader ICT ecosystem.

To dismiss patent eligibility or only recognize partial protection for inventions implemented in computer programs through method/process claims and embedded systems claims will dampen the fire of innovation and ultimately impede the

²⁵ Remedies in any UM system should be reduced to match the incremental nature of UMs. There is justification for rewarding both minor and major advances equally. Injunctions should not be available as a remedy for unexamined UMs because such a remedy encourages UMs to be used as leverage to demand disproportionate compensation for merely incremental advances.

²⁶ If India proceeds with a UMP system, it should require that right holders produce a detailed examination report that would then be used by the national patent office in examining the UM for novelty and especially inventiveness before a right holder may bring an infringement action. Alternatively, courts could automatically stay infringement actions pending resolution of the substantive examination.

technological progress that has benefited industries, economies, and consumers around the world. Furthermore, limiting patent protection based on the form of implementation (i.e. software vs hardware, business method), unfairly favors some industries over others, which should not be the case in a well-balanced patent system. SIA recommends that the India Patent Office re-examine their approach to patents for computer related inventions and seek to implement guidelines that encourages a patent ecosystem that nurtures the growth of all technology industries – hardware and software- and establishes a culture of innovation across all sectors.

IV. RUSSIA

A. Implementation of WTO Commitments

SIA believes that Russia should remain on the Priority Watch List. While SIA applauds Russia's accession to the World Trade Organization in August of 2012, close attention must be paid to ensure that Russia keeps pace with its new obligations to strengthen intellectual property protection and enforcement under the WTO.

V. BRAZIL

A. Patent Pendency

Although the Brazilian Patent Office is trying to hire more examiners, the average pendency for a patent application before it is granted is far too excessive. Many patent applications languish in the Patent Office for eight to ten years. This precludes the ability to enforce the patent against infringers and allows illegal sale of infringing goods to the detriment of patent applicants and their licensees that are selling legitimate products in Brazil. Brazil should be encouraged to greatly accelerate their disposition of patent applications to provide the protection needed for innovators to secure a reasonable return on their investments in R&D and ensure a level playing field in the marketplace.