

“US Responses to China’s Changing IP Regime”

Testimony Before the US-China Economic and Security Commission

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It is an honor and a pleasure to be here again before the Commission at this important moment in time. This is my third appearance before this body. I regret that due to a family emergency I am not able to appear in person and that my written statement was not filed in a timely fashion.

At my first appearance on January 28, 2015, I discussed the relationship between IP and Antitrust.¹ At my second appearance on June 15, 2018, I discussed how best to engage China on intellectual property issues. In that most recent appearance, I also included a list of 17 different action items that the United States should consider undertaking.² My focus today is on “US Responses to China’s Changing IP System.” This topic was also part of my 2018 testimony. In the spirit of monitoring developments, I have also updated an earlier list of action items as an attachment to this Statement.

There have been several IP and technology related developments in China since my 2018 testimony. We concluded a “Phase 1 Trade Agreement” in January 2020 that, in my view, was an important initial step to resolve technology and IP issues. Several United States self-strengthening efforts are also underway. The 2018 National Defense Authorization Act was a notable accomplishment in helping to shore up our export control and foreign investment review programs. The Federal Bureau of Investigation also launched the “China Initiative” in November 2018 to address the theft of information and technology by China. Fortunately, the Department of Justice has announced that the China Initiative has been restructured due to racial profiling concerns. The United States also filed a successful WTO case against China regarding its technology transfer regime, which was suspended on June 3, 2019, after China amended the offending laws.³ This was also a remarkable accomplishment for the Trump Administration, which generally did not support multilateral tools, such as WTO disputes.

¹ [Mark Cohen testimony.pdf \(uscc.gov\)](#).

² [Mark Cohen uscc testimony.pdf](#).

³ <https://www.reuters.com/article/us-usa-trade-china-wto-idUSKCN1TF1ER>.

Perhaps due to the administration's disinterest in the WTO, the successful conclusion of that case was hardly publicized.

The Biden administration has thus far generally maintained Trump administration approaches to technology and IP outward policies with China, engaging only when it perceives that engagement to be in our mutual interest, such as on clean energy technology. Having previously worked for the USPTO, which dissented from US government support for clean energy technology cooperation in China on the basis that the US government poorly understood and monitored outcomes from such cooperation, I am wary of such efforts, although I recognize that collaboration can bring significant benefits to our two countries and the world and I am also concerned about the harm to US innovation if collaboration with China continues to be imperiled.⁴

Domestically, the Biden Administration is now seeking to strengthen the US innovation environment through such efforts as the COMPETES Act, the CHIPS Act and the recently passed American Cybersecurity Act of 2022. The Biden administration has also pursued a more aggressive domestic competition agenda involving "big tech" through the Executive Order on Promoting Competition in the American Economy (July 9, 2021). It has also sought to refocus the trade agenda on labor and the needs of small and medium enterprises.⁵ I personally applaud the focus on labor and SME's, which I think also has potentially profound implications for US domestic IP policy as well.

The Senate Foreign Relations Committee also took the initiative to elevate the diplomatic status of USPTO IP Attaches in December 2018. An IP Attaché represents the US Patent and Trademark Office in US missions overseas. I served as the first IP Attaché in China. It was a position that I had helped create with then-Ambassador Clark T. Randt, III. Until December 2018, the diplomatic rank of the US IP Attaché was at a "First Secretary" level in diplomatic hierarchy. This was a lower rank than, for example, the Chinese IP officer that is posted to the United States.⁶ That situation is now largely resolved with the elevation to "Counselor" status of four attaches who are resident in four of our largest embassies: Beijing, New Delhi, Thailand and the European Union.⁷

In the remainder of my presentation, I shall briefly describe: (a) the systemic deficiencies of the Phase 1 Agreement as I view them; (b) challenges the US government faces regarding intellectual property and trade and (c) domestic initiatives that may undermine our ability to compete in emerging technologies.

A. Systemic Deficiencies of the Phase 1 Agreement

⁴ [U.S.-China Cooperation: Bilateral Clean Energy Programs Show Some Results but Should Enhance Their Performance Monitoring | U.S. GAO.](#)

⁵ [FACT SHEET: Executive Order on Promoting Competition in the American Economy | The White House.](#)

⁶ [Fall-2020-Diplomatic-List1.pdf \(state.gov\)](#) at p. 66 (Ms. Ning Yu, Counselor).

⁷ [Four USPTO intellectual property attachés elevated to rank of "Counselor" | USPTO.](#)

While the Phase 1 Agreement in IP had many notable accomplishments, there were few elements that addressed structural challenges faced by US companies. Moreover, there has been some recent backsliding in structural concerns that were overlooked. My view is that “the reforms in the Agreement hardly total up to addressing a problem of that magnitude [of addressing structural changes].”⁸ Scott Kennedy of the Center for Strategic and International Studies (CSIS) has more generally noted that, as a result of the Phase 1 Agreement, “China has been able to preserve its mercantilist economic system and continue its discriminatory industrial policies at the expense of China’s trading partners and the global economy.”

A good place to start on the missing structural issues of the Phase 1 is its support of China’s vast administrative apparatus for the enforcement of intellectual property. This administrative system can act either on an ex parte basis or by filing a complaint against an entity that infringes an IP right. The administrative agency will then typically impose a fine and/or issue an order to stop infringement. The US government has long been critical of China’s administrative system. USTR noted in 2006 that “China’s enforcement authorities rely instead on toothless administrative enforcement, which primarily results in small fines, administrative injunctions and other minor inconveniences for infringers.”⁹ There is also a significant body of academic literature showing that administrative enforcement in China is rarely deterrent or effective.¹⁰ Nonetheless, improving administrative IP enforcement is a US-China IP “ask” that has continued to persist, including in several articles of the Phase 1 Agreement.¹¹

In the Phase 1 Agreement, the United States agreed to five separate several campaigns and a unique administrative enforcement approach to pharmaceutical patent protection. The Phase 1 Agreement also continues age-old proposals to revoke business licenses for IP infringers, which had previously been shown to be of little success.¹² The administrative system also tends to be much less transparent than the judicial support. To address that issue, the Phase 1 Agreement required certain reports on required administrative efforts. However, I am unaware whether any of the required reports on the campaigns have been forthcoming.¹³

⁸ [A Fragile and Costly US-China Trade Peace.](#)

⁹ USTR, 2006 Report to Congress on China’s WTO Compliance, available at [asset_upload_file688_10223.pdf \(ustr.gov\)](#) at page 70.

¹⁰ Martin K. Dimitrov, Piracy and the State (2009), see also Mark Cohen, David Kappos and Randal Rader, Faux Amis: China-US Administrative Enforcement Comparison”, in both [English](#), and [Chinese \(形似神异：中美专利行政执法制度对比\)](#) (2016) at <http://www.cpt.cn/uploadfiles/20170220103128979.pdf> .

¹¹ See [The Phase 1 IP Agreement: Its Fans and Discontents – China IPR – Intellectual Property Developments in China](#). The blog written by this author also notes that the timing of the various reports on these administrative campaigns appeared to be timed in conjunction with US Presidential election milestones.

¹² See 国务院办公厅关于印发打击侵犯知识产权和制售假冒伪劣商品专项行动方案的通知 (State Council Working Office Notice on Publication of Strategies to Strategies Relating to IP infringement and Production or Sales of Counterfeit and Substandard Products_ (Nov. 10, 2010) http://www.gov.cn/zwgc/2010-11/05/content_1739089.htm .

¹³ [The Phase 1 IP Agreement: Its Fans and Discontents – China IPR – Intellectual Property Developments in China.](#)

There are several reasons why administrative enforcement has long been attractive to foreign countries in negotiating an IP “deliverable” with China. These can include a lack of understanding of the role of civil enforcement of IP in China, a desire for quick results, a belief that the Chinese government could stop IP infringement if it so chose, and support for political solutions to problems that some believe are primarily political in nature. The administrative system has also often served foreign rightsholders well when used to address more readily ascertainable forms of infringement, such as trademark counterfeiting in open markets. However, on a “structural level” administrative enforcement utilizes state-managed tools without deterrent compensation, rather than empowering rightsholders to obtain fair and equitable compensation from the courts for their losses. It is thus inconsistent with American economic values, or – alternatively – reflects an IP regime with “Chinese characteristics.”

As one example of misuse of administrative enforcement mechanisms, the Phase 1 Agreement revives earlier efforts at opaque software audits run by administrative agencies to address software end-user piracy in China (Sec.1.23). Based on a 2014 GAO report, this would, at a minimum, constitute the 23rd such trade-related commitment to address software piracy.¹⁴ By contrast, recent analyses show that foreign companies have become highly successful at bringing civil lawsuits to address software piracy. Microsoft, for example, has won every one of the 63 published civil software copyright infringement cases that it filed in China from 2006-2019. Moreover, the overall foreign win rate of foreigners is over 85%.¹⁵

China’s civil IP judiciary, which many foreigners know well, has shown considerable promise. While the trade war was progressing, China launched a new national appellate IP court, new internet courts, as well as local specialized IP courts at the intermediate level. The courts, however, do not publish all cases or important interim decisions. Thus, transparency of judicial decision making remains an important structural goal. Absent greater judicial transparency, it will also be difficult to judge whether the positive legislative changes in civil litigation mandated by the Phase 1 Agreement are having their desired effect. In fact, there appears to be some backsliding in the transparency of China’s legal system generally in the past several years, with courts being told to withdraw cases from publication.¹⁶

Declining transparency is also evident in legislative drafting. Currently implementing regulations for two laws – China’s Copyright Law and China’s Patent Law -- are long overdue. I have heard that drafts are being provided to Chinese lawyers and experts, but no draft has been made available to foreign businesses. This is a departure from prior transparency practices where foreign companies and lawyers have often had robust opportunities to provide

¹⁴ [GAO-14-102, U.S. - CHINA TRADE: United States Has Secured Commitments in Key Bilateral Dialogues, but U.S. Agency Reporting on Status Should Be Improved.](#)

¹⁵ [An Update on Data-Driven Reports on China’s IP Enforcement Environment – China IPR – Intellectual Property Developments in China.](#)

¹⁶ [Millions of court rulings removed from official Chinese database | South China Morning Post \(scmp.com\)](#)

comments on draft legislation. I do not know if drafts are being provided to foreign governments or well-connected foreign businesses operating in China.¹⁷

China's emerging role in multinational IP litigation, which I raised in my 2018 Statement, is an increasingly pressing concern. The European Union's recent WTO consultation request regarding China's use of anti-suit injunctions (ASI's) in standards-essential patent litigation and its failure to publish those decisions affecting foreigners is evidence of this.¹⁸ By way of background, ASI's are orders issued by a court to prohibit litigants from pursuing parallel litigation in other countries. The orders are often accompanied by the threat of judicial fines for their violation. China recently started granted ASI's of its own and has since become a major user of this remedy. In addition, Chinese courts are increasingly seeking to establish global royalty rates for cases it adjudicates, thereby potentially undercutting foreign courts and technology rate setting by non-Chinese courts. The growth in ASI's in China is attributable to several factors, including: (a) the inherent conflict between the territorial nature of patents and the need of licensors of patents used in international standards to license their patents on a global basis; (b) the desire by Chinese courts and the Chinese government to drive down royalty rates for Chinese licensees; and (c) an increasingly aggressive Chinese judiciary which has limited experience in considering how to minimize international judicial friction, and seeks to assert itself in international disputes and establish global norms. Several Senators have also recently proposed legislation to address Chinese interference in US patent litigation using ASI's (S. 3772).¹⁹ The Phase 1 Agreement did not address this and other cross-border litigation issues.

Another structural problem is the continual challenge that China faces in striking the proper balance between public remedies (administrative/criminal) and private remedies (civil enforcement/arbitration). With its focus on "IP Theft", including its demand for increased punitive damages, stronger criminal enforcement and improved criminal trade secret enforcement, the US government has traditionally demonstrated a continuing "criminal bias" or public remedy approach to IP diplomacy with China.²⁰ The Phase 1 Agreement is no different. As I stated in a recent article published by the National Bureau for Asian research:

A balance between civil and criminal remedies was at one time inherent in U.S. policy and in foundational international treaties. The standing policy of the Department of Justice accords a primacy to civil remedies. The Department of Justice manual "Prosecuting Intellectual Property Crimes" states that "prosecutors should consider the availability and use of private civil remedies in deciding whether to prosecute an

¹⁷ [Transitioning to China's New Patent and Copyright Laws on June 1: Where Have All the Implementing Regulations Gone? – China IPR – Intellectual Property Developments in China.](#)

¹⁸ [EU Files Request for Consultations on Chinese Judicial SEP Practices – China IPR – Intellectual Property Developments in China.](#)

¹⁹ <https://www.govinfo.gov/content/pkg/BILLS-117s3772is/html/BILLS-117s3772is.htm>.

²⁰ <https://www.nbr.org/publication/the-criminal-bias-in-u-s-intellectual-property-diplomacy/>.

infringer criminally.” U.S. data on IP enforcement aligns well with this policy. In the United States, criminal convictions for IP are often 1% or less of civil decisions. In 2018, the last year for which reliable data is available, there were 68 criminal cases charged in the United States at the federal level, mostly for trademark infringement. In 2020, there were 12,192 civil IP cases (excepting trademark) in the federal courts. By comparison, China brings an average of 67 times as many criminal cases per year than the United States. Data from both countries also shows a wide discrepancy between the small number of criminal cases and the much higher number of civil cases.

One way to strengthen the civil system might be to bring more WTO cases against China. The TRIPS Agreement generally imposes more detailed requirements on civil enforcement than criminal or administrative remedies. We have only filed two significant WTO cases against China involving IP since China joined the WTO, neither of which significantly implicated civil remedies. One case focused on criminal IP enforcement and customs remedies. The second case focused on technology transfer. I believe that there are aspects of China’s civil procedures and remedies that are worth considering for WTO dispute resolution.²¹

(b) Challenges that the US Government Faces in IP and Trade

Today, the US government also has an excess of coordinators on IP issues, including: USTR on trade-related IP issues, USPTO on all IP issues pursuant to the American Inventors Protection Act,²² the White House IP Enforcement Coordinator or “Czar”,²³ the IP office within the International Trade Administration,²⁴ the State Department Office on International Intellectual Property Enforcement,²⁵ the DOJ Computer Crimes and Intellectual Property Section²⁶ and the National Intellectual Property Rights Coordination Center.²⁷ Sometimes these agencies have a degree of overlapping functions which mandate coordination of some kind. The USPTO and the Copyright Office, for example, share responsibility for copyright policies. USPTO and the Copyright Office also actively support USTR on trade-related IP negotiations. However, even when these agencies have more discrete functions, they may also do a poor job at leveraging the resources of other agencies to better advance priority US interests. By creating expertise in their modestly staffed agency structure and not entering into shared workload arrangements with others, they risk encouraging duplication of agency efforts with others, as well as shallower engagement on increasingly complex issues that demand more of an “all of government approach.” A less siloed government structure would be especially helpful in

²¹ [The WTO IP Cases That Weren’t – China IPR – Intellectual Property Developments in China.](#)

²² 35 USC Sec. 3.

²³ [https://trumpwhitehouse.archives.gov/omb/office-u-s-intellectual-property-enforcement-coordinator-ipec/.](https://trumpwhitehouse.archives.gov/omb/office-u-s-intellectual-property-enforcement-coordinator-ipec/)

²⁴ [https://www.stopfakes.gov/Contact-Us.](https://www.stopfakes.gov/Contact-Us)

²⁵ [https://www.state.gov/intellectual-property-enforcement/.](https://www.state.gov/intellectual-property-enforcement/)

²⁶ [https://www.justice.gov/criminal-ccips.](https://www.justice.gov/criminal-ccips)

²⁷ [https://www.iprcenter.gov/.](https://www.iprcenter.gov/)

handling complex technology and IP issues originating from China, which may demand expertise on trade law, IP, technology, national security, criminal law, civil law and other areas. Industrial sector-specific support might also be obtained through closer coordination with academics and businesses. There are also institutions that may not have the resources or interest to continuously immerse themselves in this area, such as the Labor Department or Small Business Administration, that could also benefit from a new team approach involving more sharing of information and resources, including shared training.

Today, in the Biden Administration, as far as I can tell, two of the leading IP enforcement coordination positions have not yet been fully confirmed: the Deputy USTR for IP and Innovation, and the IP Enforcement Coordinator at the White House.²⁸ The USPTO Director was confirmed by the Senate earlier this month, based on a nomination that was sent by the President in November 2021, or about one year into the Biden Administration.

The highest-ranking individual on IP and innovation in the government today is arguably the Deputy USTR for IP and Innovation. Mr. Christopher Wilson is the nominee for this position. He is an experienced USTR official with over twenty years' experience as a trade and IP diplomat. He has a degree from Georgetown in diplomacy. His position is equivalent to a Deputy Secretary. He was nominated in 2021 after Senators Leahy and Tillis sent a letter to the White House asking the President to prioritize appointment of IP officials in the Executive Branch. If Mr. Wilson is confirmed, he will be in charge of IP and innovation for a powerful but very lean trade agency.

By comparison, Ms. Vidal, the recently confirmed attorney, will serve as Director of the USPTO and Undersecretary of the Department of Commerce for Intellectual Property. She holds BS and MS degrees in addition to her law degree. She is well known in the legal community, and has over 25 years' experience in intellectual property, including having clerked on our national appellate patent court and served as a partner in a major IP practice in an international law firm. Her credentials, like Mr. Wilson's are stellar. Ms. Vidal will be in charge of a diverse agency consisting of over 10,000 people, including scientists, engineers and lawyers. She will also oversee an overseas diplomatic corps of IP Attachés and serve as the lead agency of the US government to the World Intellectual Property Agency, as well as a number of other plurilateral IP organizations.

As the differing background of these two leaders suggest, the disparities in resources and capacity between USPTO leadership and USTR leadership can make for sub-optimal engagements with China unless there are conscious efforts to leverage the differing resources of each agency. One significant disadvantage that USPTO faces is the relatively late appointment of a USPTO official compared to cabinet level officials, such as US Trade Representative Tai, that are already engaged on IP issues.

²⁸ See also <https://www.jdsupra.com/legalnews/senators-ask-president-to-prioritize-9059749/>.

Currently, the agency with the greater resources on IP (including Chinese IP) and the larger budget is USPTO. However, USTR is the agency with the greater political authority. USPTO's training budget, its extensive human resources and its dependence on user fees, do however permits it to exercise softer forms of long-term diplomacy in many jurisdictions, including China. The US Trade Representative, by contrast, is a Cabinet-level position. She has the authority to negotiate trade agreements, bring trade disputes and seek remedies to address unfair acts.

As an example of how the agencies can coordinate, the successful WTO case filed by the United States on technology licensing by the Trump administration was preceded by three separate USPTO training programs on technology licensing with China, and a larger program on IP licensing hosted at USPTO headquarters. Deeper integration of training into USTR's current toolbox, as well as active participation of USTR in these training programs, would be helpful to both agencies. Also, in the current structure, important generalist agencies such as State and Treasury often play a leading role particularly in the early stages of an administration. Generalist diplomats leading complex negotiations with Chinese counterparts can, however, be a fraught exercise, as their expert Chinese counterparts may have a deeper understanding of US IP law than they do, and they often perceive the relative lack of expertise of their US counterparts. An added problem is that agencies with deep technical depth, such as USPTO, may not have a high-ranking political appointee who can devote most of her time to international affairs. This can contribute to less expert officials leading negotiations even after an Administration's IP team is fully in place.

In this environment of individuals with vastly different backgrounds, agencies can lead by respectfully working together, or, alternatively, be silo-bound to the detriment of all.

The differences in expertise between USTR and PTO are also evident on the staff level. Recently USTR posted for a position "serving as lead negotiator on innovation and intellectual property issues in trade agreement negotiations and in other bilateral engagements with foreign governments."²⁹ The posting specifically notes that the job "does not have an education qualification requirement." One year of experience in trade negotiations is the minimum professional experience.

USPTO IP Attachés, by contrast, are required to have both a law degree and a general knowledge of IP. Foreign language fluency "may be an advantage."³⁰ Generally speaking, five years of prior experience are required to serve as an IP Attaché. The three pathways to becoming an IP attaché include being a federal attorney, a patent examiner or a private firm attorney.³¹ Currently, there are three IP Attaches with such qualifications in China who work with a complement of US-based officials and Chinese attorneys. When I served at our embassy

²⁹ [USAJOBS - Job Announcement.](#)

³⁰ [IP attaché careers | USPTO.](#)

³¹ [Become An IPAttache infographic 2020.pdf \(uspto.gov\).](#)

in Beijing, I believe that the USPTO offices in China also had the largest contingent of attorneys of any unit in the US mission to China, with 3 foreign attorneys and 5 Chinese attorneys. Being a relatively weak agency at the Under Secretary level, we often worked best by training and empowering other agencies.

Here are some examples of challenges in allocation of resources in Chinese IP policy making:

The Section 301 legislation mandates composition of the Section 301 Committee by representatives of interested agencies, but it does not require consideration of composition by expertise.³² As implemented, PTO employees may only have one shared seat utilizing a revolving Commerce Department seat if the Commerce Department is viewed as “one agency.”³³ By comparison, agencies with less IP expertise, such as the Small Business Administration, may occupy one seat continuously if they are viewed as one agency. The structure also tends to favor more agencies or sub-agencies with more higher-ranking officials. Leveraging diverse interests and expertise requires considerable coordination.

As far as I can observe there was also no IP official in the room at this signing of the Phase 1 Agreement, nor in Buenos Aires (respectively, below):



³²<https://ustr.gov/sites/default/files/enforcement/301Investigations/China%20Technology%20Transfer%20Hearing%20Transcript.pdf> at pp. 8-9.

³³ See 15 C.F.R. Sec. 2003.



Training and research would also benefit from better coordination. The US government has often failed to understand Chinese law and the (non) binding nature of many of its agreements. Jamie Horsley, a former Commerce Department official based in Beijing who is now at the Brookings Institution, has noted:

[A] better understanding [of Chinese law] will facilitate more effective resolution of bilateral disagreements and help ensure that bilateral agreements are enforceable under Chinese law. ...Deeper understanding of Chinese law could help U.S. authorities avoid adopting policies and targeting issues that are based on misapprehension...³⁴.

Regarding research, the US government has yet to utilize the increasingly extensive public data sources available on China's IP regime. Chinese data sources are often dismissed as propaganda, yet many of these sources provide important critical insights into China's IP system and can help aid in drafting impactful trade and IP protection strategies. Increasingly, Chinese and non-Chinese lawyers and academics are using these data sources. For example, the official Chinese government website of court cases had approximately 84.3 billion hits as of April 10, 2022. It also had 80.9 million legal documents.³⁵ PTO, to its credit, has recently undertaken to prepare data-driven reports on IP issues, which have generally been well received.³⁶

I believe that we need to undertake a two – pronged approach to improving our analytics – (a) we need to use available trade tools to encourage greater transparency and reliability in China's IP system, and (b) the US government and others need to undertake additional data-driven analyses to develop their own perspectives of IP challenges in China, including developing forward-looking strategies. Collaboration among agencies and with academia and business could be helpful to these tasks.

³⁴ Jamie Horsley, Revitalizing Law and Governance Collaboration with China, available at [Revitalizing law and governance collaboration with China \(brookings.edu\)](https://www.brookings.edu/research/revitalizing-law-and-governance-collaboration-with-china/) (2020), at 5

³⁵ <http://wenshu.court.gov.cn>, viewed on April 10, 2022.

³⁶ [Trademarks and Patents in China \(uspto.gov\)](https://www.uspto.gov/patents/industry/trademarks-and-patents-in-china); [Patenting activity by companies developing 5G USPTO](https://www.uspto.gov/patents/industry/patenting-activity-by-companies-developing-5g).

US government coordination issues are more likely to arise when government institutions become bigger and more insular. China-related IP issues have mushroomed in quantity and quality over the past decade and necessitate a more coordinated and rationalized approach. Divisions along party lines have often made such collaboration more difficult, particularly in Congress. The pandemic has not helped. However, there are also some simple remedies. One example: an award or incentives for an agency employee to enhance another agency's competencies through work sharing, offloading, joint projects or training could help advance the importance of coordination as a shared goal. Another remedy is thoughtful oversight by Congress and others.

There are some useful past precedents. The TRIPS Agreement itself was negotiated by Michael Kirk, an experienced USPTO patent lawyer who ran its office of international affairs. He passed the gavel to USTR to represent the United States at the WTO when those treaty negotiations were concluded.³⁷ During my early years at the USPTO, I also had the pleasure of working with many individuals who took the time to skillfully coordinate interagency resources. One of them was Joe Papovich at USTR. Joe was an expert at marshalling and coordinating interagency resources on China IP issues after China joined the WTO.

(c) United States Initiatives That Undermine Our IP System

We should also not lose sight of the international implications of the self-inflicted wounds that the US has inflicted on its own IP regime.

Kathleen O'Malley, a recently retired judge from the US Court of Appeals for the Federal Circuit, our national "patent court," has recently noted:

I believe that there's a lot wrong with our IP system, and that there are a lot of things that we could try to fix and make it stronger, more robust for everybody, both patent holders and accused infringers, so that people have a more clear sense of what their obligations are or what their rights are. We'd have a stronger position in the international community. I've done a lot of international work and I have a lot of friends in the international space, especially other judges. Their perception is that we've gone from the strongest IP jurisdiction to just about the weakest. That's not right.³⁸

US weakness is in marked contrast to China's efforts. Many of the improvements that China has undertaken to improve its IP system have been taking place contemporaneously with measures by the United States to weaken its own regime. Here are three examples of this US weakening IP protection, often while China maintains or strengthens its protections in the same area:

Issue 1: *We need to fix our patent eligibility doctrine to ensure that cutting edge inventions in new technologies are protected in the United States.* Several recent US Supreme Court

³⁷ [Michael Kirk – iphalloffame.](#)

³⁸ [Judge Kathleen O'Malley reveals inner thoughts on 101, PTAB reforms, patent injunctions and more - IAM \(iam-media.com\).](#)

precedents have undercut the scope of patent eligible subject matter, making it difficult to obtain patents on US inventions in such key areas of AI, fintech and medical diagnostics. By the same token it is easier to obtain these patents in Europe, Japan, Korea and China.³⁹ China has been expanding its patent eligible subject matter in these areas at the same time as the US has retreated.⁴⁰ In the words of one leading academic, the US patent system has “turned gold to lead” with its declining scope of patent protection.⁴¹ The rules articulated by the Supreme Court are also difficult to apply in practice. In describing the instability and irrationality of these new approaches when she was a sitting judge, Judge O’Malley has noted of patent eligibility doctrine: "Have you ever seen all 12 active judges on a single circuit beg the Supreme Court for guidance, and the Supreme Court say no? It's absurd."⁴²

These deficiencies and uncertainties may also have national security implications. According to the report of the National Security Commission on Artificial Intelligence:

U.S. courts have severely restricted what types of computer-implemented and biotech-related inventions can be protected under U.S. patent law. Critical AI and biotech-related inventions have been denied patent protection since 2010. Facing uncertainty in obtaining and retaining patent protection, inventors pursue trade secret protection. Trade secrets do not readily promote innovation markets, because trade secrets, unlike patents, do not contribute to accessible technical knowledge in the public domain. While these impacts might not be immediate, the long-term effects on AI and other emerging technology developments and competitiveness are concerning.⁴³

Issue 2. We need to ensure that in the name of important social goals such as addressing public health or supporting a more competitive economy, we do not weaken the IP-related ecosystem that enable us to develop the technology that will resolve these problems.

In order to help address the global pandemic, President Biden took the unprecedented step of agreeing to negotiate a further waiver of pharmaceutical IP rights in the context of WTO negotiations.⁴⁴ We did this without the support of our European allies. Of course, improving its biotechnology industry is a national priority in China. It is also part of Made in China 2025.⁴⁵ The TRIPS waiver continues to concerns over whether the United States will be forced to “hand

³⁹ [Microsoft Word - 5200719_4.doc \(senate.gov\)](#).

⁴⁰ Liaoteng Wang et al, A Comparative Look at Patent Subject Matter Eligibility Standards: China Versus the United States, <https://www.ipwatchdog.com/2020/06/12/comparative-look-patent-subject-matter-eligibility-standards-china-versus-united-states/id=122339/>.

⁴¹ https://www.law.gmu.edu/pubs/papers/17_16.

⁴² [Judge O'Malley: "Absurd" that Supreme Court Won't Address Section 101 Patent Eligibility | Insights | Holland & Knight \(hklaw.com\)](#).

⁴³ <https://www.nscai.gov/wp-content/uploads/2021/03/Full-Report-Digital-1.pdf> at p. 12.

⁴⁴ [QUAD's tentative agreement on TRIPS and COVID 19 - Knowledge Ecology International \(keionline.org\)](#).

⁴⁵ <https://www.uscc.gov/sites/default/files/Research/US-China%20Biotech%20Report.pdf>

over leading-edge American technology to our competitors and cripple our ability to respond to future challenges.”⁴⁶

Issue 3: *We need to consider the international consequences of weakening our IP system.* I offer three examples including: our efforts to weaken non-compete agreements; the limiting of injunctive relief for IP infringement; and our continued prioritization of consumer interests in antitrust matters. My points here are limited to the international impacts of US domestic policy; not on the wisdom of their application in a purely domestic context.

Congress and the FTC are both attempting to narrow the use of non-compete agreements in employment contracts in the United States.⁴⁷ Unless consideration is given to the international impact of such a ban, the remedies available to address trade secret protection for US companies in China will narrow considerably. Employers in China often rely on non-compete agreements to protect trade secrets in China, as they are easier to enforce than trade secret law.⁴⁸ California employers, where non-compete agreements are generally illegal, have occasionally found that they are left with ineffective remedies when their employees leave their US jobs for competitors in China.⁴⁹ A more nuanced approach that protects non-compete agreements overseas may reduce the risks posed by this policy.⁵⁰

In *eBay, Inc. v Mercantile Exchange L.L.C.*, 547 US 388 (2006), the US Supreme Court weakened the availability of injunctive relief for IP infringement cases in the United States. Prior to that time, injunctions were granted as a matter of right if the court has made an affirmative determination of infringement. This is the general principle that still applies in other leading IP jurisdictions, including China. There was no serious consideration at the time of that decision of the international consequences of this decision in terms of its making China and other markets more attractive destinations for IP litigation while weakening the US system. I again quote Judge O’Malley:

One of the things that they think is the craziest was the *eBay* decision. The Constitution provides the right to exclude and if you don't have the right to exclude, then what does the right really mean? In the absence of the threat of an injunction, then several things happen. One is that there is no incentive to not engage in what some would call efficient infringement. Why enter a license if at the end of the day, the worst that can happen to you is you pay exactly what you would have paid without losing your money or without

⁴⁶ [Op-Ed: Sacrificing efficiency, science, and multilateralism for virtue-signaling – The perils of the Biden WTO Waiver | Opinion | thecentersquare.com.](#)

⁴⁷ [The Future Of Restrictive Covenants According to the FTC \(natlawreview.com\).](#)

⁴⁸ Benjamin Bai and Steve Adkins “Protecting Trade Secrets in China: Tips and Lessons Learned” (2013), available at <https://www.uschina.org/sites/default/files/tradesecrets.pdf> .

^{49,49} [Semiconductor Patent Litigation Part 2: Nationalism, Transparency and Rule of Law – China IPR – Intellectual Property Developments in China.](#)

⁵⁰ See Jacob Lahana, “Open to a Fault: How China can Take Advantage of California’s Prohibition on NonCompete Agreements, and How California Can Fix It” (Unpublished paper at University of California at Berkeley, December 2019), available from the author.

losing developing your business in the interim? Having lived pre-*eBay* as a district court judge – it was much easier to settle cases because everybody had something big to lose.⁵¹

An insular approach to international consequences is also evident in a draft USDOJ/NIST/USPTO policy proposal on availability of injunctive relief for SEP cases, which omitted any consideration of the overseas impact of denying injunctive relief in the United States when it is readily available overseas. Nonetheless, over one half of the commentors on the proposed policy raised concerns regarding the impact of this policy on our ability to compete with China.⁵²

We also need to begin recognizing the impact of dynamic technological competition in assessing competitive challenges. In my first appearance before the Commission, I expressed serious concerns regarding China's enforcement of its antitrust laws to advance its own industrial champions and its industrial policies. I believe the consumer-oriented focus of US antitrust investigations does not adequately account for dynamic models of innovation that support rapid technological evolution in a range of technology fields. United States technology leaders have enabled new industries to develop through outbound licensing of proprietary technology or development of open-source collaborative ecosystems. These technologies are often licensed to efficient downstream manufacturers. If we are to remain competitive, we need to ensure that Chinese antitrust agencies, courts and other regulatory authorities also do not undermine our research ecosystem through aggressive regulation such as by determining global royalty rates in licensing standards essential patents. The consumer-oriented approach also may not adequately reflect the role of the United States as an innovation and research dependent economy, or as a contributor to standardized technology. At a risk of stating the obvious, the Chinese government has long been more concerned with reducing the cost of US technology to its manufacturers than with supporting US innovation. These concerns have become more acute in an era of decoupling.

In summary, we should be wary of trade approaches to IP in China that support more intervention by the Chinese government. It is natural for government negotiators to think first of what the government can do to resolve problems. Certain types of enforcement, such as criminal enforcement or antitrust regulation, are largely the domain of the government. Government officials may also have limited experience in licensing or monetizing IP. Enhancing government intervention to the detriment of private enforcement or market-oriented mechanisms may not adequately reflect our social, economic, and technological interests.

CONCLUSION

The campus of the USPTO in Arlington Virginia named its buildings after some of its former directors. Among those who were formerly in charge of the US patent office and had buildings named after them are Presidents Jefferson and Madison. In downtown DC, the Old Patent

⁵¹ O'Malley interview, id.

⁵² [China in the DOJ Draft Policy: A Summary of the Comments – China IPR – Intellectual Property Developments in China.](#)

Office now houses the National Portrait Gallery. It was the site of President Lincoln's first inaugural ball. Lincoln was an early adopter of technology, a firm believer in the value of patents, and the only president who was also a patentee. Washington's first inaugural address called for adoption of a patent system. Today, we have several monuments in Washington, DC dedicated to those who were proponents of the IP system, such as the Lincoln and Jefferson Memorials, as well as the Washington Monument. There are also other monuments in DC to inventors, patent examiners and innovators, such as the statue of Albert Einstein, who once worked in the Swiss Patent Office and was also a patentee, and the monument to Daguerre near the National Portrait Gallery. In a sense, our nation's capital is physical proof that IP is core to our national economic identity and international security.

While we may agree that we face significant competitive challenges from China, we nonetheless talk with two voices: one for external consumption and one for domestic policy. There are also very few incentives in the US government to support enhanced coordination. Today, erosion of strong IP protections on the domestic front may ultimately weaken both our credibility in negotiating strong IP outcomes as well as the strength of our domestic IP regime. "A lot of my friends around the world," Judge O'Malley has noted, "think that we have gone crazy in terms of the way we deal with IP issues."⁵³

We need to return to core values in how we approach the issues and the kinds of policies we want for ourselves and the world.

Thank you for your attention to my observations.

⁵³ O'Malley interview, id.

APPENDIX: ACTION ITEMS AND THEIR FUFILLMENT (UPDATED FROM 2018 TESTIMONY)

USG Internal Prioritization Efforts:

1. Congress should optimize USG engagement on innovation and IP by providing more direct oversight, attention to actual coordination undertaken by agencies, and through personnel and agency awards for coordination of tasks and for agency/academic/industry collaboration. OBSERVATION: NOT ACCOMPLISHED/HIGHLY URGENT.
2. Increased resources may be directed to law enforcement, including Customs, to support outreach and cases involving theft of trade secrets or imports into the US with stolen IP. Mechanisms should be established to facilitate increased sharing of data among companies and the government to form comprehensive risk assessments. OBSERVATION: LIMITED IMPROVEMENTS/URGENT.
3. USPTO IP Attachés should enjoy diplomatic rank commensurate with their importance, experience and roles. OBSERVATION: RESOLVED.
4. More empirical and forward-looking analyses should be conducted to ensure that USG policy is sufficiently forward-looking and geared to China's plans and policies. Competitive threats should be analyzed as policy decisions are made. Initiatives such as the USPTO's China IP Resource Center should be well-funded, work with counterpart offices in other agencies, and become a durable part of our engagement with China. OBSERVATION: PARTIALLY ACCOMPLISHED, BUT MORE WORK NEEDS TO BE DONE.
5. We need to require more continuous and coordinated training within USG on China's legal and innovation regime so that our engagement is fact-based and well-informed and the expertise of all agencies is fully exploited. USPTO has provided such training annually, but on a purely voluntary basis. OBSERVATION: I AM UNAWARE OF ANY EFFORTS CURRENTLY UNDERWAY IN THIS AREA. THE 2021 NTE REPORT FROM USTR DID FLAG RULE OF LAW ISSUES.⁵⁴
6. USG Coordination with Affected Businesses: Additional support should be given to small and medium-sized enterprises that are seeking to enforce their rights, such as through Section 337 actions, or assisting companies and individuals that are experiencing retaliation in the Chinese market. OBSERVATION: NO NEW DEVELOPMENTS THAT I AM AWARE OF.

⁵⁴ <https://chinaipr.com/2021/04/05/the-nte-report-on-chinese-ip-and-its-relationships-to-chinese-legal-developments/> .

7. We should increase sharing of data and training among companies to develop comprehensive risk assessments. China has “early warning” systems to help its companies assess IP risks overseas; we should look at providing similar support for our companies. OBSERVATION: ADDITIONAL WORK IS NEEDED INCLUDING COORDINATION WITH ACADEMICS.
8. We should make USG comments on proposed legislation public, in whole or redacted form, absent compelling reasons not to share, so that USG positions are aligned with industry and well-understood, indeed, even by the Chinese people. OBSERVATION: THIS ISSUE HAS BECOME MORE URGENT IN LIGHT OF DECLINING CHINESE TRANSPARENCY.⁵⁵
9. The US should insist on reciprocity in licensing terms with China. As Chinese law imposes onerous discriminatory licensing terms, USG may consider enacting reciprocal legislation to address China’s unfair acts. We might encourage our trading partners to do the same. OBSERVATION: THIS ISSUE MAY HAVE BEEN ADDRESSED THROUGH THE US WTO CASE. ADDITIONAL MONITORING WOULD BE HELPFUL.
10. We should amend the antidumping laws to recognize that the failure to treat IP as a private right is a factor in considering whether a country should be considered a non-market economy. Currently, the market orientation of a country’s IP regime is not a specifically enumerated factor in determining whether it is a non-market economy, notwithstanding that the TRIPS Agreement requires that IP be treated as a private right. OBSERVATION: THIS ISSUE IS STILL OUTSTANDING, ALTHOUGH ITS CURRENT IMPORTANCE MAY BE LESS IN LIGHT OF THE INCREASING UNDERSTANDING OF THE INVOLVEMENT OF THE CHINESE STATE IN IP PROTECTION.
11. USG should extend reciprocal treatment for IP legal services between the United States and China involving IP. As China does not permit foreign lawyers to take the Chinese bar, and foreign law firms in China cannot hire licensed Chinese lawyers, US government agencies, including the USPTO, might insist that Chinese companies hire US admitted lawyers who are also US nationals or green card holders, if consistent with our international commitments. This could be a modest but important first step in improving the market for legal services by foreign law firms in China, as well as insuring accountability of counsel appearing before US government agencies. OBSERVATION: THIS ISSUE REMAINS UNCHANGED.
12. We should equip our courts, law enforcement and our lawyers with more legal tools to fairly adjudicate disputes with Chinese entities. Adverse inferences might be taken from

⁵⁵ <https://chinaipr.com/2021/05/28/transitioning-to-chinas-new-patent-and-copyright-laws-on-june-1-where-have-all-the-implementing-regulations-gone/> .

unnecessary delays in collecting evidence overseas through judicial channels. We might also demand more cooperation from Chinese law enforcement on IP issues of common interest. In addition, denials of due process, threats to the freedom of US litigants or their counsel in China, lack of transparency in court proceedings and retaliation against appropriate use of legal process, etc. should all be vigorously opposed. OBSERVATION: THESE ISSUES HAVE BECOME MORE URGENT. ANOTHER CONCERN IS USE OF 18 USC SEC. 1782 TO COMPEL DISCOVERY IN THE UNITED STATES FOR CHINESE COURTS. CHINESE COURTS DO NOT RECIPROCATATE ON THESE REQUESTS. MOREOVER, THE REQUESTS MAY PLACE TRADE SECRETS AT RISK. ADDITIONAL CONCERNS HAVE ALSO ARISEN OVER USE OF ANTI-SUIT INJUNCTIONS.

13. We should not give up the battle for the Chinese media. Any significant policy effort undertaken with respect to China that encourages market reform and rule of law should have adequate media outreach in Chinese. Such efforts are critical to cutting through the negative propaganda that often surrounds US trade efforts to encourage Chinese reforms. OBSERVATION: UNCLEAR IF THERE HAVE BEEN IMPROVEMENTS.
14. We should actively monitor our government-to-government technological cooperation and support state government and university-level reviews to ensure that the anticipated benefits of such cooperation are in fact obtained. OBSERVATION: TECHNOLOGY MANAGEMENT CONTINUES TO BE OF CONCERN, INCLUDING MANAGEMENT OF COLLABORATIVE RESEARCH.
15. We should revise the law regarding the Committee on Foreign Investment in the United States (CFIUS) to provide greater coverage over technological threats. At the same time, CFIUS needs to cooperate more deeply with science and technical agencies, including the USPTO to ensure its technical analyses are fact-based, well-founded, up to date and that appropriate investment and collaboration are welcomed. OBSERVATION: CHANGES IN THE LAW IN 2018 HAVE PARTIALLY ADDRESSED THESE CONCERNS. ADDITIONAL CONTROLS OVER US INVESTMENT IN CHINA (“REVERSE CFIUS”) ARE NOW UNDER CONSIDERATION.
16. We should amend our antitrust laws address to address such state-directed technology practices as mandatory pricing terms for Chinese sales, purchases of technology or technology-intensive items, or use of “act of state” or “sovereign immunity” defenses. OBSERVATION: OUR CONSUMER-ORIENTED APPROACH TO ANTI-TRUST SHOULD ALSO TAKE INTO CONSIDERATION THE IMPORTANCE OF UPSTREAM TECHNOLOGY DEVELOPMENT AND LICENSING TO THE US ECONOMY.
17. We should closely coordinate with like-minded trading partners on trade-related negotiations, law enforcement and domestic legal changes that could provide a more level

global playing field with China. OBSERVATION: THERE CONTINUES TO BE CONSIDERABLE RHETORIC ON THIS ISSUE – BUT CONCRETE ACTIONS APPEAR RELATIVELY FEW.