

Research on the Relationship Between Invalid Patent and the Validity of Patent Contract

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Abstract: Article 47 of "Patent Law" has made provisions for retroactive effect on patent right which has been declared invalid. Any patent right which has been declared invalid shall be deemed to be non-existent from the beginning. However, article 47 did not make any specification about the validity of patent contract. It caused the confusion of legal logic and confliction of the legislative system, and it can't dock with "Contract Law" successfully. This paper analyzed the validity and consequences based on the theory of impossibility of subject, we use methods of the legislative purpose and uniformity of legislative system to test the conclusion, in order to propose the amendments and provide clear guidelines for the application of patent law.

Key words: Invalid patents; Validity of contract; Impossibility of subject matter; Retroactive effect

1 Introduction

The rapid development of science and technology is a strong impetus to expansion of technology trade. The countries not only develop their own science and technology but also pay great attention to strengthen and improve the legislation about technology trade. Currently the world is working to study and solve the issues between patent system and technology contract in legal system. It is undoubtedly a new issue that invalid patent impacts on the patent contract. Since 1990, the AIPPI (International Association for the Protection of Intellectual Property) conducted a special study of this issue, and there are 26 countries provided special reports describing their views and ways to solve this problem in legislative and judicial practice from the legislative, judicial and academic aspects.^[1]

In most countries, the patentee can't ask for the return of royalties when the patent declared invalid. The laws of Italy, Spain and Belgium explicitly excluded the retroactive effect of invalid patent on patent contract. In the U.S., in the case of patents declared invalid, the patentee did not have obligation to return royalties, and the patent contract shall be terminated. However, in France, Japan, Mexico and other states, invalid patent will make the contract invalid, and using fees should be returned to the patentee in principle. In the UK, Germany and Australia, the courts have right to decide whether to pay royalties. Prior to this, the patent invalidity does not automatically lead to the contract invalidity.

Article 47 of "Patent Law" has made provisions for Legal consequences of patent right which has been declared invalid. However, the conclusion is contradictory and will cause confusion in legal logic and difficulty in law application. In this paper, we will interpret the consequences of patent contract in Article 47 of "Patent Law" by referring to the contract law, and the legislative purpose, uniformity of legislative system and the legal reference will be a basic value in analyzing the validity of the patent contract when the patent has been declared invalid.

2 Literature Review

2.1 The provisions of "Patent Law"

Article 47 of "Patent Law" has made provisions for retroactive effect on patent right which has been declared invalid. The subparagraph of article 47: Any patent right which has been declared invalid shall be deemed to be non-existent from the beginning. The second paragraph of article 47: The decision declaring the patent right invalid shall have no retroactive effect on any contract of patent license or of assignment of patent right which has been performed prior to the declaration of the patent right invalid; however, the damage caused to other persons in bad faith on the part of the patentee shall be compensated. The third paragraph of article 47: If, pursuant to the provisions of the preceding paragraph, the patentee or the assignor of the patent right makes no repayment to the licensee or the assignee of the patent right of the fee for the exploitation of the patent or of the price for the assignment of the patent right, which is obviously contrary to the principle of equity, the patentee or the assignor of the patent right shall repay the whole or part of the fee for the exploitation of the patent or of the price for the

"Patent contract" in this essay means the contract of patent license or of assignment of patent right.

assignment of the patent right to the licensee or the assignee of the patent right. According to the theory of interpretation, this article contains such meanings:

According to Article 47, the so-called "non-existent from the beginning" means that the patent right is not of legal force since the beginning. There is no legal force. It does not lose force since being declared, so the patent right which has been declared invalid has retroactive effect. Therefore, the patent right which has been declared invalid is impossibility of original subject matter in contract theory.

Article 47 has made provisions for validity and retroactive effect of patent contract when the patent has been declared invalid.

Firstly, in the second paragraph of article 47, the meaning of the sentence "The decision declaring the patent right invalid shall have no retroactive effect" is that the validity of patent contract will not be affected by the declared invalid patent right, in other words, although patent right has been declared invalid, the effectiveness of underlying patent contract is still valid. At the same time, article 47 of "Patent Law" has not made provisions for the validity of unfulfilled patent contract.

Secondly, the damage of others caused by the patentee's malice shall be compensated. The damage here can lead to two different results: One is compensation for breach of contract with effective contract. The other is compensation for concluding of contract with invalidation or voidable contract. Analyzing this paragraph by legislative language, it should have the same meaning of expressed. So here must be the compensation for breach of contract.

Thirdly, If, the patentee or the assignor of the patent right makes no repayment to the licensee or the assignee of the patent right of the fee for the exploitation of the patent or of the price for the assignment of the patent right, and it is obviously against the principle of equity, the patentee or the assignor of the patent right shall repay the whole or part of the fee. Based on the article 54 of contract law, the grossly unconscionable contract is voidable contract, it will be effective if partly changed. Accordingly, the contract is invalid if revoked or changed.

2.2 The provisions of "Contract Law"

"Contract Law of China" hasn't made any provisions on the invalid subject matter. "Contract law" just makes provisions on the illegal subject matters which lead to the contract null and void. These situations mainly are: 1) The parties violated state limit operation, franchise and legal and administrative law prohibits the business rules into the contract. 2) The parties contract beyond their business scope, these contracts shall be invalid after cancelled. Article 47 does not belong to any of the above situations. So does it belong to the theory of impossibility of subject matter in contract?

We could reserve the effective forms of contract from article 58 to 97 of "Contract Law" about the consequences of invalid and voidable contracts. Article 58 says: "Remedies in Case of invalidation or cancellation after a contract was invalidated or canceled, the parties shall make restitution of any property acquired thereunder; where restitution in kind is not possible or necessary, allowance shall be made in money based on the value of the property. The party at fault shall indemnify the other party for its loss sustained as a result. Where both parties were at fault, the parties shall bear their respective liabilities accordingly." Therefore, when a contract is declared invalid, it will have retroactive effect.

Article 97 is about the legal consequences of termination of the contract, it divides retroactive effect of termination of the contract into two parts: Firstly, the contract is terminated without retroactive effect for the unfulfilled part. Secondly, the contract is terminated with retroactive effect for the fulfilled part.

Thus we could find the conclusion from the "Contract Law": The contracts which have retroactive effect are invalid, the contracts which do not have retroactive effect are valid.

2.3 Summary

From the above analysis we could have a conclusion that "Patent Law" contradicts "Contract Law" on the validity of contract (chart 1). There is an obvious logical confusion between one, two and three paragraph in Article 47 of "Patent Law". Since the decision declaring the patent invalid has no retroactive effect in principle, this means that the patent contract is valid. But the third paragraph declared if patentee does not return royalties violates the principle of fairness, he must return all or part of the fee.^[2] However, if the costs are not returned will cause some losses of the other party, it is also contrary to the principle of fairness.^[3] So the cost should be returned at any cases. In this way, it will overthrow the second paragraph in Article 47 which says the decision declaring the patent right invalid shall have no retroactive effect. Therefore, the provisions of article 47 make it difficult to identify the validity of patent contract when patent is declared invalid. The main reason of different results is we couldn't identify the validity of patent contracts with an invalid patent. In other words, only by clarifying the impact of impossibility of subject matter on validity of contract, we could identify the

relationship between invalid patent and patent contract.

Table 1 Results Derived from the Retroactive Effect of the Provisions in Situation of Impossibility of Subject Matter

	Provisions of retroactive effect in "Contract Law"	Provisions of retroactive effect in article47 of "Patent Law"
The fulfilled contract	√	×
The unfulfilled contract	√	Unspecified
Results of validity of the contract	Invalid	Effective

3 Reference to Foreign Law

The contract law of china hasn't made clearly provisions on the relationship between impossibility of subject matter and the validity of contract. References to foreign laws about the validity of the consequences are inconsistent. The traditional contract theory use time of contract formation as boundary to distinguish impossibility of original subject matter and impossibility of subsequent subject matter. Impossibility of original subject matter is the reason of invalid contract, impossibility of subsequent subject matter is the cause of the termination of the contract. [4]The patent which was declared invalid belongs to impossibility of original subject matter, and the patent contract is invalid.

The concept of impossibility originated in Roman law, Roman scientist Celsus raised the view of "impossible nulla obligationest", [5] and established the traditional theory of impossibility of original subject matter caused invalid contracts. This thesis on Roman civil law was accepted by countries of continental law system. Article 1128 of "French Civil Code" states: "Contract subject matter is limited to permit trading ". This means that if the subject matter of contract is material non-trading, the contract is invalid. [6]

German scholars Maimeng Sen has stressed in his writings, if subject matter of the contract was impossible when concluding, the contract should be declared null and void. [7] Pre-article 306 of "German Civil Code" clearly states: "The payment is impossibility of subject matter, the contract shall be invalid." This provision has great influence on some countries of continental law, article 20 of The Swiss debt law adopted this principle fully. Article of 246 of "Civil Law of Taiwan" also imitated Germany law. So-called impossibility here refers to impossibility of original and objective. At the same time, the debtor should bear the damages the interests of the trust with invalid contract in article 247 of "Civil Law of Taiwan". Taiwan scholars have interpreted the provisions of this section is the reliance interest damages, not including the performance benefits. [8]

Legislation and theory in countries and areas of continental law system provide a reference for our research. Null and void contracts have retroactive effect, which gives the parties rights to restore the state before contracting. It provides a more reasonable legal remedy for contract by compensating for the loss of trust interests. Therefore, following this path we can draw a conclusion: The patent contract with patent right which has been declared invalid is null and void.

4 The Legitimacy of Conclusion

In order to make the right choice of value, we should test the conclusion obtained from the theory of impossibility of subject of beginning.

From the analysis of legislative purpose, the basic values of the "Contract Law" is to protect the rights of both parties. However, the most basic value of the "Patent Law" is to maintain effective patent protection and ensure the legitimate interests of patent holders. Although the Article 47 of "Patent Law" attempts to make balance between security of trade and the value of fair, it still lies in the purpose of "Patent Law". Therefore, the provisions of "Patent Law" on the patent which is declared invalid shall firstly ensure the basic bottom line of its legislative purpose and make appropriate provisions. The provisions on legal consequences and validity of contract shall be referred to "Contract Law" and shall not violate legal theory.

From the uniformity of legislative system, the perspective of the composition of legislative system as a complete whole, provisions of laws have comprehensive and integrated features. For special laws, Special provisions should not go against the basic legal principles and provisions to make exceptions to the basic value of the conclusions in the absence of sufficient justification. Therefore, the provisions in article 47 of "Patent Law" should not violate the basic principles and basic values of "Contract Law".

From the legal reference, through consulting foreign legislation and theory of impossibility of

subject matter, and embedding it in our legal system, we will be able to identify the relationship between subject matter and the validity of contracts. For the patent contract which subject matter was declared invalid, patentee should be compensated for loss of profits transferee trust without performing the contract. It has a positive effect to fill the loss of assignee.

Therefore, considering from the perspectives of the legislative purpose, the uniformity of legislative system and the legal reference, we should amend the article 47 in "Patent Law" where conflict with "Contract Law".

5 Conclusion

Article 47 of "Patent Law" tries to balance the interests of all parties perfectly between the patentee and the assignee. But the provision is obvious in favor of the patentee's interests. It expects to solve practical problems through the formulation of different legal consequence, however, We have reached a different conclusion of validity of the patent contract by analyzing these consequences. The validity of the patent contract must be regarded invalid when the patent has been declared invalid, this will not only be consistent with legal logic, but also protect the interests of the parties. Therefore, in order to provide people with clear behavioral requirements on the point of legislation, it is still necessary to amend the article 47 of "Patent Law". Specifically, the decision declaring the patent right invalid shall have retroactive effect on contract of patent license or of assignment of patent right which has been performed prior to the declaration of the patent right invalid. The patentee of the patent right must repay the fee for the exploitation of the patent or of the price for the assignment of the patent right to the licensee or the assignee of the patent right.

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