



Patenting Landscape in China

History, Growth and Utility Model



May 2008



Introduction

The People’s Republic of China has a population of 1.3 billion, which makes it a huge market with immense potential. China is also known as the “world’s factory” due to the cost and human resource advantages it offers. Indeed, it is already the hub where key players from every industry have – or are likely to have in the near future – a strong presence. Unfortunately, China is also the place where any unprotected technology is likely to be copied. Therefore, if a company wants to manufacture – or sell – its products or services in China, it must protect its intellectual property in the country. Although filing patent applications is not a strategy in itself, it is an integral part of any well-developed strategy. Hence, it is not surprising that there has been a significant increase in the number of patent applications filed in China during the last 10 years.

The Chinese patent system was formulated around 1985 and has been developed over the last 20 years. During this period, the Chinese government has realized the importance of Intellectual Property (IP) protection, and has developed comprehensive legislations and institutions that are responsible for patent examination and enforcement. In this paper, Evalueserve introduces China’s patent-protection system, shows how it has evolved over the last two decades, and presents the initial effects of the improved patent protection system.

In 2007, the Chinese Patent Office (the State Intellectual Property Office or the SIPO) received a total of 694,153 patent applications, which represents a growth rate of 21.1% over the previous year. This included 245,161 invention patent applications (which are similar to the utility patent applications in the United States, i.e., 20-year patent applications), 181,324 utility model applications (10-year patent applications) and 267,668 design patent applications. The number of invention patent applications filed with the SIPO already ranks China third in the world with respect to patent application filings, which clearly suggests that filing in China has become an intrinsic part of most multinational companies’ IP strategies. Furthermore, the growth rate of 20-year patent applications filed with the SIPO between 2000 and 2006 has been averaging over 20%. If this trend continues for the next five years, and if the rate of growth of the filing of 20-year patent applications with the United States Patent and Trademark Office (USPTO) continues at its current rate of 8.7 percent, China will overtake the US by 2012. This also implies that the patent protection system in China will be tested more rigorously. Therefore, for the Chinese government, developing an efficient patent-protection system is no longer ‘good to have’ but ‘must have’.

Figure 1: Number of Inv

the World

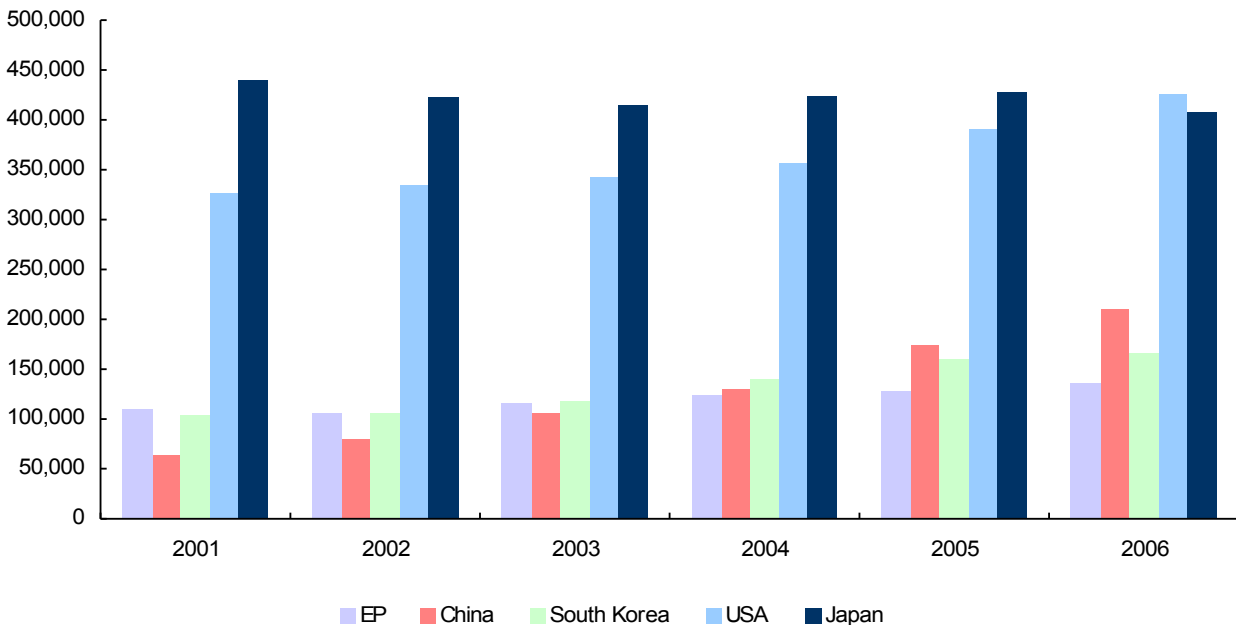




Figure 1 provides a comparison of the number of invention patent applications (or utility patent applications, which we will refer to in this article as “20-year patent applications”) filed in the top five jurisdictions in the world (Japan, USA, South Korea, China and the European Patent Office) during the period 2001-2006.

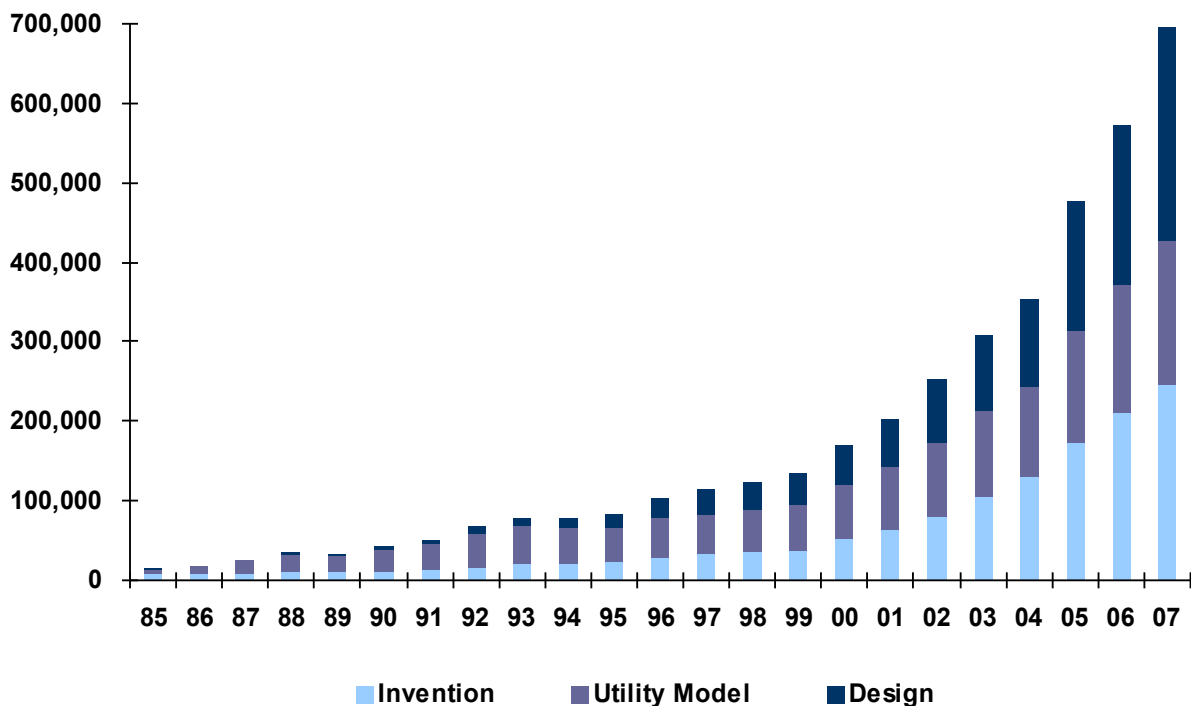
Utility model patents (which we will refer to in this article as “10-year patents”) in China have attracted a fair amount of attention during recent patent litigations. Ease of grant and the low cost of filing make these 10-year patents very popular with Chinese companies, who have also developed innovations and inventions but usually do not have the money or time to invest in pursuing 20-year patents. Therefore, domestic Chinese companies generally file 10-year patent applications. On the other hand, foreign companies, do not file too many 10-year patent applications, which is partly because this form of patent protection is not allowed in other countries such as the United States, and partly because while entering the national phase through the PCT route in China, most applicants prefer 20-year patent applications over 10-year patent applications. Among other things, this study also examines the effectiveness of these 10-year patents and some patent strategies related to them. In particular, this study reviews The Chint Group versus Schneider Electric case and provides some relevant insights for multinational companies operating in China.

China – Third-largest Patent Application-filing Jurisdiction

China’s GDP (Gross Domestic Product) has been consistently growing at an annual rate of 9-11% during the last decade. However, it has still not been able to overcome the stigma that it is a safe haven for IP counterfeiters and pirates. Consequently, a popular perception in the past – even among IP experts in Western countries – has been that filing patent applications in China is of no use. However, many companies – both Chinese and multinationals – are looking at the next 20 years and have significantly stepped up their submission of patent applications with the SIPO. If this current rate of growth in the submission of patent applications to the SIPO continues unabated, the SIPO will receive 610,040 invention (i.e., 20-year) patent applications in 2012.

According to the SIPO, the total number of patent applications filed in China from the beginning of 1985 to December 2007 exceeds 4 million. Although the first million applications took 15 years to be filed, the second million took 4 years and 2 months, the third million 2 years and 3 months, and the fourth million only took 1 year and 6 months.

Figure 2: Number of Pa





Further, domestic companies in China have started filing more patent applications with the SIPO than foreign companies. In 2003, domestic filings (in China) outnumbered those that had been first filed in other countries (and then in China); of course, these 'domestic filings' includes all patent applications that are first filed in China (including those filed by foreign entities). The distribution of the number of patent applications filed in China during the last 23 years is illustrated in Figure 2.

In 2004, China overtook the European Patent Office (EPO) to become the fourth-largest 20-year patent application filing jurisdiction in the world, accounting for 8.2% of all 20-year patent applications filed worldwide. Subsequently, in 2005, it surpassed South Korea to become the third-largest 20-year patent application-filing country after Japan and USA, the two countries that continued to hold first and second place, respectively, even in 2006.

In 2007, there were 245,161 20-year patent applications filed in China, of which more than 62.4% were domestic applications, which had been first filed in China. The year-on-year increase in the filing of domestic 20-year patent applications was 25.1%, whereas that of foreign filings was only 4.5%. This is a clear indication of the increasing awareness with respect to patent-application filing among domestic Chinese companies (even for 20-year applications).

In 2006, Huawei Technologies was the leader among the domestic filers with 5,593 20-year patent applications, followed by ZTE Corporation, Hon Hai Precision Industry Co., Hong Fu Jin Precision Industry (Shenzhen) Co. Ltd., and interestingly, Zhejiang University.

Among multinational companies, Samsung Electronics was the largest foreign filer in the country in 2006 with 3,779 20-year patent applications. In descending order, Matsushita, Philips, Sony and LG (Lucky Goldstar of South Korea) were the next four largest foreign 20-year patent-application filers. IBM was the only US-based company, and Philips and Siemens were the only two companies from Europe that featured in the list of the 'Top 10' foreign 20-year patent-application filers in China in 2006.

China's Patent Protection System

Building an effective system for the protection of Intellectual Property Rights (IPRs) has become essential for China as it strives to become a developed economy. Consequently, the Chinese government has worked hard to establish a world-class patent-protection system during the past 20 years, and during the past 27 years, China became a part of major international IP Organizations and Treaties, which are listed in Table 1 below.

Year of Joining	Organization/Treaty
1980	World Intellectual Property Organization (WIPO)
1985	Paris Convention for the Protection of Industrial Property
1992	Berne Convention
1993	Geneva Convention (Unauthorized Duplication of Phonograms)
1994	Patent Co-operation Treaty (PCT)
1995	Budapest Treaty – the International Recognition of the Deposit of Microorganisms for the Purpose of Patent Procedure
1997	Strasbourg Agreement Concerning the International Patent Classification
1996	Locarno Agreement Establishing an International Classification of Industrial Designs
2001	The Trade Related Aspects of Intellectual Property Rights (TRIPS) Agreement of the WTO

Legal System

China did not have a proper legal system for patent protection until the National People's Congress introduced the 'Patent Law of the People's Republic of China' in the early 1980s. This law eventually became the foundation of the current patent system. In addition, a series of regulations and amendments were enacted subsequently, which



included the 'Rules for the Implementation of Patent Law' (released in 1992, with the latest amendment in 2001), 'Regulations on Patent Commissioning' (released in 1985, with the latest amendment in 1991), 'Procedures for the Administrative Enforcement of Laws Concerning Patents' (released in 2001), 'Regulations on the Implementation of Customs Protection of Patent Rights' (released in 1995, with the latest amendment in 2004) and others that relate to compulsory patent licensing and the administration of patenting agencies.

The Patent Law took effect in 1985 but was subsequently amended in 1992, and again in 2000. The objectives of these amendments were to ensure that the Chinese Patent Law was brought more in line with international practices as well as to support the economic development in China. A third revision of the patent law took place in 2006. The main purpose of this revision was to propose amendments to improve the mechanism of examining 10-year patent applications and design applications, to weed out "junk" patents, and to discourage the submission of such applications. Some of the notable aspects of these amendments include:

- Divisional applications to be only filed within a given time limit: A time limit for filing divisional applications will be set. This is to ensure that an applicant does not attempt to keep a rejected application alive by filing multiple divisional applications at regular intervals.
- Patentability requirements for design patents to be made stricter: A design patent would have to be substantially distinguishable and different from what exists as prior art. According to the current law, a design patent can be granted to a design that is not identical to any design that has been publicly disclosed or is in use prior to the application.
- Penalties for frivolous litigations to be introduced: If a patentee knew that his/her patent was already known in the prior art and still proceeded with a patent litigation, the patentee may be liable for damages to cover the cost of litigation incurred by both parties.
- Novelty and inventiveness criteria to be defined better: Any publication outside China will be construed as public disclosure and will affect the patentability of the invention. Prior to this amendment, only publications in China were construed as public disclosure. Further, inventiveness will be defined by the generally accepted criterion that an invention is not patentable if it is obvious to a person who is "ordinarily skilled in the art".
- Regulations with respect to compulsory licenses to be modified: Changes have been made with respect to regulations for compulsory licenses so that the modified regulations are more in line with the provisions of the TRIPS agreement.
- Foreign filing license and patent export control regulations to be modified: All inventions originating in China need to be approved by the SIPO before they are filed as patent applications outside the country. This regulation will be further extended by the introduction of penalties. For example, if an applicant has failed to obtain a foreign filing license, he/she may not be allowed to file a subsequent patent application in China.
- Laws regarding statutory damages to be modified: The upper limit of statutory damages awarded for patent infringement will be doubled. These limits apply when accurate evidence of the exact loss incurred by the plaintiff and the profits made by the defendant are not available.
- Parallel importing would no longer result automatically in patent infringement: Products patented in China but sold outside and subsequently imported into the country, may not be automatically considered as patent infringement.
- Bolar exemption to be included: Named after the *Bolar* case, the Bolar exemption was proposed in the 2006 revision of the Chinese patent law. As a result, it will be possible to use patented inventions for the purpose of obtaining regulatory permissions and performing research activities without the permission of the owner of the patent. This is likely to help generic drug manufacturers who can make market their drugs much before the expiry of patents that may protect a patented drug.
- Designation of patent law firms: Currently, if Chinese applicants need to pursue a patent application outside China or if foreign applicants want to file patent applications in China, they can only retain law firms and patent agencies designated by the Chinese government. According to the proposed amendment, this requirement will no longer be in force and any legally formed law firm or patent agent operating in China can be entrusted with the task.

The changes proposed in 2006 are likely to be implemented in 2008, i.e., eight years after the previous amendment in 2000.



Three Types of Patents

In China, the SIPO grants three types of patents: invention patents or 20-year patents, utility model or 10-year patents, and design patents. Table 2 provides a brief comparison of the three types of patents granted in China.

Foreign nationals are eligible for all three types of patent registration and are granted patent protection if their home country is a signatory to the Paris Convention. In addition, foreign nationals may claim priority in accordance with the Paris Convention.

Table 2: Three Types of Patents Granted in China			
	Invention Patents	Utility Model Patents	Design Patents
Awarded for	New technical solutions that relate to a product, a process or an improvement thereof	New technical solutions that relate to a product's shape or structure, or a combination of the two, and are also fit for practical use	New shape or pattern designs, or a combination of the two, or even a combination of the colors and different shapes or patterns of a product, which enhance it aesthetically and are suitable for industrial application
Term of protection	20 years from the effective filing date	10 years from the effective filing date	10 years from the effective filing date
Time to publication	18 months from the effective filing date	After the grant of patent rights	After the grant of patent rights
Conditions that bar patentability	<ul style="list-style-type: none"> * Prior public disclosure * Prior public knowledge or use * Lack of novelty * Lack of inventiveness * Cannot be made or used, and cannot produce effective results * Within 3 years of the filing date 	<ul style="list-style-type: none"> * Prior public disclosure * Prior public knowledge or use * Lack of novelty * Lack of inventiveness * Cannot be made or used, and cannot produce effective results 	<ul style="list-style-type: none"> * Prior public disclosure * Prior public use * Existence of a similar design before filing date
Request for substantive examination	* For an invention that has already been filed in a foreign country, documents relating to any search made in the process of examination, or the examination results from that country's patent office (if required by the SIPO)	*No need of substantive examination * A utility model is typically granted within a year of the application being filed	No need of substantive examination
Fees	Application and publication fees: Chinese Yuan 950 Substantive examination fee: Chinese Yuan 2,500 Re-examination fee: Chinese Yuan 1,000	Application and publication fees: Chinese Yuan 500 Substantive examination fee: NONE. Re-examination fee: Chinese Yuan 300	Application and publication fees: Chinese Yuan 500 Substantive examination fee: NONE. Re-examination fee: Chinese Yuan 300

Utility Models – the 10-Year Solution or the 10-Year Problem?

As can be seen in Table 2 given above, the grant of 10-year patents and design patents is relatively easier and quicker, as compared to that of 20-year patents. In 2007, 181,324 10-year patent applications were filed. This was a 12% increase over 2006, when local Chinese companies filed 99.2% of all the 10-year patent applications filed in the country. This can be attributed to the fact that 10-year patent applications do not require any substantive examination



and the low cost of filing makes them more popular with Chinese domestic companies (that are often not looking for long-term patent protection anyway).

The Chinese 10-year patent system is similar to that of many other countries including Germany, Japan, South Korea, France, Australia, and Russia. Also, like most of these countries, the SIPO grants 10-year patents for inventions that are deemed new, although their novelty is usually not examined before they are granted.

Chinese Strategy to Make the Most of Utility Models (10-year patents)

In China, a 10-year patent application does not undergo substantive examination, and therefore, its strength is considered lower than that of 20-year patents. Of course, this implies that if 10-year patents are challenged, then the majority of these may be ruled invalid after a re-examination by the SIPO. Hence, the inability of 10-year patents to stand against prior art and a shorter protection term may be a few of reasons that dissuade foreign companies from filing such 10-year patent applications in China.

Interestingly, some Chinese companies have adopted a strategy that involves filing 10-year patent applications and 20-year patent applications for the same invention on the same day, thereby, ensuring the same priority date with the SIPO. Since a 10-year patent application is granted within a year (without substantive examination), the company can go ahead and start producing, marketing and selling its “patented” product in China. If the corresponding 20-year patent is granted by the SIPO, the Chinese company can simply abandon the 10-year patent and enjoy a longer period of protection, whereas, if the corresponding 20-year patent application is not granted by the SIPO after a substantive examination, then the Chinese company can still continue producing and marketing its product on the strength of the utility model it owns (unless it is challenged by another party and the 10-year patent is re-examined by the SIPO). Although this strategy clearly benefits these Chinese companies with respect to apparatus and system inventions, it cannot be utilized in situations where the invention can be categorized as a ‘method’ invention, because according to the Chinese patent law, a method invention cannot be claimed as a 10-year patent application. Note that the only deterrent for Chinese companies using this strategy is the possibility of the SIPO invalidating the 10-year patent itself. Therefore, competitors need to be aware of such 10-year patent grants, and if necessary, file invalidation requests with the SIPO even before the company that owns such patents begins to enforce it against them.

The effects of this strategy have been weakened in the latest version of SIPO’s “Guidelines for Examination” that was implemented on July 1, 2006. According to Chapter 3, Section 6.2.2, Part II of ‘Handling of One Application and One Patent’ of the Guidelines for Examination, when an invention patent is going to be granted, the assignee needs to submit a written declaration to abandon the corresponding utility model application from its filing date (as though the utility model application was never in existence). Hence, with this modification, the period between the grant of the 10-year application and the publication of the 20-year patent (usually 8 to 12 months) is no longer protected under the rights of the 10-year application.

A possible loophole in the utility model (10-year patent) system is the lack of substantive examination, which can enable an applicant to copy a patent owned by another company in another country, and then enforce this 10-year patent against any other company in China (including the foreign company that owns the original patent in the other country). The amendments proposed in 2006 include a provision for penalizing patentees that are found to be indulging in such “patent counterfeiting”. This amendment will definitely help in reducing, if not eliminating, the copying of prior art.

Given this backdrop, foreign companies have started realizing the importance of 10-year patents and are actively formulating their IP strategies around such patents in China. In fact, the change in their mindset may partly be a result of the outcome of the litigation between the Chint Group of China and Schneider Electric of France – a case that has been in the headlines recently and is discussed below.

The Chint Group versus Schneider Electric – An Interesting Case Involving a 10-Year Patent

The Chint Group, a privately owned leading manufacturer of low-voltage electric equipment in China, was granted a 10-year patent, titled “A Miniature Circuit Breaker,” from the SIPO in March 1999. It later accused Schneider Electric (headquartered in France) of using the same technology to manufacture five of Schneider Electric’s products. During the litigation process, Schneider Electric requested the Patent Reexamination Board of the SIPO for invalidation. However, the Board upheld that the patent was valid after The Chint Group provided a revision with respect to this



10-year patent. It seems that this validation may have strengthened the legal foundation of this case for The Chint Group.

In September 2007, the Wenzhou Intermediate People's Court ordered Schneider Electric and the Leqing branch of Star Electric Equipment Co. Ltd., an authorized distributor of Schneider Electric, to stop selling the five products and destroy the corresponding product models that were based on the technology owned by The Chint Group. Furthermore, this court ordered Schneider Electric to pay compensation of CNY 330 million (approximately USD 45 million in 2007), which is believed to be the highest award for damages with respect to intellectual property infringement in China. Schneider Electric was not satisfied with this judgment and subsequently sued for invalidation (of the 10-year patent) in the Beijing No.1 Intermediate People's Court. Furthermore, it also appealed the decision to the Zhejiang High Court, but the final ruling of both the courts has yet to be given.

There are several aspects of this case that are particularly worth mentioning:

- Schneider Electric claims that it has been using the technology relating to the disputed circuit breakers since the early 1990s, which was much earlier than the grant of The Chint Group's patent application in 1999. In addition, Schneider Electric holds a 20-year patent in China (filed on December 15, 1997 and granted on November 03, 2004), titled "Electrical Circuit Breaker with Safety Shield", which describes a similar technology.
- According to Article 9 of the "Several Provisions of the Supreme People's Court on Issues Concerning Applicable Laws to the Trial of Patent Controversies" that was enacted in 2001, the People's Court should stay the lawsuit relating to the utility model or design patent infringement if the defendant makes a request for patent invalidation during the litigation. However, the Wenzhou Intermediate People's Court did not stay the case and gave its verdict when Schneider Electric contested the validity of the disputed utility model patent in the Beijing No.1 Intermediate People's Court.
- According to "Notice of the Supreme People's Court on Issues Concerning High Courts Civil and Economic Dissension lawsuits", when the requested damage is more than CNY 50 million (USD 0.7 million), the jurisdiction belongs to Zhejiang High Court. Hence, the Wenzhou Intermediate People's Court's verdict that requires Schneider Electric to pay compensatory damages of CNY 330 million to the Chint Group seems to be beyond its jurisdiction.

Given this backdrop, it is still possible that Schneider Electric may be successful in its appeals and may be able to invalidate the 10-year patent owned by The Chint Group, thereby saving itself the expense of paying a huge compensation. However, there is no way in which it can be compensated for its efforts and the time it had to spend on this case, which, in hindsight, could have been potentially avoided had it been more vigilant about Chinese prior art with respect to 10-year patents.

Lessons from the Schneider Electric vs Chint Group Case

The following are some key insights that can be learnt from the Schneider Electric versus Chint Group case:

- Damages relating to a patent litigation do not always have an upper limit: A popular myth about patent enforcement in China is that even if infringement has been established, damages are capped at CNY 500,000. In reality, damages are calculated, based on a) losses incurred by the plaintiff and b) the profits made by the defendant from the sale of the infringing product. In the event there is no evidence available to ascertain these two amounts, statutory damages within a compensation limit of CNY 500,000 can be awarded. However, patent license royalties can also be used as a reference to calculate damages. These damages could be between one and three times the amount of such royalties. Furthermore, the damages may also include expenses incurred by the plaintiff to investigate and prevent the said infringement. In summary, with increasing awareness of enforcement of patent rights in China, the amount of money paid by companies in out-of-court settlements and in patent license fees is bound to increase in the near future.
- Chinese prior art cannot be ignored: Given the exponential increase in the number of filings with the SIPO, it is prudent for every company operating in China to review Chinese patent prior art. One of the best practices may be to regularly review patent application filing activity in the country within a given field of interest. As always, forewarned is forearmed. Proactive measures towards invalidation of granted patents (especially 10-year patents) may also be a good way to avoid possible litigation.
- Take the help of Chinese patent research professionals: Foreign companies should try and identify Chinese patent professionals who can help them analyze Chinese patents and other prior art. The primary reason for



this is that the majority of Chinese patents are only available in Chinese languages (particularly Mandarin). Searching the Chinese patent database is easy, since all patents and published applications are available online, but the search has to be carried out in Chinese. Furthermore, simply translating English keywords to Chinese (or vice versa) may not work because Chinese languages have many variations that cannot be captured in English. Finally, current machine translations cannot be relied on either because of semantic, cultural, and contextual reasons.

- Utility model (10-year) patents should figure in every company's China IP strategy: In view of the unique position of 10-year patents in China's intellectual property scenario, any company producing or selling its products in China cannot afford to ignore these patents. After the changes to the patent law proposed in 2006 have been implemented, foreign applicants may need to choose between an invention patent and a utility model if they want to enter the national phase in the country through the PCT route.

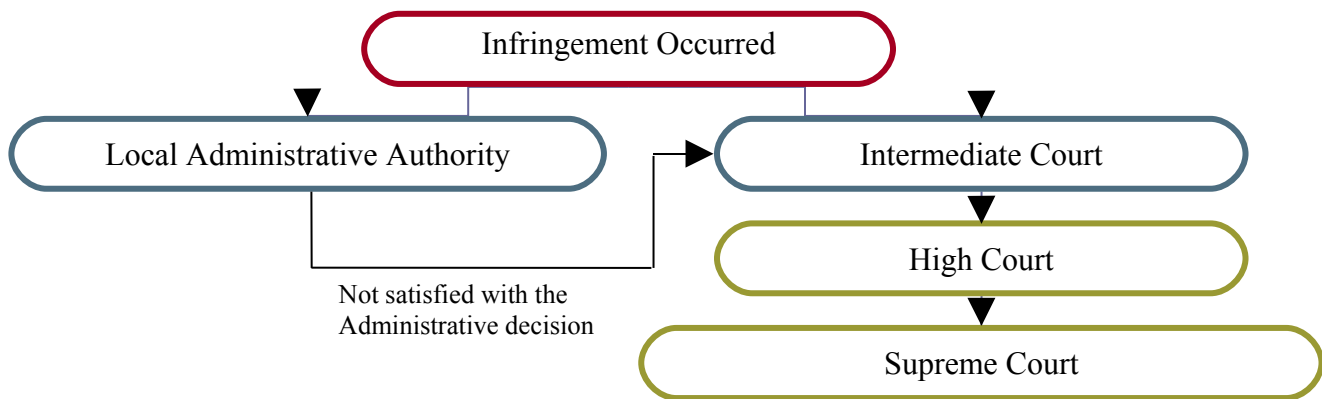
Is China More Litigious than the US?

The Chint Group versus Schneider Electric case received a great deal of attention, probably because of the unprecedented compensatory damages that were awarded. In fact, such suits relating to patent infringement have been increasing consistently in China. In 2005, local courts across the country accepted 2,947 civil cases related to patent rights, which is a 15.6% increase over the previous year. In comparison, US courts received a total of 2,973 cases in 2004 and the number fell to 2,812 in 2006. Similarly, a total of 13,424 intellectual property disputes (including disputes relating to patents, trademarks, copyrights and other forms of intellectual property) were filed with Chinese courts in 2005, whereas only 10,905 cases were filed in the United States. Does this mean that China is more litigious than the US? If the answer is no, it definitely looks like China is getting there.

The reasons for this increase in patent litigation can only be speculated. One major driving factor seems to be the general level of awareness of IP issues in China, which has partly been fueled by the aggressive enforcement of patents by multinational companies.

The increasing number of patent disputes also implies that the Chinese courts need to develop faster so that they can manage this workload more efficiently. China has a well-established hierarchy of courts, and this hierarchy is a part of a two-track system for patent enforcement. The first is the administrative track, whereby the patent holder can file a complaint at the local patent administrative authority where the infringing activity is believed to have occurred. The second is the judicial track, whereby the owner can file a complaint through a legal process and make a request for injunctive relief and/or damages. This two-track system is illustrated in Figure 3.

Figure 3: Two-track Sys



Administrative Track

The administrative track is preferred by many patent holders because the time required to start the investigation and determine whether an infringement has occurred may be considerably shorter than pursuing it through the courts



(especially because less evidence is required to begin an investigation, and hence it is also less expensive). Although the entire administrative procedure is simple, the administrative track has several disadvantages, which include limited compensation for the patent owner, smaller fines that fail to deter future infringements, difficulties caused by the lack of coordination between the local administrative authorities, and the possibility that an investigation may be affected by local protectionism, corruption, or the lack of appropriate administrative resources. The amendments proposed in 2006, when implemented, will empower the administrative track to be more effective in substantially more cases related to patent infringement. Finally, the administrative track is mainly used for the invalidation of patents and the judiciary has to rely on the opinion of the Patent Re-examination Board of the SIPO (and cannot issue invalidation orders by itself) anyway.

Judicial Track

When a patent holder decides to follow the judicial track, potential damages can be much higher and may include the confiscation of unlawful gains, elimination of the effects of the infringement, and issuance of a public apology. On the other hand, although injunctive relief and higher compensatory damages are available from the judicial track, litigation is a costly process in China. Furthermore, the plaintiffs are responsible for collecting all the evidence because there is no discovery process in China, and this discovery process can be very time consuming and expensive.

The Chinese government is taking steps to establish special courts for IP arbitration. For example, in February 2007, the Xiamen Arbitration Commission and IP Arbitration Centre, the first professional IP arbitration centre, was established. This centre provides companies with a professional and confidential process to resolve their disputes. Compared with China's traditional means of litigation and administrative processes, an arbitration system is likely to resolve disputes more quickly and efficiently, and its ruling will be considered final.

Patent Invalidation – An Administrative Procedure

China does not have pre-grant or post-grant opposition of patents. The only possible way of challenging a patent grant is by requesting for patent invalidation. A major difference between the patent system of China and those of other countries is that patent invalidation in China is an administrative procedure. The Patent Re-examination Board, which is a part of the SIPO (State Intellectual Property Office of China), accepts requests for the invalidation of all kinds of patents. The judiciary does not admit invalidation requests. However, an appeal against the decision of the patent re-examination board can be made to the judiciary, which is in compliance with TRIPS, which mandates that such administrative decisions be subject to judicial review. The Pfizer case in China is an excellent example of how invalidation proceedings work in the country.

Pfizer was granted a patent for the use of Sildenafil (the active ingredient in Viagra) by the SIPO on September 19, 2001. Several Chinese pharmaceutical companies and individuals immediately filed petitions to invalidate this patent. They argued that the patent failed to provide a detailed description under Article 26 of the Chinese Patent Law. Others claimed that the patent lacked novelty under Article 22 of the Chinese Patent Law. On July 4, 2004, the SIPO issued a ruling to revoke the patent due to insufficient disclosure. Dissatisfied with the decision, Pfizer appealed this revocation decision to the Beijing No.1 Intermediate People's Court. On June 2, 2006, the Intermediate Court rendered a decision reversing the earlier revocation and referred the case to the SIPO for further determination. Several Chinese companies then appealed against the Intermediate Court's ruling to the Beijing Higher People's Court. In September 2007, Beijing Higher People's Court made a final decision that upheld Pfizer's patent rights with respect to Viagra in China.

Level Playing Field for Foreign Companies

Cases involving international companies have increased in China. For example, the number of cases, where at least one of the parties was a non-Chinese company, reached 268 in 2005. This is an increase of 77.5% over the previous year. If The Chint Group versus Schneider Electric case were to be reviewed in isolation, it may seem that it is harder for foreign companies to win in patent litigations. However, according to the records of the No.1 Intermediate Court of Beijing, foreign parties won 60% of the cases, thereby demonstrating that foreign firms seem to have a level playing field. In addition to the Pfizer case discussed above, given below are examples of some other landmark cases relating to foreign entities:



- In 2006, 3M won a lawsuit against the Shanghai Desheng Health Products Manufacture Company for infringement of its patents (relating to dust masks) that were granted by the SIPO in 1997 and 1999. The court ordered the infringing company to pay around CNY 250,000 (around US \$35,000) to 3M as damages.
- Philips has established 15 research and development centers in China. More than 11,000 Chinese patents have been assigned to Philips and these serve as the basis of Philips' operations in China. In 2001 and 2002, Philips filed nearly 20 patent invalidation requests, relating to a design patent dispute pertaining to an electric shaver, to the Patent Reexamination Board of the SIPO, and won all of them, except one. In that one case, Philips appealed against the SIPO's decision to the Beijing No.1 Intermediate People's Court in 2002, and subsequently won that too! In this case, Philips initially submitted a request to the Patent Re-examination Board to invalidate the design patent on shavers granted to a Chinese patentee, Yang Weijiang, on the grounds that the patent issued was similar to an earlier design from Philips. However, the Board denied the invalidation request and therefore Philips commenced legal proceedings against the Board. After the hearing, the court decided that the main difference between the two designs was only in the shaver's blades, which was not sufficient to establish novelty. Therefore, the court determined that both the designs were similar, dismissed the Board's decision, and ordered the Board to re-issue its decision within three months.
- In 1997, Honda accused two Chinese companies, Shanghai Feiling Motorcycle Co. and Zhejiang Huari Co., of infringing its Chinese design patent for a "mini-scooter" that was granted in 1994. The two defendants filed an application for invalidation in 1998 on the grounds that a similar design patent had been granted earlier and another one had been published earlier in magazines. After the oral hearings, the Patent Re-examination Board made a decision in 2001 and declared the design patent invalid. Not satisfied with this decision, Honda filed an administrative lawsuit against the Board in the Beijing No.1 Intermediate People's Court. In 2002, the Court upheld the decision of the Board because it agreed with the Board that the Honda design was visually similar to the previous design. Honda did not give up and appealed this judgment to the Beijing High People's Court. This time, the High Court reversed the Intermediate Court's decision and ordered the Board to withdraw its invalidation decision (in 2004). In spite of the fact that the entire process took several years and Honda expended a lot of effort (to defend its patent), it was finally rewarded.

Conclusion

The growing number of patent applications and patent infringement disputes in China indicates positive development within the Chinese intellectual property system. However, it remains to be seen whether the country's system can effectively cope with the pressure of an exponential growth. At least for now, the Chinese government seems to have taken the right steps in setting up a fairly strong infrastructure, which includes (a) a searchable patent database that is available online, (b) an appeal mechanism and a hierarchy of courts for handling intellectual property disputes, and (c) a fairly clear distinction between the administrative and judicial processes. Various amendments made to the Chinese patent law, as well as their implementation, seems to have ensured a level playing field for entities operating in China. Now, the challenge for the Chinese government is to make sure that these amendments are effectively implemented throughout the country, and not only by a limited number of courts.

Meanwhile, foreign companies entering China are becoming more aware of China's patent-protection system. The case between Schneider Electric and The Chint Group highlights the need for them to increase their awareness and understand the importance of incorporating 10-year patents into their overall IP strategy. And, while doing so, such organizations need to realize that simply importing "best practices" from their home countries may not always work in China. For example, searching the vast Chinese database for prior art is a challenge that should only be undertaken with the help of proficient Chinese professionals (and not done in English language or by using abstracts alone). Hence, the challenge for multinational companies is to adapt themselves to the realities and culture of China and formulate strategies – with respect to patent preparation and prosecution as well as patent litigation – that will work for years to come.



References

1. Patent Law of the People's Republic of China; Amended in accordance with the Decision of the Standing Committee of the Ninth National People's Congress on Amending the Patent Law of the People's Republic of China adopted at its 17th Meeting on August 25, 2000), published on March 27, 2002, on the website of the SIPO, http://www.sipo.gov.cn/sipo_English/laws/lawsregulations/200203/t20020327_33872.htm
2. Annual Report 2006, State Intellectual Property Office of PR China.
3. Web publications of the State Intellectual Property Office of PR China (http://www.sipo.gov.cn/sipo_English/).
4. Recent Developments of Patent Enforcement in China - A Comprehensive Legal Framework at Work, Chris X. Lin, 2005, published by _____, a website sponsored by the Honorable Judge Mr. Jiang Zhipei from the Supreme People's Court of PR China.
5. Performance and Accountability Report Fiscal Year 2006, United States Patent and Trademark Office, 2006.
6. China Intellectual Property News, State Intellectual Property Office of PR China, 2008.
7. Guidelines for Examination, State Intellectual Property Office of the People's Republic of China.
8. 国内最大 ▪ 利侵 ▪ 案落槌 施耐德 ▪ ▪ 正泰 3 ▪ , _____ , Oct 1, 2007.
9. 最高法院知 ▪ ▪ 庭庭 ▪ 在 2006 知 ▪ ▪ 保 ▪ 研修班介 ▪ 司法保 ▪ 情况 ▪ 展, _____ .
10. 北京一中院 5 年受理 670 多件涉外知 ▪ ▪ 行政案-, Economic Weekly China, August 2007.
11. "U.S. company wins lawsuit against Chinese firm's patent infringement", People's Daily Online, April 20, 2006.
12. " ▪ 利浦启 ▪ ▪ 利制 ▪ 策略 商 ▪ 前景并不明朗", _____ , February 9, 2006.
13. 外企在 ▪ ▪ 利申 ▪ 数逐年增 ▪ , 上海商 ▪ (Shanghai Commerce Report), August 2, 2006.
14. ▪ 利浦 ▪ 利 ▪ "中国 ▪ 策" , DoNews, _____ , Dec 24, 2006;
15. Waves of Changes in Chinese Patent Law and Regulations, Dr. Charles C. Liu, China Intellectual Property 20:44-51 (2007).

About Evalueserve

Evalueserve provides custom research and analytics services to companies worldwide including those related to Emerging Markets and Regions, Intellectual Property & Legal Research, Market Research, Business Research, Financial & Investment Research, and Data Analytics & Data Mining. Evalueserve was founded by IBM and McKinsey alumni, and has completed over 14,000 client engagements on behalf of global clients. More than 2,000 of these research engagements have focused on emerging markets and regions including China, India, South America and Eastern Europe. The firm currently has 2,250 professionals located in research centres in India, China and Chile and will start operations in Romania by June 30, 2008. Additionally, Evalueserve's 50 client engagement managers are located in the major business and financial centres globally – from Silicon Valley to Sydney. Finally, Evalueserve's Circle of Experts provides institutional investors with direct access to a network of senior industry executives in a wide range of industries. For more details, visit <http://www.circleofexperts.com> and <http://www.evalueserve.com>

Disclaimer

Although the information contained in this article has been obtained from sources believed to be reliable, the author and Evalueserve disclaim all warranties as to the accuracy, completeness or adequacy of such information. Evalueserve shall have no liability for errors, omissions or inadequacies in the information contained herein or for interpretations thereof.

EVS Contact

EVS China Media Relations
Sandra Winkler
Tel: +86 21 640 3360

EVS Global Media Relations