



What Every U.S. Corporation Should Know About China's Patent Protection & Enforcement

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Agenda

1. China: The Land of IP Hope or Despair?
2. IP Related Risks
3. Overview of China's Patent Law
4. Patent Prosecution in China
5. Patent Enforcement in China



China: The Land of IP Hope or Despair?

“WEIJI” – opportunity and risk
危机



China – Basic Facts

- **Population:** > 1.3 billion people
- **Nationalities:** 56 nationalities
(The Han people comprise 92% of total population.)
- **History:**
 - Ancient Dynasty – 2100 B.C.- 221 B.C.
 - Imperial Era – 221 B.C. - 1911 A.D.
 - Republic of China – 1911-1949
 - People's Republic of China ("PRC") – 1949-present



Opportunities in China

- **China's Manufactures:**
 - 70% of all DVD players
 - 50% of all cameras
 - 25% of all washing machines
 - 30% of all air conditioners and TVs
- **China's Labor Force:**
 - 200 million (2002 est.)
 - 2 million U.S. manufacturing jobs lost to China in last 3 years



Opportunities in China

- **China: The next great industrial revolution?**
 - Average GDP growth from 1992 – 2002: ~ 9.0%
 - GDP growth in 2003 = 9.1%
 - Projected 5yr. average = 7.8% (2x > U.S.)
 - R&D is following
 - e.g. Pharmaceuticals
 - 1800 joint ventures
 - \$2 billion foreign direct investment



Extraordinary Growth

- **Pharmaceutical drug sales:**
 - 2003: \$7.5 billion
 - 2010: \$60 billion (projected)
- **Chemical product sales:**
 - 2002: \$100 billion
 - 2015: \$200 billion (projected)
- **Car sales:**
 - 70% increase from 2002 - 2003



Extraordinary Growth

	2002	(projected) 2007	Increase
Telephone main lines (million)	221	443	↑ 100%
Mobile subscribers (million)	212	539	↑ 154%
Personal computers (million)	6.1	12.7	↑ 108%



**Where There is Opportunity,
There is Risk.**



China: The toughest battleground for IP protection?

- Widespread infringement, difficult to stop
 - Chinese product piracy accounts for
 - \$50 billion in annual losses worldwide
 - \$24 billion in annual losses in U.S.
 - “Smalltime” infringers create big problem
- Developing patent laws and interpretations
- Enforcement system in nascent stages



IP Problems in China

Problem 1: Society and Culture

A. No guilty conscience

1. Emperor owns it all
2. What's yours is mine and mine is yours
3. Deep tradition
4. E.g. Download dilemma - education of American public

B. Dependence on counterfeit and pirated goods

1. Manufacturers
2. Consumers



IP Problems in China

Problem 2: Lack of Public Awareness of IP Laws

A. China's IP system is only 20 years old

- Pre-1980: No laws, no lawyers
- 1982: First trademark law
- 1984: First patent law
- 1990: First copyright law

B. Shortage of IP lawyers, judges, educators, etc.



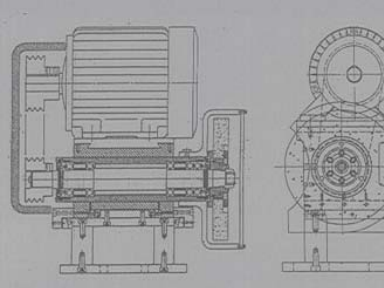
IP Problems in China

Problem 3: Weak Enforcement System

- A. Limited governmental resources
- B. Local protectionism
- C. Uncertainty in application of new IP laws
- D. “Ignorance” of IP laws
- E. Limited damages awards



Overview of China's Patent Law



5 Myths About IP Laws in China

MYTH

1. China has no IP laws.

MYTH

2. The IP laws are unsophisticated.

MYTH

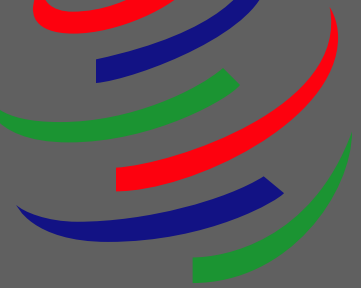
3. The IP laws expressly favor domestic interests.

MYTH

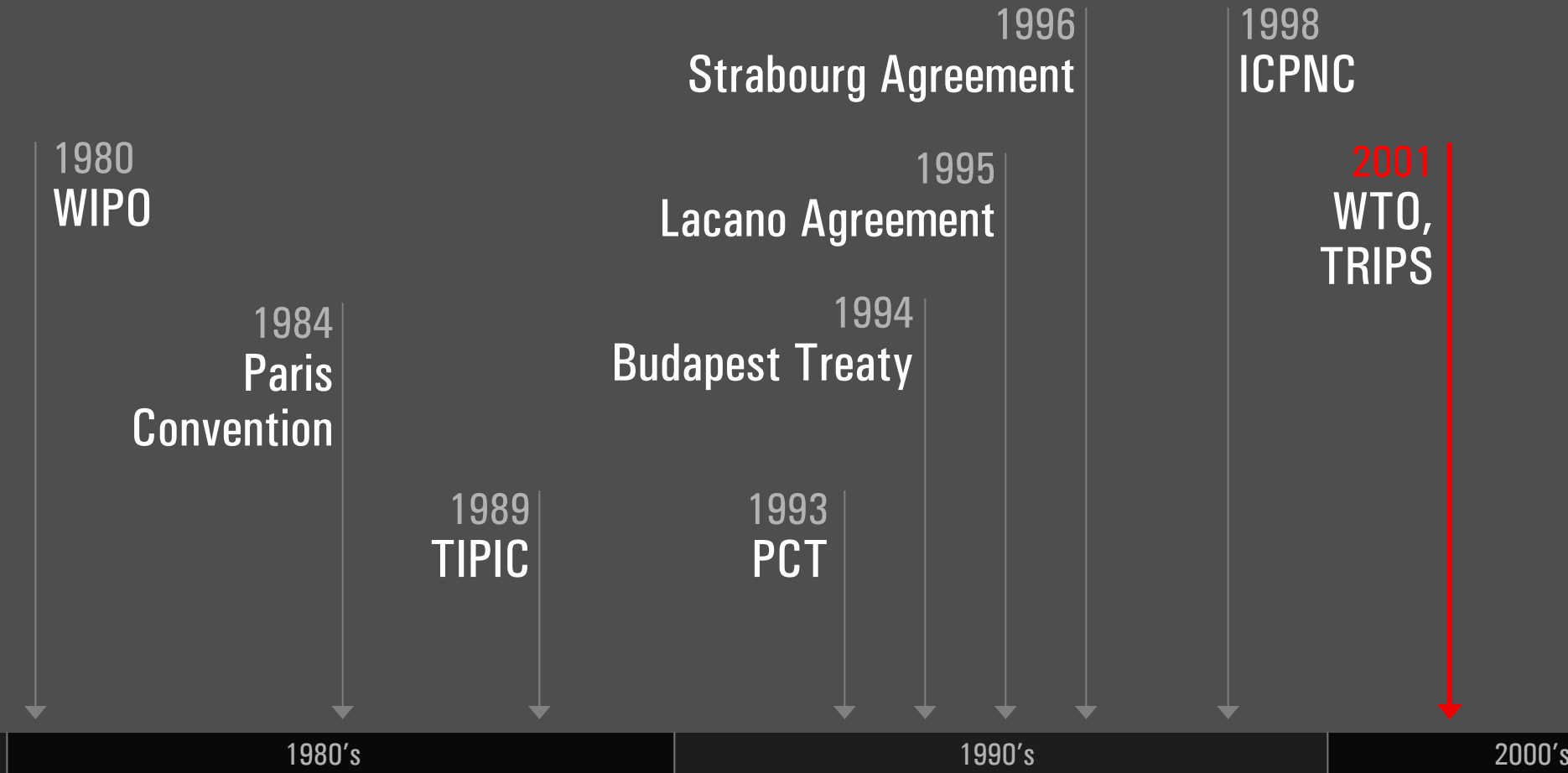
4. There is no enforcement.

MYTH

5. Foreign parties can not access enforcement system.



China's Participation in Patent Related Treaties





Laws Governing China's Patent System

- Statutory Law – “Patent Law of the PRC”
- Regulations – “Implementing Regulations of the Patent Law of PRC”
- No stare decisis (civil law vs. common law)



Development of Patent Law in the United States and China

U.S.

- First U.S. patent law enacted – 1790
- Significant amendments: 1836, 1861, 1952, 1994 and 1999

China

- First Chinese patent law enacted – 1984
- Significant amendments: 1992 and 2000



Patents: Type and Duration

U.S.

- Utility (20 yrs)
- Design (14yrs)
- Plant (20 yrs)

China

- Inventions (20 yrs)
- Industrial designs (10yrs)
- Utility models (10 yrs)



Many Similarities to U.S. Patent Law ...

China

Patentability

- Novelty
- Inventiveness (obviousness)
- Utility

Patent Rights

- Make
- Use
- Offer for Sale
- Sell
- Import



... But Some Differences

Patentability and Procedural Requirements

- **First-to-File System**
- **No Best Mode Requirement**
- **No Continuation Practice**
- **Differences in Patentable Subject Matter**
 - a. No plant patents
 - b. No method patents for medical treatment or diagnostic procedures

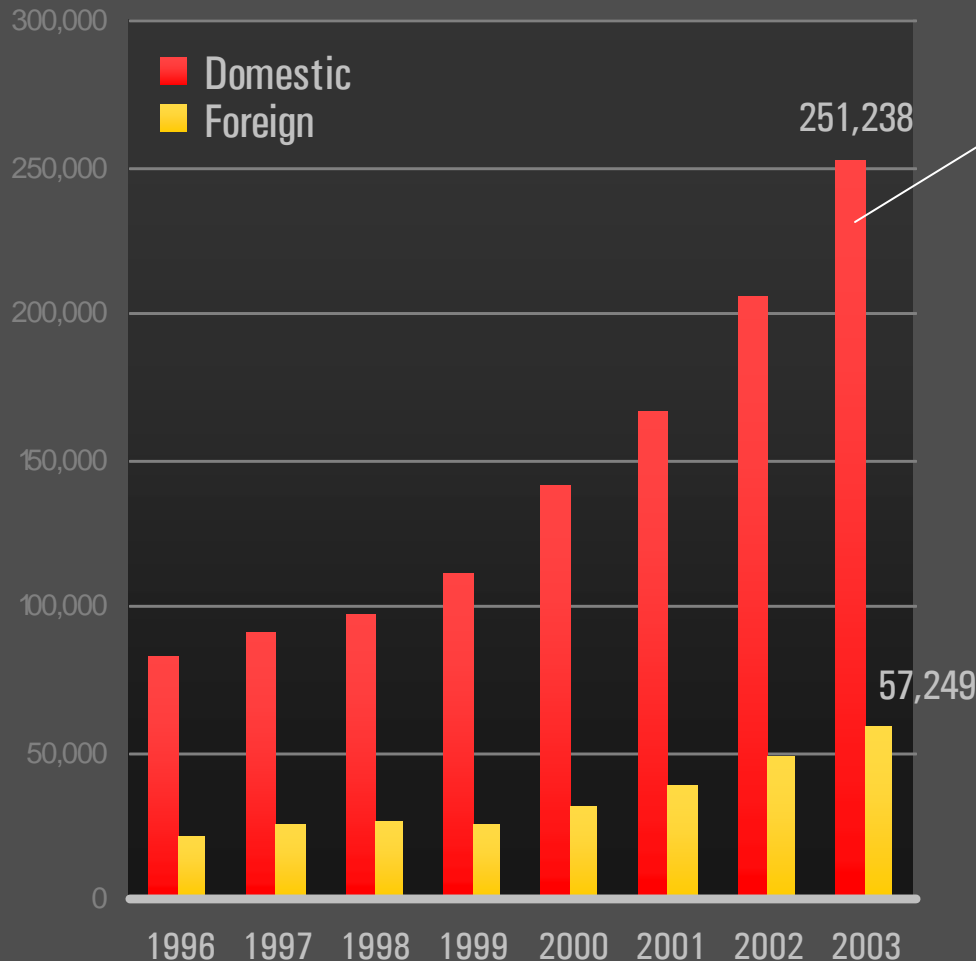


Patent Prosecution in China



Increase in Patent Applications Filed

China Patent Applications, 1996-2003

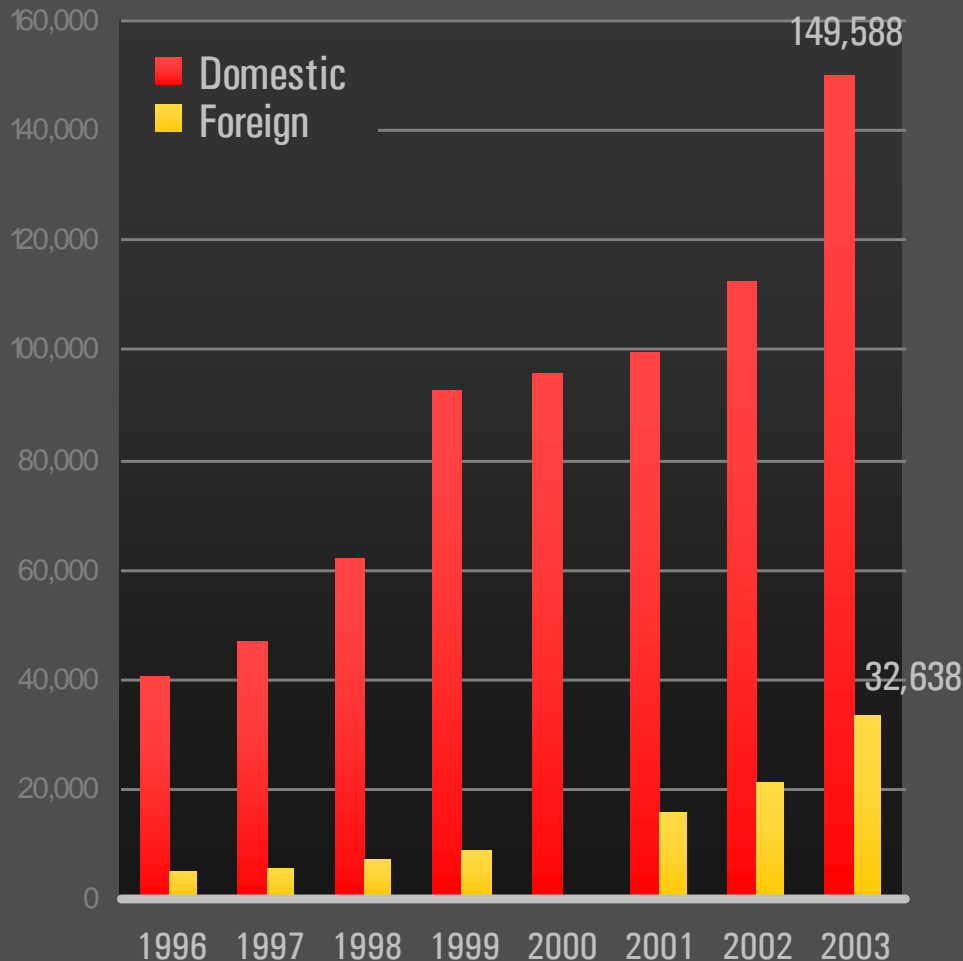


Patent Filings Are Accelerating

- 2003: Over 300,000 patent applications (comparable to USPTO numbers ~ 355,000)
 - ~ 250,000 domestic applications
 - ~ 50,000 foreign applications

Increase in Patents Granted

China Patents Granted, 1996-2003



- Majority of patents owned by domestic parties are utility model patents
- Foreign parties dominate invention patent category

2003: "Top 10" - All Foreign

81% information tech

87% biotech

90% HDTV

90% pharmaceuticals



How to File a Patent Application in China

- **File in China directly**
 - Domestic priority: 12 month for invention or utility model
- **File in United States first**
 - Then within 12 months file either PCT or file in China
- **File PCT application designating China**
 - Enter Chinese national phase within 30 months from the first priority date
 - 30 mos. period extendable by 2 months by paying fee

What Type of Patent Application You Should File?

- “Invention” application
 - Big Step
 - Substantive Examination = “Hard” Presumption of Validity
 - Slow
 - More Expensive
- “Utility Model” application
 - Small Step
 - Fast registration system = “Soft” Presumption of Validity
 - Shorter term
 - Difficult to license – untested
 - No method claims



Application Filed: Now what?

- SIPO conducts preliminary examination for formality compliance
- Applicant must request Substantive Examination within 3 years
- Time limits for voluntary amendments
- Office Actions
- Patent GRANTED! (Avg. time from filing to issuance: 1-2 years)



Application Rejected?

- Applicant can file a request for reexamination with the Patent Reexamination Board (PRB)
- Decision by the PRB can be appealed to the Beijing First Intermediate Court
 - Applicant has 3 months to appeal



Patent Enforcement in China



How To Enforce A Patent?

- Two-Prong System of Legal Enforcement
 - Administrative Enforcement
 - Judicial Enforcement



Choosing Between the Courts and Administrative Action

	Via Courts	Via Administrative Authorities
2003 (Total IP)	9,271	62,019
2000-03 (Patent)	7,208	4,873

- **Advantages of Court Actions**
 - Can obtain damages
 - Apply more “pressure” on infringers
 - Better for complex cases
 - Administrative actions less common for patent disputes
- **Advantages of Administrative Action**
 - Faster
 - Cost-effective
 - Lower threshold of proof



Administrative Agencies -- Patent Enforcement

- AIC (Administration of Industry and Commerce)
- Local Branch of Patent Office
- Customs
- Others (e.g. State Drug Administration)



How to Enlist Administrative Agency

- File Request with Agency
- Provide samples or description of infringing products
- Identify infringers and key individuals
- Identify suspected distribution channels/networks



Administrative Penalties

- Injunctions
- Seizure of Illegal Income
- Confiscation or destruction of infringing products
- Fines



Judiciary Protection on IP

- Civil IP Cases
 - IP litigation on rise – a sign of IP awareness:
 - 1998-2002: 23,636 IP cases, a 40% increase over the period of 1993-1997
- Criminal IP Cases (2001-2003)
 - 851 cases filed, and 1288 individuals charged
 - 755 cases decided
 - 582 sentenced for < 5 years jail term (253 in 2003)
 - 143 sentenced for > 5 years jail term



Patent Infringement Actions in China

- **Pitfalls**
 - Limited technical background of judges
 - Inconsistent application of legal standards
 - Damages too low
 - Tolerance for ex parte communications
 - Lack of transparency



Filing Basics

- **Where**
 - Intermediate People's Court:
 - Court of First Instance
 - Not all Intermediate People's Court can hear patent cases
 - Venue
- **When**
 - Statute of Limitations



How Long Does a Patent Lawsuit Usually Last?

Statutory Time Table

Trial Type	General Period	Special Situation	Maximal Period
First Instance			
Ordinary Procedure	6 months	+ 6 mos.	+ 6 mos.
Simple Procedure	3 months		
Appeal			
Appeal to verdict	3 months	+ 3 mos.	no limit
Appeal to ruling	30 days		



Invalidity

- Invalidity not decided by Courts in first instance
- Invalidity arguments must be brought to Re-Exam Board
- Infringement litigation typically stayed during pendency of validity inquiry



Invalidity – Case Analysis

Recent High Profile Case:

- **Pfizer's Viagra patent**
 - Issued in China in September 2001
 - Over 10 Chinese companies filed complaints requesting PRB to invalidate the patent
 - In July 2004, PRB declared the patent invalid – violation of written description



Invalidity – Case Analysis

Recent High Profile Case:

- **GlaxoSmithKline's Avandia Patents**
 - GSK filed an infringement lawsuit against four Chinese pharmaceuticals makers
 - Defendants filed invalidation request with PRB
 - On August 18, 2004, Plaintiff GSK abandoned the patent and dismissed the lawsuit



Evidence Gathering

- No formal discovery procedure
- Plaintiff's burden to collect evidence
- Court may actively collect evidence



REMEDIES

- Preliminary injunctions
- Permanent injunctions
- “Cure” (public apology)
- Damages
- Reasonable costs, expenses, attorney fees
- Punitive damages and fines



Damage Calculation for Patent Infringement

3 Steps:

- Either lost profits of patentee, or profits of infringer
- Reasonable royalty (multiplied up to 3x)
- Statutory damages (RMB < 500,000)



Can You Appeal Judgment?

- As a matter of right, parties may file appeal
 - Domestic parties: 15 days
 - Foreign parties: 30 days
- Basis for appeal:
 - Mistake in fact
 - Mistake in application of law
 - Mistake in trial procedure



Upward and Onward

- Government's recognition of need for strong IP protection
- Significant movement in IP education
- Noticeable respect for IP law
- Intense international interests = Intense international pressure



Thank You

谢谢

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