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Protecting Your Inventions in China—Considerations Related to Chinese Patent Law

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China has the world's second largest economy. Few businesses would turn away from its practically limitless potential, or so it would seem. But many do, avoiding this market altogether, or more commonly merely tiptoeing into the market with an effort that pales

in comparison to other regions, such as Europe, the Americas and other Pacific-Rim countries. Intellectual Property is often cited as the main barrier to entry for many such businesses and unfamiliarity with the Chinese legal system is chief among the cited concerns.

The other major concern, of course, is enforcement. The statistics concerning Chinese counterfeits are staggering. In 2010, illegal exports from China and Hong Kong accounted for 80 percent of all seizures at U.S. ports, with a total value of $1.1 billion. Further estimates provide that 20 percent of all consumed goods inside China are also counterfeit. Despite these sobering numbers, improvements continue. The enforcement side of China's legal system, however, is left for another article. Here, we discuss the patent aspects of China's Intellectual Property system, because clearly, without first obtaining Chinese-based Intellectual Property rights, one does not even have the luxury of worrying about enforcement.

For example, a U.S.-based business with facilities or manufacturing contracts in China is entirely vulnerable to counterfeit production of its products for eventual sale locally in China and exportation abroad. A Chinese patent may be an important means available for effectively minimizing this vulnerability. U.S.-based patents do not offer suitable protection here—these instruments only protect against infringement in the U.S. and against importation of infringing products made abroad but imported into the U.S. No protection, however, is afforded against infringement in China or exportation to other countries. So, if a U.S.-based business is concerned about having exclusive rights to its invention anywhere outside the U.S., a Chinese patent should be considered a key piece in the business' overall global patent strategy.

Key Differences Under Chinese Patent Laws

Key differences between U.S. and Chinese patent laws should be understood. These include differences in what subject matter is considered eligible for patent and what subject matter is *per se* excluded; China's first-to-file system vs. the U.S.'s first-to-invent system; curtailment of the U.S. 12-month grace period for filing patent applications after public disclosure; and the existence of lesser "utility model" or "petty patent" forms of patent protection offered in China.

Patentable Subject Matter

In general, the U.S. has a much broader definition of patentable subject matter when compared to China. Domestically, patent protection can be extended to software, designs, business methods, certain asexually reproduced plants and genetically modified plants and animals. China, on the other hand, excludes transgenic plants and animals and human embryonic stem cells; methods of diagnosis and medical treatment claims also are not permitted unless such claims are re-written in specific formats. Further,

Chinese courts generally do not regard business methods as patentable. For example, a recent court case involving a business method patent owned by Citibank resulted in one of Citibank's patents being invalidated as directed toward unpatentable subject matter.

As such, an initial point of inquiry when considering a Chinese patent filing is whether an invention might be categorically excluded subject matter and whether a qualified patent attorney might help claim additional aspects of the invention, which may avoid these exclusions.

First-to-File v. First-to-Invent

Like most countries in the world, China is a first-to-file country, meaning that whoever is the first to file the patent application will be granted the patent rights and no rights will be granted to a later filer. The U.S., however, is a first-to-invent country[1], meaning that whoever is the first to conceive the invention and reduce it to practice is deemed the first inventor, irrespective of the patent filing date, in most circumstances.

This can mean that a U.S. applicant, relying on first-to-invent rights, can be scooped by a second patent filer in China when that second patent filer files before the U.S. applicant, either in the U.S. or in China. Small businesses and universities often wait to evaluate commercial potential before incurring the cost of a U.S. filing. However, waiting in the U.S. can have serious repercussions in China and elsewhere. Recognition of this key difference and an early filing strategy can help minimize this potential pitfall.

Grace Period

Another key difference is the U.S. grace period—a generous feature of U.S. patent law that affords applicants a one-year period after first disclosure or public use of the invention. China, as well as most other foreign jurisdictions, is not as forgiving—any disclosure prior to filing a patent application generally voids one's opportunity to obtain patent rights. Common activities such as advertising, offers for sale, display and disclosure in trade or scientific journals in the U.S. merely starts the one-year clock ticking—while those same activities will forfeit patent protection in China. Again, recognition of these aspects and appropriate adjustment of commercialization strategies, where applicable, can help avoid this trap.

Chinese patent law does provide limited exceptions to this general rule: (a) disclosure of the invention in an 'international exhibit' organized or acknowledged by the Chinese government; or (b) disclosure in a Chinese government acknowledged academic or technological conference. Under these limited circumstances, China affords a six-month grace period to file a patent application.

Since the exceptions in China are very limited and the grace period is only half as long

as it is in the U.S., any disclosure prior to filing an application could be fatal to a successful attempt to obtain a patent in China. Therefore, the most conservative approach would be to file a patent application before any such disclosures are made. Fortunately, China is a signatory to certain international patent treaties that allow a filing in the U.S. to have effect in China provided that a Chinese patent application is filed within certain time frames and claims priority to the earlier filed U.S. application.

Specifically, the U.S. and China are both signatories to various treaties that allow applicants to file in the U.S. and then file in China within one year of a U.S. application filing date. The filing date in China is then tied to the earlier U.S. date. Another option is to file an international PCT application[2], which enables applicants to subsequently file a national application in China up to 30 full months after the earliest filing date associated with the application. However, it should be noted that even if an applicant can take advantage of one of these treaty options, the applicant will still likely need to file an application in the U.S. or abroad before making any such public disclosures noted above.

Utility Model

China also employs lesser-forms of patent protection known as "utility model" or "petty patent" patents. While unfamiliar to most Americans, utility model patents are widely used by Chinese applicants. They are utilized for inventions having only minor or incremental improvements to existing products — mostly in the mechanical arts and may not be used for process-based inventions. A utility model application is not subject to substantive examination, on average, and is usually granted within nine to 12 months after filing. They are subject to a 10-year patent term rather than a 20-year term for typical patents. Among the over 1 million patent applications filed last year in China, over a third were utility models.

Benefits of filing under the utility model framework include reduced application costs and pendency times. Once granted, these utility model patents still enjoy full patent rights, including a right of enforcement. One of the most notable patent infringement cases in China involved a utility model patent granted to a Chinese company, Chint Group (Chint). *Chint v. Schneider Electric.* Chint sued Schneider for infringement asserting over $40 million in damages. The case was settled for approximately $20 million in 2009, proving that utility model patents can have significant weight in Chinese courts.

An applicant taking advantage of a utility model patent does not necessarily forfeit access to traditional patent rights in China. While a utility model application and a regular patent application covering the same invention may not both be granted, a later-granted traditional patent can be requested to replace an earlier-granted utility model patent. This way, an applicant may still enjoy a full 20-year term of patent protection should a traditional patent application also issue.

Thus, there are significant differences in Chinese and U.S. patent law related to patentable subject matter such as, who is awarded a patent (first-to-file v. first-to-invent), the availability and length of a grace period and type of patent protection available. Recognizing these key differences can help in developing a patent strategy in China, the U.S. and in other countries; and more importantly, increasing the chance of enforcing patent rights in China against infringers.

Notes:

[1] Legislation is currently pending that could move the United States to the First-Inventor-to-File system.

[2] A "PCT Application" is an application filed under the Patent Cooperation Treaty.

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