

Patently Speaking: Failure To Heed IP In China Can Be Costly

By Ram Deshpande and Alok Aggarwal

Introduction

Schneider Electric, a provider of power and control solutions headquartered in France, recently announced it had settled a three-year-old patent litigation with Chint, one of the largest manufacturers of low-voltage devices in China. The settlement amount of CNY 157.5 million (about USD 23 million) paid by Schneider is believed to be the largest for a patent litigation settlement in China. The decisive victory for Chint puts a fresh spotlight on the fast-changing patent litigation landscape in China.

Chint originally paid CNY 500 (about USD 70) in 1997 in filing fees for the utility model application at the State Intellectual Property Office (SIPO) of China. The utility model was granted in a little over 15 months without undergoing any substantive examination. The Chinese patent office grants three types of patents:

- Invention patents or 20-year patents, which are similar to utility patents in the US and cover new technical solutions that relate to a product, a process or an improvement thereof;
- Design patents;
- Utility models or 10-year patents. The utility models are granted for ‘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’ and do not undergo a substantive examination and are granted rather quickly, typically within a year from the filing date. Evidently, utility models or 10-year patents are a cheaper and quicker way of obtaining patent protection.

Armed with its 10-year patent, Chint sued Schneider in 2006 and was awarded the landmark judgment in 2007. The Wenzhou Intermediate People’s Court ordered Schneider to pay over CNY 330 million (about USD 45 million) and to stop the manufacture and sale of five of its products that allegedly infringe Chint’s utility model.

An embattled Schneider Electric moved the Chinese Patent Re-examination Board to invalidate the utility model by providing evidence to prove that the technology covered in Chint’s utility model was not novel and hence not legally enforceable. The Board disagreed with Schneider Electric’s contention.

Schneider Electric’s attempt to overturn the Board’s decision failed when the Beijing Higher People’s Court agreed with the Board’s decision and upheld the validity of Chint’s utility model in March 2009.

Two companies settling a patent dispute may be commonplace elsewhere, but in China this is big news. While many multinational companies operate in China, not many have had the embarrassment of being accused and punished for patent infringement. One should not assume that the courts might rule in a pro-Chinese direction only, as it should be noted that a number of non-Chinese companies have been successful in defending their intellectual property rights

within the country. For example, Philips Electron Corp., Ltd., was able to invalidate utility models granted to a Chinese patentee, Yang Weijiang, relating to its shaver technology. In 2007, Yamaha Corporation of Japan was awarded over one million U.S. dollars for trademark infringement by three Chinese companies: Zhejiang Huatian Industrial Co. Ltd., Taizhou Jiaji Motorcycle Distribution Co. Ltd. and Taizhou Huatian Motorcycle Distribution Co. Ltd.

Paving The Path For Others To Follow

Chint’s success in defending its utility model provides an excellent example of what other Chinese and multinational firms in China need to do more of. First and foremost, companies should take utility models seriously – these instruments can yield powerful results. Firms should track utility models filed by their competitors, include these in their prior art studies and licensing analysis, and consider leveraging this form of intellectual property (IP) protection for their own Chinese patent portfolio. More than 99% of utility models are currently filed by Chinese domestic companies, indicating that multinational

■ **Alok Aggarwal**
Evaluserve, Chairman and
Co-Founder
Saratoga, California, USA
E-mail: alok.aggarwal@evaluserve.com

■ **Ram Deshpande**
Evaluserve, Assistant VP and
Head, IP Division
Shanghai, China
E-mail: ram.deshpande@evaluserve.com

firms have largely ignored this tool for patenting their inventions.

Utility models will not be able to shake off their much derided “junk” status overnight, but companies doing business in China can no longer ignore these 10-year patents. Given the Schneider-Chint patent case, claims that utility model patents are always of low quality may ring hollow.

Look Before You Leap

IP awareness among Chinese companies is rising and multinational firms must take all aspects of IP seriously. The State Intellectual Property Office of China has taken policy steps toward fostering innovation. Intellectual Property-related practices of multinational companies operating in China have also had a positive influence. Consequently, Chinese companies are becoming aggressive with IP enforcement. Holley Communications of Zhejiang Province in China was successful in securing compensation of CNY 50 million (~ USD 8 million) from Samsung for infringement on Holley’s patents relating to GSM/CDMA dual-mode handsets.

There is an important lesson from the recent cases for companies operating in China. As would be prudent practice in any other jurisdiction, companies should check their ‘freedom to operate’ (FTO) and identify potential litigation risks before entering the Chinese market. Native-language speakers should conduct thorough patent searches on the SIPO online database, and experienced patent professionals should analyze relevant patents. If any patents are found to overlap a company’s products after a patent-product mapping exercise, this information should be incorporated into the company’s China business and risk-management strategy.

While a machine translation of Chinese languages is offered by commercially available databases, such information sources have inherent disadvantages in terms of accuracy and completeness. A proper analysis requires well-trained multi-lingual professionals to search the native databases in order to conduct FTO studies that will help in assessing potential litigation risks before any substantial investments.

Clearly, filing utility models is a strategy that should be explored by non-Chinese companies. Domestic Chinese companies are doing this, and are benefitting from it. Utility models are quick and inexpensive, and may play an important role in the protection of peripheral, non-core IP. Another China-specific strategy is to file both utility model and invention applications for a disclosure, and eventually abandon the utility model when the 20-year patent is granted in order to prevent ‘double-patenting’.

A New Trend?

China has experienced a surge in patent filing since 2001. In 2008, 828,328 patent applications were filed at the SIPO (289,838 20-year invention applications, 225,586 10-year utility model applications, and 312,904 design patent applications). Domestic Chinese companies filed 86.6% of all patent applications.

The number of 20-year applications already makes China the third-largest patent filing jurisdiction after the U.S. and Japan. If the current rate of growth in patent applications continues, China will surpass the U.S. by 2012 or soon thereafter. China has already surpassed the U.S. in the number of patent infringement litigations: 4,041 first-instance civil cases in 2007 to 2,896 in the U.S. Specific statistics about how many of these litigations were based on utility models is not available. The number of litigations relating to all types of Intellectual Property (patents, trademarks, copyrights and others) in China was 23,518 in 2008, which is a 35% increase over 2007. In 1,139 of these litigations, a foreign company was either the plaintiff or the defendant, which is more than triple the number in 2006.

Available filing statistics indicate that Chinese companies are increasingly becoming aware of IP matters and are realizing the power of protecting IP through filing at the SIPO and foreign jurisdictions. Litigation statistics suggest that Chinese companies are increasingly becoming more aggressive with patent enforcement and non-Chinese companies operating in China have started to feel the heat. As the case of *Chint vs. Schneider* shows, ignoring or not planning one’s IP strategy in China can cost companies dearly. ■