China Patent Practice: The New Realities

Strategies for Success for the Multinational Enterprise

Sharon R. Barner Harold C. Wegner
Our presentation focuses upon several practical implications of the Third Amendment to the Patent Law from the perspective of patent protection for overseas’ enterprises.

We also consider the trend of larger numbers and the type of Chinese patent filings.
“Absolute Novelty”:

“The prior art referred to in the Patent Law means any technology known to the public in the country or abroad before the date of filing.”

Article 20
“Absolute Novelty” (con’d):

Prior Art includes “knowledge” – not merely prior publications or patents:

“[A]ny technology known to the public in the country or abroad before the date of filing.”
“Absolute Novelty” (con’d):

Prior Art includes knowledge outside China – in any country of the world:

“[A]ny technology known to the public in the country or abroad before the date of filing.”
“Absolute Novelty” (con’d):

There is no grace period so applicant’s publication one day before filing destroys patentability:

“[A]ny technology known to the public in the country or abroad before the date of filing.”
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“Absolute Novelty” (con’d):

- Foreign first filing should not be delayed if delay in obtaining government clearance for first filing will result in “public” knowledge in the interval before filing.
- Filing “immediately” in China as country of first filing avoids this absolute novelty problem.
“Absolute Novelty” (con’d):

- If a first filing in China (or anywhere) is rushed without complete details of the invention, then “public” knowledge after the first filing but before Paris Convention filing may result in absolute novelty bar.

- Priority must be obtained in this scenario to avoid absolute novelty bar.
“Absolute Novelty” (con’d):

Transition issue:
What should be done for a recently known-in-America invention that is patentable in China under the “old” law but which will be unpatentable under the Third Amendment?
“Absolute Novelty” (con’d):

Transition issue:
Application should be actually filed in China before the transition date, without relying upon priority based upon foreign application filed before the transition date.
Commercialized Trade Secret Inventions

An invention that is a *commercialized trade secret* is part of the “prior art” under *United States* law if commercialization is in the United States for more than one year before the same applicant files for patent:
Commercialized Trade Secrets (con’d)

“[I]t is a condition upon the inventor's right to a [U.S.] patent that he shall not exploit his discovery competitively after it is ready for patenting [even if the invention remains secret]; he must content himself with either secrecy or legal monopoly.”

*Metallizing Engineering Co. v. Kenyon Bearing & Auto Parts Co.*, 153 F.2d 516, 520 (2d Cir. 1946) (L. Hand, J.)
Many American trade secrets have therefore not been patented in the United States because corporate decision was made that trade secret protection is better under American law.
American companies just entering Chinese business world may have few patent rights if they have operated under American trade secret protection.
May American companies obtain Chinese patents for American trade secret methods that have remained secret but which are barred under American *Metallizing Engineering* case law?
Yes – because the knowledge of the trade secret is just that, secret.

China’s absolute novelty law does not impact Metallizing Engineering.
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Foreign Filing Permission

- Foreign Filing for Chinese Inventions is Delayed if there is a First Filing outside China:
“Where any entity ... intends to file an application in a foreign country for a patent ... made in China, it ... shall be subject to a prior secrecy examination by the Patent Administration Department under the State Council.”

Article 20
If a foreign enterprise does not want to file first in China, it must weigh whether it is of sufficient importance to maintain Chinese patent rights by complying with the new law or to waive Chinese patent rights in favor of a more prompt filing outside China.
Penalty for violating rule on permission to file abroad is only loss of right to a patent in China:
“For any [invention], for which an application is filed in a foreign country contrary to the [requirement for security clearance] of this Article, no patent right shall be granted [to such invention] if the patent is applied for in China.”

Article 20
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The Changing Face of Patent Filings in China:

Lessons to be Learned

<table>
<thead>
<tr>
<th>Category</th>
<th>Total Applications</th>
<th>Foreign Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Applications</td>
<td>828,000</td>
<td>13% foreign</td>
</tr>
<tr>
<td>Regular</td>
<td>290,000</td>
<td>33% foreign</td>
</tr>
<tr>
<td>Utility Model</td>
<td>226,000</td>
<td>&lt; 1% foreign</td>
</tr>
<tr>
<td>Design</td>
<td>313,000</td>
<td>&lt; 5% foreign</td>
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</tbody>
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Lesson One: Explosion of China Filings

- The 828,000 Chinese patent, utility model and design patents represent – by far – the largest number of patent filings of any country in the world.
Lesson Two: Utility Model Protection is Important in China

- 226,000 utility model applications were filed in China in 2008.
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Utility Model Applications

China is the world leader in utility model filings, including a significant increase over the past two years:

China Utility Model Filings

- 2008: 226,000
- 2006: 161,000
World Patent Report: A Statistical Review. p. 25 (WIPO 2008). Chart is modified to show only countries with more than 5000 filings per year.
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Lesson Three: Foreign Enterprises do not properly understand Utility Model Protection:

- Less than one (1) percent of utility model applications are by foreign enterprises.
- Foreign enterprises therefore lack an appreciation as to why Chinese file for utility model protection.
“Utility model means any new technical solution relating to the shape, the structure, or their combination, of a product, which is fit for practical use.”
Lesson Four: Because of the very high number of *regular* patent filings in China the backlog of cases for *regular* patent protection will become greater.

- Because *early* patent protection will not be possible, utility model protection should be considered as an alternative.
Utility model protection is *excellent* for prompt grant of the patent right.

The patent is *registered* with a substantive examination deferred until enforcement.
Utility model protection is an excellent way to quickly boost the size of granted patent protection.

Utility model protection has resulted in very high damages awards on a case by case basis.
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- Lesson Five: Design Protection is also important

- Design filings (313,000) is greater than all patent applications for all countries of the world except Japan and the United States
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“Design means any new design of the shape, the pattern or their combination, or the combination of the color with shape or pattern, of a product, which creates an aesthetic feeling and is fit for industrial application.”
Design Protection – A Narrow Protection?

- Design protection is narrow, largely useful against copyists of a brand design.
- But, for many foreign enterprises, protection against an exact copyist is very important.
Lesson Six: Foreign Enterprises don’t appreciate the importance of design protection.

- Less than five (5) percent of all design applications filed in China are on behalf of foreign enterprises (versus one-third of all regular patent filings are from foreign enterprises).
Thank you for your attention!

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About this presentation

Sharon R. Barner and Harold C. Wegner are partners in the firm of Foley & Lardner who have been collaborating on international and domestic patent strategies since the mid-1990’s. They have both been involved with the opening of Foley’s Asian offices.