
3a. A Comparative Study of the Chinese Patent Law Practice
Part I: Obtaining a Chinese Patent

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[Editor's note: Part I of this study focuses on comparing the patent application process in China and in the Unites States. Part II, to be published in the next English issue of Perspectives *in March 2006, will discuss patent litigation and present case studies involving cross-border patent disputes.]*

Background

It has been twenty years since China's first patent law was promulgated in 1984. Twenty years ago, few people had heard of the word "patent", not to mention its legal implications. During the past two decades, however, the patent law has received much more attention from the public and the government and it is becoming an increasingly urgent topic in the development of a modern Chinese economy. By March 17, 2004, the total number of patent applications filed at the Chinese Patent Office surpassed two million. And the number of patent applications has been increasing at an annual rate of 23% over the past four years.[1]

The modern patent system in China, to a certain degree, owes its birth to the late Chinese leader Deng Xiaoping. When the Communist government decided to reform its staggering economy in 1978, there was a fierce debate among the high-ranking officials as to whether China should establish a patent protection system. The crux of this debate was that patent right is an exclusive property right and it leads to economic monopoly, which was deemed capitalistic. Furthermore, the Chinese economy was a state-planned economy, meaning that the primary relationship between different businesses was cooperative instead of competitive. Therefore, anyone who proposed the adoption of a patent protection system was to take the political risk of being labeled as promoting capitalism in early 1980's, a grave charge at that time.[2] Another objection to having a patent system was that it would inevitably open the door to patents obtained by foreign applicants which would take over the Chinese market when the state-owned enterprises were not strong enough to survive the competition.

Deng, a political pragmatist, was more concerned about how to move the nearly collapsed Chinese economy forward after the Cultural Revolution. Fortunately, he had sufficient political mandate to brush aside the orthodox ideological challenge against establishing the patent system. The concern over the survival of the Chinese enterprises was relatively more realistic due to the gigantic technological gap between the western countries and China. If there was no appropriate protection for the local enterprises, especially the large number of state-owned enterprises, an economic instability may bear the potential of escalating into a political turmoil.

Deng himself had gained first-hand experience with respect to the necessity of a modern patent protection system. For instance, whenever he attempted to encourage foreign business leaders to bring their state-of-the-art technologies into the Chinese market, they almost universally brought up the issue of how the Chinese government would effectively protect their technologies.

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[1] Yan, Wenjun, "A ladder to the kingdom of patent law – A book review", available at http://www.chinalawpress.com/newsdetail.cfm?iCntno=281 (last visited November 20, 2004).
[2] China Intellectual Property News, "Deng Xiaoping is essential to the establishment of Chinese patent system", available at http://www.sipo.gov.cn/sipo/zscqb/yaowen/t20040824_32885.htm (last visited November 20, 2004).

Through these discussions, Deng had gradually realized that a patent protection system is critical to a country in desperate need for new technologies from other countries.[3]

Expanding the legal protection to every aspect of the Chinese society requires long-term and systematic efforts to transform China from a country governed by officials to a country governed by the law. In this regard, the establishment of a modern patent system is not only necessary for the technology transfer but also critical in aligning the Chinese economy with the international economic protocol.

Admittedly, there are both pros and cons associated with establishing a patent system. In the short term, some of the Chinese enterprises may be forced out of the market because their product lacks patent protection or has infringed on a product manufactured by a patent-owning domestic or foreign business. Nonetheless, the Chinese enterprises, in the long run, will realize that the best strategy is not to seek government protection, but to learn how to use the patent system effectively to protect themselves in both domestic and foreign markets.

Due to the sheer volume of trade between China and the United States, patent protection, or to put it more broadly, intellectual property (IP) protection has been and will remain an economic, legal and diplomatic "hot potato".[4] This report attempts to address several major aspects of the Chinese Patent Law practice, namely, patent prosecution, patent litigation and patent enforcement with an emphasis on the comparison between the Chinese Patent Law system and its American counterpart. Since China is a civil law country and the U.S. is a common law country, this comparison will reveal many interesting topics in different areas of the patent law practice. A clear and in-depth understanding of these topics will enable legal professionals from both countries to provide more thoughtful advice to their clients who are interested in protecting their intellectual property in China.

This study discusses the recent patent law practice in the consumer electronics and the pharmaceutical product industries which are more interesting to the U.S. companies seeking to expand their businesses in China. Although many hurdles remain on the Chinese side to overcome to reach the level of IP protection in the United States, patent protection, an important form of IP right, has been accepted by the Chinese society and will play a more and more pivotal role in the development of the Chinese-styled market economy.

An Overview of the Chinese Patent Law

Since its first promulgation in 1984, the Chinese Patent Law has been amended twice in 1992 and 2000, respectively. The primary goal behind these amendments was to align China's patent law with a number of important international treaties, including the World Intellectual Property Organization (WIPO), the Patent Cooperation Treaty (PCT), the Trade-Related Aspects of Intellectual Property Rights (TRIPS) and the World Trade Organization (WTO). Today, among all IP-related statutes, the Chinese patent law is the one that is closest to the requirements specified in TRIPS.

[3] Wu, Boming, "The improvement of Chinese patent system providing effective protection for the technical creativity in the 21st Century", available at http://www.gzipo.gov.cn/article/Article_Print.asp?ArticleID=85 (last visited November 20, 2004).
[4] Yang, Guohua, "The Impact and Revelation of Sino-U.S. Intellectual Property Negotiation", available at http://www.saic.gov.cn/redshield/xw/2000/zx/zx62.htm (last visited November 20, 2004).

Historically,[5, 6] the Chinese Patent Law drew a lot of influence from European patent law. For example, the Chinese Patent Law recognizes three types of patents, namely, invention, utility model and design.[7] The invention and design patents are equivalent to the utility and design patents in the U.S. But the utility model patent, which provides limited protection for improvements relating to shape or structure, does not have a real counterpart in the U.S. patent law. As will be mentioned below, the utility model patent can be viewed as analogous to the provisional patent application in the U.S. from an *operational* perspective. This paper will not cover the design patent but will focus on the invention and utility model patents.

The trend of globalization and the dominant role of the U.S. economy have forced other countries to seek consistency with the patent law practice in the United States. China, as an increasingly important member of the global economy and a significant trade partner with the U.S., is under constant pressures, internally and externally, to adjust its own patent law practice. Many lawyers trained in the U.S. law firms and/or law schools on the subject of patent law are currently practicing in China. The U.S. case law, especially the patent litigation theory, has a tremendous impact upon the Chinese patent law practice. Almost all the major American patent law doctrines such as the doctrine of equivalents, prosecution history estoppel, and the all-limitation rule have been adapted by Chinese.

Since China re-opened its door in 1979, more and more U.S. companies have taken the Chinese market into their account when developing their global patent protection strategies. Today, the number of patent applications filed by U.S. companies at the Chinese Patent Office is second only to Japan. If China can make substantial progress on its patent enforcement practice, it will definitely see more U.S. high-tech companies willing to seek patent protection in China, especially in the field of bio-technology.

Meanwhile, China cannot merely transplant the entire U.S. patent protection system. It has to consider the reality when deciding what to adopt from the U.S. patent law practice. For example, the Chinese Patent Law does not grant patent to methods of diagnosing or treating diseases.[8] An underlying policy concern is that China traditionally never gave an individual's proprietary right the same level of respect as it does to the life of a human being.[9] It is viewed almost insane to allow an inventor to monopolize a medical treatment, no matter how much creative effort he has made. Because of this philosophical reason, any effort to enforce such a right will be in vain even if the Chinese Patent Law grants protection to such inventions. Same reason explains why the Chinese Patent Law recognizes compulsory licensing. A whole chapter, Chapter 6, of the Chinese Patent Law is devoted to the issue of compulsory licensing. This situation is easier to apprehend in light that there was no specific article in the Chinese Constitution protecting private property until 2004.[10] In contrast, the U.S. has a long tradition of sanctioning an individual's private property.[11] Therefore, it is important to interpret the Chinese Patent Law in the context of

[5] In the early 80's, Germany and Japan are major developed countries that imported modern technologies into China. Due to its Cold War strategy, U.S. has restricted its companies from providing high-tech products to China. Therefore, before drafting its first patent law, China has sent a large number of people with various technical backgrounds to Germany and Japan to study their patent systems.
[6] Traditionally, China is classified as a civil law country, not a common law country.
[7] See Patent Law of the People's Republic of China, Article 2.
[8] See Patent Law of the People's Republic of China, Article 25, Section 3.
[9] There is a traditional Chinese proverb "A person's life is as big as heaven."
[10] See Chinese Constitution, in its most recent amendment passed on March 14, 2004, for the first time, stipulates that a citizen's legally acquired private property is under the protection of the Constitution (see Article 13). However, the same article also allows the government, based on the public interest, to condemn a citizen's private property with certain compensation.
[11] See U.S. Constitution, the 5th Amendment.

Chinese history and culture in order to have an in-depth appreciation of Chinese patent protection system.

The United States Patent and Trademark Office (USPTO) is only responsible for examining and granting patents. The USPTO is not vested with any authority to adjudicate any patent infringement dispute. Nor is it in charge of enforcing a court decision. The U.S. federal court system (including the district courts, the Court of Appeal of the Federal Circuit and the U.S. Supreme Court) owns the exclusively power to adjudicates patent-related civil lawsuits and the federal and state law enforcement agencies are responsible for enforcing relevant court decisions.

China has a dual-track structure in patent enforcement, i.e., the judicial enforcement and the administrative enforcement. The Chinese Patent Office (CPO), which has recently been merged into the State Intellectual Property Office (SIPO), is an agency in the central government responsible for examining and granting patents. Meanwhile, the CPO has its own branches at different levels of local governments such as provincial or municipal governments. These local branches are responsible for both adjudicating patent disputes and enforcing judicial decisions within their respective jurisdictions. In other words, it seems that local CPO branches have been given more power than the CPO itself. One possible explanation is that these local branches are also part of the local governments which may give them additional authority.

If a party is not satisfied with a local CPO branch's decision, it may file a lawsuit in a designated People's court within the same jurisdiction. From the beginning of the establishment of its patent system, the Chinese government has recognized the complexity of patent disputes and the relative incompetence of many judges sitting on the bench of the People's court at different levels. To enhance public confidence in the court decisions, the Supreme People's Court has chosen a number of courts located primarily in the coastal region for trying patent cases.[12] After two decades' experiments, this approach has proved to be critical in achieving consistency among the courts.

The following sections will address several topics concerning various aspects of the Chinese patent law practice including patent prosecution, patent litigation and foreign-related patent enforcement by providing a comparison between Chinese and the U.S. patent law practice.

Patent Prosecution

Patent prosecution refers to the procedures required for obtaining an issued patent. As mentioned above, China's patent system is primarily based on the European patent system making its patent prosecution practice relatively akin to that of Europe than to the U.S. Below are a few subsections covering six major differences between Chinese and the U.S. patent prosecution.

<u>"First to file" versus "first to invent"</u>

China, like almost all industrial countries in the world, grants a patent to an applicant who *first files* the application at the Chinese Patent Office provided that all other patent-granting requirements are met. In contrast, the U.S. grants the patent to an applicant who *first makes the invention* even if this applicant is not the person who first submits a patent application on the same invention to the USPTO.

[12] Jiang, Zhipei, "A study on certain issues related to patent litigation", available at http://www.chinaiprlaw.com/fgrt/fgrt66.htm (last visited November 20, 2004).

From a purely legal perspective, the "first to invent" system seems to be more justifiable since a patent represents an invention that solves a real-life problem, not the application which is nothing more than a legal document. However, from an administrative perspective, the "first to file" approach is more practical in a country like China. The "first to file" approach is judicially efficient and a court can easily determine who is entitled to the patent. By contrast, if adopting the "first to invent" approach, the Chinese courts would see increased disputes about which entitlement to a patent when there are multiple applications over the same invention, therefore driving up the costs of law suits and creating complexity beyond the competency of the courts.

A two-step examination process

In China, a patent application needs to pass a two-step examination process to become an issued patent. The first step is called "formality examination" during which a patent examiner checks the formality of the patent application. If there is any formality-related problem, e.g., missing of drawings, the patent examiner will notify the applicant and request an appropriate amendment. If the patent application has satisfied all formality requirements, the CPO will publish the application in about 18 months from the application's filing date.[13] The USPTO also has formality requirements for a patent application. A patent application has to meet those requirements to be considered a valid patent application.

What differentiates China and the U.S. is the second step, "substantive examination." In the U.S., a valid patent application is classified into an art unit in the USPTO and then assigned to a particular patent examiner, who will examine the substance of the patent application assigned to him in a chronological order. A U.S. patent application automatically enters the stage of substantive examination even though there is no such term or the like in the USPTO's manual.[14]

In China, a valid patent application does not enter the substantive examination automatically. To initiate the substantive examination procedure, an applicant must expressly request substantive examination within three years from the application's filing date or priority date if priority is claimed. Otherwise, the CPO will deem the application has been withdrawn.[15] Therefore, in order to expedite the patent prosecution process, an applicant may request early publication (which carries no extra official cost) by filing an early examination request soon after its application has passed the formality examination.

As prosecuting a patent application becomes more expensive and the examination period becomes longer, there is no sound reason for a patent applicant to submit a patent application and withhold it from entering the stage of substantive examination, in light that there is no additional charge. Probably as an attempt to solve this paradox, Article 35 of the Chinese Patent Law was amended in 1992 allowing the patent office to initiate the substantive examination of a patent application if it deems necessary.

This two-step examination procedure was copied from the European patent law. The Chinese legislature should consider merging these two steps into one in the future so that the patent office will automatically conduct a substantive examination of every valid patent application.

[13] See Patent Law of the People's Republic of China, Article 34.
[14] See "Manual of Patent Examining Procedure" by United States Patent and Trademark Office, available at http://www.uspto.gov (last visited November 20, 2004).
[15] See Patent Law of the People's Republic of China, Article 35.

What constitutes a sufficient disclosure?

The U.S. patent law promulgates three specific disclosure requirements for a U.S. patent application, they are: (1) enablement; (2) best mode; and (3) written description of the invention.[16] Both the first and the third requirements have respective counterparts in the Chinese Patent Law.[17] Satisfying these disclosure requirements is of paramount importance because a disclosure-related defect cannot be easily cured. If an application is deemed not satisfying the sufficient disclosure requirement, the rejection cannot be overcome by any supplemented technical contents other than prior art submitted by the applicant after the filing date. The primary goal of the sufficient disclosure requirement is to put the public in "possession" of the invention, by providing to persons of ordinary skill in the art a detailed description of how to make and use the invention without undue experimentation.

The Chinese Patent Law does not have the best mode requirement or its equivalent, which requires that an applicant disclose the best way of making or using the invention known to him on the filing date of the patent application. Unfortunately there is very little case law in the U.S. that elaborates the policy rationale behind this best mode requirement. Even though the U.S. patent law does not require a PCT application satisfy the best mode requirement when the PCT application enters national stage, it is always a good practice to pay a close attention to the best mode requirement when drafting a patent application in Chinese or translating a patent application from Chinese into English.

No *Hilmer* rule under the Chinese Patent Law

A controversial part of the U.S. patent law is the rule illustrated in *In re Hilmer*.[18] The nutshell of the *Hilmer* rule is that when a U.S. patent (or published application) is being relied upon as a prior art reference under 35 U.S.C. §102(e), its effective filing date is its U.S. filing date, not any prior foreign priority date which was claimed during the course of obtaining the U.S. patent. Under the *Hilmer* rule, a U.S. patent application is only allowed to use its foreign priority date for the purpose of obtaining a U.S. patent, not as a valid prior art reference in order to defeat another patent application. Since most foreign patent applications filed at USPTO have already been filed at their own countries, the *Hilmer* rule sets a serious limit upon the power of foreign patent applications in both patent prosecution and litigation.

For example, under the *Hilmer* rule, there can be two valid U.S. patents A and B by different inventors having the same coverage, patent A filed by a U.S. inventor on January 1st, 2000, and patent B filed by a German inventor on February 1st, 2000, which claims its German filing date February 1st, 1999 as its U.S. priority date. If the U.S. inventor files a lawsuit against a party for infringing his U.S. patent A, the alleged infringer cannot use U.S. patent B to invalidate U.S. patent A even though B does have an earlier priority date. Therefore, the *Hilmer* rule has long been criticized as a form of discrimination against foreign inventors.

The Chinese Patent Law does not have anything similar to the *Hilmer* rule. Both domestic and foreign patent applications are treated equally when determining which one has an earlier priority date for either patent-procuring or patent-defeating purposes. Under Article 29 of the Chinese Patent Law, a patent application for an invention or utility model patent can claim its foreign filing date as its Chinese patent application's priority date if it was filed within 12 months from

[16] See 35 U.S.C. §112.
[17] See Patent Law of the People's Republic of China, Article 26, Section 3.
[18] See 35 U.S.C. §102(e).

the foreign filing date, and this priority date is treated as the application's effective Chinese filing date under Article 22 of the Chinese Patent Law. Therefore, the aforementioned scenario will not likely happen in China because it is impossible for patent A to be granted because it has been fully anticipated by patent B. Even if both patents A and B have been issued for unknown reason, an alleged infringer can successfully invalidate patent A since B has an earlier priority date.

Loss of right under the Chinese Patent Law

An important subject under 35 U.S.C. §102 is loss of right, which refers to the scenario that an inventor's certain conduct may deprive him of the right to obtain a U.S. patent for his invention. For example, under 35 U.S.C. §102(b), if an invention has been described in a printed publication in any country or if the inventor has put his invention in public use or on sale more than 12 months prior to the filing date of a corresponding U.S. patent application to the invention, the inventor is deemed having forfeited his right to obtain a U.S. patent. This 12-month period can also be interpreted as a grace period provided by the U.S. patent law during which the inventor can exploit the commercial prospect of his invention without losing the right to get a U.S. patent. If the inventor finds little interest in his invention, he may drop the idea of filing a U.S. patent application and therefore save some money for other purposes. This is an attractive option for many individual inventors who are more likely to be cost-sensitive.

It should be noted that the European patent law does not provide a grace period before an applicant loses his right to patent protection. Under European patent law (which is also based on the '*first to file*" doctrine), any public use or on sale activity of an invention prior to the filing of a corresponding application will deprive the inventor the right to obtain a patent.[19] Therefore, it is a little interesting to find that the Chinese Patent Law differentiates itself from the European practice by offering a grace period to inventors.[20] This, however, may reflect that China, when establishing its own patent law, has tried to incorporate some features of the U.S. patent law instead of transplanting the whole European patent system.

But the grace period in the Chinese Patent Law is not as generous as its counterpart in the U.S. patent law. First, the grace period is cut in half from 12 months to 6 months. Second, the inventor is only allowed to show his invention in international exhibitions sponsored or recognized by the Chinese government or publish his invention on certain predetermined academic or technological conferences.

There are several reasons why an inventor is only allowed to "debut" his invention in international exhibitions. First, the international exhibitions are the most common forum for foreign companies to introduce their products or technologies to Chinese customers. Limiting the venue to international exhibitions does not seriously restrict the foreign companies' ability to explore the Chinese market before seeking a Chinese patent. Secondly, evidence discovery in China (in particular, the authenticity of a piece of evidence) is a challenge for any inventor to demonstrate that he has not lost his right to obtain a patent if there is no venue limitation. Under the "first-to-file" principle, an inventor often has little motivation to document his invention-related activities including commercialization efforts. To prevent an inventor from deliberately extending his exclusive right beyond the 20-year term limit, the Chinese Patent Law requires that only international exhibitions be acceptable venues for demonstrating inventions to which

[19] Heinz Goddar, "Obtaining patents in Europe," a handout prepared for the course "European Patent Law Practice" taught at Santa Clara University School of Law (July 13-15, 2004).
[20] See Patent Law of the People's Republic of China, Article 24.

inventors may file patent applications subsequently. Although this is not an ideal solution, it at least provides an objective standard to determine the inventor's activity prior to his filing date.

This policy is also deemed an encouragement for scientists to pursue patent protections for their research results. Like in the U.S., the golden rule in the Chinese academic community is "publish or perish." Researchers are generally more interested in publishing their research results than filing a patent application. Without the 6-month grace period, a researcher will be barred from filing a patent application under Section 2, Article 22 of the Chinese Patent Law.

Miscellaneous

As mentioned above, the utility model patent does not have a counterpart in the U.S. patent law and the Chinese Patent Law does not have the concept of provisional application as the U.S. patent law does. However, an application for a utility model patent, in more than one respect, is similar to a provisional patent application in the U.S. patent law.

First, there is no substantive examination of an application for a utility model patent. Upon receipt of a utility model patent application, the patent examiner is only responsible for conducting a formality examination. As long as there is no formality defect, the application will be granted in a year. Similarly, a provisional patent application that has met the formality requirements will not be examined by the USPTO's patent examiner. As long as it has met the formality requirement, the USPTO will issue an official registration number for the provisional application.

Secondly, as a commonly adopted strategy, an inventor may first file a utility model patent application, then file an application for an invention patent directed to the same subject as the utility model patent application within 12 months before the utility model patent is issued and subsequently abandons the utility model patent application. In U.S., the inventor, through filing a provisional patent application, has an additional 12 months to decide whether to file a utility patent application (which is equivalent to China's invention patent application). If the inventor files a utility patent application within 12 months, the provisional application will be treated as having been abandoned by the inventor.

On the other hand, there are some important differences between the two concepts. First, the utility model patent application, if not withdrawn, will be granted eventually. In contrast, a provisional application only serves as a placeholder for 12 months. After that, it will expire if the inventor does not file a utility patent application. Second, the benefit of a provisional application is that the inventor can claim the filing date of the provisional application as the priority date of the corresponding formal application. But according to the Chinese Patent Law, the subsequent invention patent application cannot claim the initial filing date of the utility model patent application as its priority date. From this perspective, the utility model patent in the Chinese Patent Law does not seem to be as useful as the provisional patent application in the U.S. patent law.

Finally, the U.S. patent law has a unique reissue procedure.[21] Reissue is an administrative procedure conducted by the USPTO to correct an issued patent that suffers from certain errors that must have occurred without any deceptive intention. Reissue gives an invention a chance to broaden the coverage of the originally issued patent if he erred by "claiming less than he had a right to claim in the patent" and wants to obtain claims of broader scope than those appearing in

[21] See 35 U.S.C. §251. AO

the issued patent. Of course, such broadened claims must be supported by the original patent application's specification in accordance with 35 U.S.C. §112 and it has to be filed within two years of the issuing date of the original patent. The Chinese Patent Law does not have a reissue procedure. Nor does it allow any attempt of broadening the scope of any pending claim. This is consistent with the European patent law practice; that is, any amendment to a pending claim is supposed to narrow (or at least not broaden) its coverage. Therefore, an applicant who wants to obtain a Chinese patent must be very cautious when drafting the original claims because he or she has no way to recover any unintentionally forfeited right.

When comparing this restriction with the so-called "redundant elements" principle discussed in Part II below, there seems to be an inconsistency between China's patent prosecution practice and its litigation practice on the issue of a patent prosecutor's lack of experience. On the one hand, a patent prosecutor is not given a second chance of correcting his mistake no matter how innocent he is; on the other hand, his mistake such as adding a redundant and non-critical element to an independent claim may be forgivable during litigation simply because he does not have sufficient patent prosecution experience. Although this inconsistency has not yet caught a lot of attention from practitioners, Chinese legislative should resolve this issue in the future when it has a chance to revisit the Chinese Patent Law. China can adopt a procedure like reissue in the U.S. given that China does not have many well-trained patent drafting professionals.

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