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Patents in China – Is There Any Real Protection?

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With increased pressure from the West and the World Trade Organization, China has instituted a number of reforms to its patent system. Much like the United States Patent and Trademark Office (“PTO”), China has a centralized intellectual property office, known as the State Intellectual Property Office ("SIPO"), which processes patent applications, grants patents, and enforces patents in China. At first blush, the patent system and SIPO seem to be modern and in tune with the concepts and protections found in Western patent systems. Unfortunately, the actual functioning of the patent system in China is far different from its official representation of performance.

Comparison to the United States Patent Process

The United States grants three different patent types: utility patents (which cover any new and useful process, machine, article of manufacture, or composition of matter), design patents (which cover any new, original, and ornamental design for an article of manufacture), and plant patents (which cover distinct and new plant varieties). In contrast, China does not recognize plant patents and divides the utility patent concept into two categories: invention patents and utility model patents. China also issues design patents.

An invention patent in China is closest to the utility patent in the United States and protects "any new technical solution relating to a product, a process or improvement" for a period of

20 years from the date of filing the patent application. The application for an invention patent in China requires the submission of information by the applicant much like what is required in the United States for a utility patent, and, like the United States PTO, SIPO conducts a thorough investigation as to the novelty, inventiveness, and usefulness of the innovation before issuing the patent.

A utility model patent in China lies somewhere between a United States utility patent and a design patent in that it protects "any new technical solution relating to the shape, the structure, or their combination, of a product which is fit for practical use." From a practical standpoint, the information provided to SIPO related to the innovation, and the investigation conducted by SIPO, is very limited as compared to an invention patent. More likely than not, if the proper paperwork has been completed as part of the utility model patent application, SIPO will issue a utility model patent to the applicant. A utility model patent can be granted as quickly as one year after the filing date. As a result, the majority of patent applications in China are for utility model patents. A utility model patent provides protection for ten years.

A design patent in China is much like a design patent in the United States in that it protects "any new design of the shape, pattern, color, or their combination, of a product, which creates an aesthetic feeling and is fit for industrial application." Just as in the United States, the realistic protection afforded by a Chinese design patent is limited. As in the utility model patent process, SIPO undertakes a limited investigation before granting a design patent and, if the proper paperwork has been completed as part of the application, will likely issue the design patent. A design patent in China provides protection for ten years.

China, unlike the United States, is a first-to-file system. This means that if two inventors file a patent application for the same innovation, the first to file the application with SIPO will be granted the patent even if the other inventor was the first to invent. In addition, unlike the United States where an inventor has one year from the date of the first public disclosure of the innovation to file for patent protection, public disclosure prior to filing in China is an absolute bar to the grant of a patent on the disclosed innovation, except in very limited circumstances.

A patent application may be granted in China to an individual, company, state owned entity, or foreign applicant, although a patent application made by a foreign applicant must be filed by an authorized Chinese patent agent.

Problems with the System

The combination of a first-to-file system with a system where a patent may be granted with little or no investigation results in the obvious: patents granted to non-inventors. It is a relatively easy matter, at least as to utility model and design patents, for an interloper to file for and be granted a patent on an innovation created by another person or which has been

afforded protection in another jurisdiction, such as the United States. For instance, if a foreign entity has a United States patent but fails to file or register that patent in China, a Chinese company can easily take the innovation and get a utility model patent in China in its own name. The Chinese company then can use its utility model patent to prevent others, including the foreign entity, from producing products in China that incorporate that innovation.

The Chinese Court System

Despite the improvements to the intellectual property system in China, little improvement has been made to the Chinese court system, which remains very archaic. For example, in most cases, only original documents are recognized as evidence. Accordingly, e-mails, copies, and other reproductions generally are not accepted as evidence in the Chinese court system. China also requires that all documents used as evidence in court be notarized through a formal notarization process. Further, only Chinese-born lawyers are permitted to appear in Chinese courts.

Beyond these procedural-type issues, there is also a problem which results from the patent registration system, at least as to utility model and design patents. The issuance of a patent in China, just as in the United States, creates a presumption that the patent is valid. If SIPO had conducted a full investigation prior to issuing a utility model or design patent, as is done by the United States PTO, the use of such presumption would be justified. Since, realistically, a full investigation has not been made by SIPO, the presumption flowing from the Chinese process presents an unfair advantage to those who improperly obtain patents. Since the burden of proof is on the person challenging a patent to show that the innovation in question is that person's property, the various evidentiary and procedural hurdles found in the Chinese court system can make it very difficult, and perhaps impossible, to overcome the presumption and prove that an innovation was stolen by a Chinese company.

How to Protect Your Innovation in China

In addition to filing for patent protection in China, a United States inventor has alternatives for protection of the inventor's innovations when manufacturing products in China. One alternative is to contractually prohibit any Chinese company with which the United States inventor is dealing from filing a patent application related to any innovation found in the product it is producing for its United States customer, and/or to obligate such Chinese company to recognize that any innovation found, discovered, and/or created during the parties' relationship is the property of the United States customer. This language can help if the Chinese company tries to seek protection of an innovation owned by a United States company. Chinese courts do have a relatively good record of enforcing contracts.

Another alternative is to require arbitration of patent disputes. The Chinese court system

recognizes and will enforce arbitration decisions. Arbitration allows parties to adjudicate their disputes without having to adhere to the archaic and problematic evidentiary rules of the Chinese court system. There are a number of organizations located in Beijing and Hong Kong which can render arbitration awards that will be enforced by Chinese courts. Two of the more recognized organizations are the China International Economic and Trade Arbitration Commission in Beijing and the Hong Kong International Arbitration Centre. Many of the arbitrators employed by these organizations are Western trained, which helps to further avoid many of the archaic evidentiary and procedural rules found in the Chinese court system. Therefore, it is advisable to insert an arbitration provision in any contract with a Chinese company.

No protection is foolproof. However, understanding the limitations and risks involved when producing products or components in China can help a company understand the costs of doing business in China and limit its exposure to the loss of patent rights.

Ward and Smith, P.A. provides a multi specialty approach to the representation of technology companies and their officers, directors, employees, and investors. Thomas S. Babel practices in the Litigation Section and Intellectual Property and Business Litigation Practice Groups, where he concentrates his practice in business and intellectual property litigation. Comments or questions may be sent to tsb@wardandsmith.com.

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