Original Article

China 10-Point Patent Checklist: Integrating patents into an overall business strategy for a Western manufacturing entity in China

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ABSTRACT **The protection of intellectual property (IP) involved with manufactured goods comprises many aspects: Without even touching upon patents, these aspects include trade secrets and trademark protection, both very important in the classic protection of a pioneer manufacturer's product line and reputation. Yet it is well known that in China, Western companies have had challenges using trade secrets to safeguard IP. Trademark protection also has weaknesses, particularly as competitors often use Chinese marks that are very similar to the trademark – a situation that is difficult to control with typical trademark remedies. The China 10-Point Patent Checklist (Checklist) provides only starting points or guidelines for technology-based outsourcing operations – including biotechnology companies – doing business in China. The Checklist does not address comprehensive enforcement strategies such as deciding where to bring an action: in the United States (or Japan, Germany**

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or another applicable importing country) under Western laws and Western patents, in China itself or in both countries.

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INTRODUCTION

The protection of intellectual property (IP) involved with manufactured goods comprises many aspects: Without even touching upon patents, these aspects include trade secrets and trademark protection, both very important in the classic protection of a pioneer manufacturer's product line and reputation. Yet it is well known that in China, Western companies have had challenges using trade secrets to safeguard IP, as it is extremely difficult to prove infringement in trade secret misappropriation cases under the current Chinese legal system. Trademark protection also has weaknesses, particularly because both domestic and foreign competitors often take advantage of China's first-to-file principle to disrupt foreign trademark owners' brand usage in China.

Protecting IP assets in China requires a combination of patents, trademarks and trade secrets. The Checklist provides only starting points or guidelines for technology-based outsourcing operations in China. The Checklist does not address comprehensive enforcement strategies such as deciding where to bring an action: in the United States (or Japan, Germany or another applicable importing country) under Western laws and Western patents, in China itself or in both countries.

Even today, with the well-known problem of outsourcing piracy, Western companies are doing little from a practical standpoint to safeguard their technology in China. A recent MIT Sloan Report[1] provides a useful general checklist for companies entering the Chinese market or coming to China with the principal goal of manufacturing products to distribute to other markets. Companies are told to be quick with patent registration; however, this is not so simple, as regular patents are granted in China only after an examination that may take several years (a matter not uniquely Chinese, but a problem that faces companies both in the United States and many other countries). Companies are told to file for patents quickly because China is a first-to-file country; if a company is second to file, in line at the patent office after the first-to-file competitor, the company may still prevail if it can prove derivation as the originator of the product or technology, otherwise the second-to-file company would lose. Presumably the portfolio of important innovations already has patent protection in the West. This is problematic, however, if such patents have already been granted or the technology has been publicly disclosed.

The Checklist provides a set of practical ways to implement the goals suggested by the MIT Sloan Report.

1. A 'home-country' patent application should be filed in the United States (or any country) before the secrecy of a prototype product or new technology is made accessible to the public

Classic American patent attorney thinking runs along the following lines: Since the United States is a 'first inventor' country and has a grace period of 1 year to file after public disclosure of an invention, there is no harm in waiting to patent until the end of the grace period. But most countries have no grace period. This means that filing the American (or other first) application even one day after a public disclosure of the invention constitutes a total forfeiture of Chinese and most other foreign patent rights.

2. A company must never rest on just 'the patent' keyed to the first filing, but must consider supplemental filings at every stage of product development

It is commonplace to file a single home-country application with a complete disclosure of the first prototype of the invention. But technology often evolves through modifications: Each modification should be considered for inclusion in the patent portfolio. For modifications that occur within the first year of the home-country first filing, the simple, expedient method is to file a second (or third or fourth) application as a 'provisional application'[2] that includes this new disclosure. Then, on the first anniversary of the first filing, all disclosures are lumped together into a jumbo Patent Cooperation Treaty (PCT) application. Now, all the modifications also will be covered within the PCT application.

To simply attempt to add the modifications to the PCT application itself, without filing a second (or third or fourth) application means that these new modifications stand alone for patent priority purposes as of the PCT actual filing date, and not any earlier priority date. Patent applications typically have several different claims, so that claims entirely corresponding to the priority application will benefit from the earlier priority filing date, while claims first supported in the PCT application itself stand alone as of the PCT actual filing date. If there has been an intervening public disclosure of the new modification before the actual PCT filing date, then that intervening public disclosure will create an absolute forfeiture of any claim to the new modification.

3. Chinese (and other) foreign rights should be kept alive for at least 30 months through the expedient filing of a single PCT application within 1 year of the first home-country filing

Foreign patent procedures in multiple countries can be very expensive, but major costs can be avoided for up to 30 months by filing a PCT application designating all important countries of the world, which are unique to each applicant. A PCT application, filed within 12 months of the home-country filing, allows a company to maintain its options for China – and other countries – without ever sending a single document overseas and without spending a penny on translation costs during this period.

The MIT Sloan Report suggests that '[t]he only solution for foreign companies is to file patents … in China as soon as possible'. To better reach this goal, a more sophisticated approach is to utilise staged filings that take advantage of an intermediate PCT filing. In this case, the actual filing date of the PCT application is not so important; rather it is the priority date of the home-country filing or other first filing that is critical. (Of course, the PCT application must be filed within 12 months of the first filing or priority is lost.)

It has also been suggested that patents should be obtained in China, but this is not possible as there is an arduous examination process between the time of filing a patent application and its ultimate grant.

4. Product design should incorporate patent planning for added value

In hindsight, it is easy to say that one should have sought a patent before the start of a China outsourcing programme. But if the existing situation involves no or minimal patent protection, what can be done?

If every detail of the product is open for copying, and no patent application was filed, it is simply too late for a patent-based remedy *for that product*. But products are constantly evolving: New features are added to the 'Second-Generation Widget'. This new product should be crafted in collaboration with patent experts to include features that are both novel (new before the filing date) and unobvious (obtained inventiveness over the prior art) versus the original 'Widget'. Then, this second-generation Widget is protected

with a first filing in the same manner as any other new invention.

Obtaining patent protection for the new version does nothing to stop a competitor from making the old version, since it is in the public domain. Perhaps the new version is no better than the old one. So why patent the new version? If the company is concerned about an outsourcing factory running a clandestine midnight shift to overproduce the product and sell that overproduction through other channels, the second-generation patent meets the needs of the company because competitors are prohibited from making the second-generation products, which are covered by the second-generation patent.

5. Ornamental design features may provide further protection

Novel design features of the 'Second-Generation Widget' can be the basis for design protection, which is far easier to obtain than regular patent protection. In addition, design protection often is merely registered or minimally examined, resulting in very prompt protection, unlike a regular patent. First, file a home-country design application; within the next six months, file the Chinese and other parallel foreign design applications.

Critics of design protection dismiss this alternate form of protection because it is easy to create a different design to circumvent the design registration or patent. But the very point of a design registration or patent is to provide a tool against the exact or almost exact knockoff product. In such cases of infringement, the United States International Trade Commission may be used to enforce the American design patent against an importer. Japan has parallel protection available as well.

6. Special Chinese 'petty patent' protection is important

Unlike the United States, China has 'petty patent' protection via utility model patents. This is a second form of patent that may be sought in addition to or in lieu of a regular patent.

The petty patent is registered and thus, by bypassing the normal, arduous patent examination process, is quickly granted.

The importance of the Chinese petty patent was manifested in the ongoing fight between the French Schneider, a pioneer manufacturer of certain low-voltage equipment, and the Chinese competitor Chint. The two were involved in actions in Europe. Chint surprised Schneider by obtaining petty patent protection that dominates the Schneider product, resulting in a damages award of more than $44 million at the trial level. (Actions by Schneider to invalidate the petty patent as well as an appeal in the damages case are ongoing.)

7. Commercialised trade secret technology may be patented in China

It is axiomatic to American companies that if a trade secret has been commercialised for 1 year, patent protection is forfeited. This is true only insofar as domestic American patent rights are concerned. This is not true for Chinese patent protection: Trade secrets may thus be converted into a Chinese patent portfolio.

A Western company with a strong technological leadership position may often decide to forego patenting its highly sophisticated technology by relying upon strict factory security. Such trade secret protection has long been a viable option for many manufacturing companies because (a) it would be difficult for a third party to reverse-engineer the product and (b) tight security could be relied upon to keep competitors from illegally obtaining company trade secrets.

Companies considering outsourcing in China should consider that trade secrets may be difficult to contain and that patent protection may be the better option. In this case, a provisional application should be

filed in the United States for some of the trade secrets (those that can be readily reverse-engineered or otherwise revealed to competitors). Then, on the first anniversary of the provisional application, file a PCT (or simply a direct Chinese) application.

To be sure, obtaining a patent in China on a process or product that was formerly protected by trade secret will not provide rights that can be enforced in the United States, so Chinese enforcement must be relied upon to protect the American market. But if protecting the European and Japanese markets is important, then parallel process patents for Japan, Germany and other key European countries should be sought along with the Chinese patent: Importation into Japan or Europe of a product produced in China via a process patented in Japan or Europe will be the basis for a patent infringement action in Japan or Europe.

8. Chinese 18-month patent publications should be monitored

Chinese patent activity of Chinese competitors must be monitored to ensure that these competitors are not creating their own patent portfolio that could be used to block an American company from using its own technology.

Major patent offices of the world routinely publish all (or, in the United States, most) patent applications at or shortly after 18 months from the first filing.

Today, major companies monitor their home-country publications on the theory that most major inventions filed in, say, China also would be filed in the United States. Thus, finding a relevant US application published by a third party may point to parallel Chinese applications. But the flaw in this theory is that a Chinese company seeking protection only in China will have only a Chinese national application published in this manner (the publication would be produced, of course, in the Chinese language and only in China). Therefore, to supplement current patent-monitoring services that typically focus upon patent activity in the United States, Europe and Japan, a parallel search should be regularly conducted on Chinese-owned Chinese applications that do not have counterpart Western filings.

9. Prompt SIPO action is needed to deal with patent appropriation

As soon as it is discovered that a competitor has wrongfully filed a patent application to cover a company's product, prompt action must be taken at the State Intellectual Property Office (SIPO), the Chinese IP office.

As with even other first-to-file foreign countries, there is a 6-month grace period to commence an action against someone who wrongfully appropriates an invention and files a patent application in his name. Or, where it is discovered that a competitor has filed a patent application (or, even worse, gained a patent) on technology that the company has long practiced, steps such as filing an invalidation petition should be taken at the SIPO to invalidate the competitor's patent position.

10. Hands-on, patent-experienced Chinese business counsel is necessary

Only patent-experienced experts with a strong knowledge of the Chinese patent system can provide optimum counsel for managing Chinese patent problems. A Western company with a large patent staff would do well to send one of its experienced members – preferably someone with knowledge of Chinese customs and who can speak Mandarin – to Shanghai or Beijing for several years to gain hands-on experience.

All too often, Chinese matters are left in the hands of a Western expert with no China expertise or a Chinese expert with no patent expertise. Companies should be aware that 'IP' experts in China may have no specific patent experience; their specialty may be in

copyrights and trademarks, and there is little, if any, nexus between expertise in these fields and patent law.

REFERENCE AND NOTE

1. Reid, D. M. and MacKinnon, S. J. (2008) Protecting Your Intellectual Property in China. The Journal Report produced with the *MIT Sloan Management Review*, p. R4, *The Wall Street Journal* (10 March) (herein: 'MIT Sloan Report').

2. Since 8 June 1995, the United States Patent and Trademark Office (USPTO) has offered inventors the option of filing a provisional application for patent, which was designed to provide a lower-cost first patent filing in the United States. If applicants file a corresponding regular application within 12 months after the provisional application filing date, they are entitled to claim the earlier provisional application filing date as the date of filing the regular application.