

A PRACTICAL GUIDE TO CHINESE PATENT LAW

*Cynthia Smith**

TABLE OF CONTENTS

I.	INTRODUCTION	643
II.	HISTORY	644
III.	TYPES OF PATENTS AND SCOPE OF PROTECTION ...	649
IV.	PATENTABLE SUBJECT MATTER	650
V.	PROCEDURES FOR OBTAINING A CHINESE PATENT	653
VI.	APPLICATION PROCESS	654
VII.	JUDICIAL AND ADMINISTRATIVE SYSTEM OF PATENT ENFORCEMENT	658
VIII.	HOW TO PLAN AHEAD TO MAXIMIZE PROTECTION	661
IX.	CONCLUSION	664

I. Introduction

China is a country with a reputation for neither protecting nor acknowledging intellectual property rights.¹ This reputation came as a result of decades of blatant piracy of products with patent, copyright, and trademark protection around the world.² Consequently, many large corporations have been reluctant to invest in the Chinese economy, believing that any benefit obtained would be far overshadowed by the potential loss of valuable intellectual property.³ Additionally, the lack of intellectual

* Candidate, J.D., Seton Hall University School of Law, May 2006; admitted to practice before the United States Patent and Trademark Office.

¹ Ramona L. Taylor, *Tearing Down the Great Wall: China's Road to Accession*, 41 IDEA 151 (2001).

² Andrew Evans, *Taming the Counterfeit Dragon: The WTO, TRIPS and Chinese Amendments to Intellectual Property Laws*, 31 GA. J. INT'L & COMP. L. 587, 588-91 (2003).

³ Robert Bejesky, *Investing in the Dragon: Managing the Patent Versus Trade Secret Protection Decision for the Multinational Corporation in China*, 11 TULSA J. COMP. & INT'L

property protection arguably stifles innovation in China, stunting the growth of research and development of new technologies in China.⁴

Due to changes in recent years, Chinese patent law has begun to resemble the patent law of many industrialized nations.⁵ These amendments, coupled with the development and modernization of the judiciary, substantially improved patent protection.⁶ While these improvements do not address all of the difficulties associated with obtaining adequate protection and enforcement of patent rights, there is substantial evidence that China has a well-developed system of patent law and is committed to its continued modernization.

II. *History*

On December 1, 2001, the World Trade Organization ("WTO") formally admitted China as a member.⁷ China's admission into the WTO included its ascension to the Agreement on Trade-Related Aspects of Intellectual Property Rights ("TRIPS"), the leading treaty on intellectual property rights and protections.⁸ TRIPS obligates signatories to provide minimal standards of protection for holders of patents, trade secrets, trademarks, copyrights, integrated circuit designs, industrial designs, and geographical indications.⁹ In addition, TRIPS requires that members afford each other Most Favored Nation status¹⁰ and national treatment.¹¹ Most Favored Nation status requires, with limited exceptions, "any advantage, favor, privilege

L. 437, 461 (2004).

⁴ *Id.*

⁵ John R. Allison and Lianlian Lin, *The Evolution of Chinese Attitudes Toward Property Rights in Invention and Discovery*, 20 U. PA. J. INT'L ECON. L. 735, 738 (1999).

⁶ Wang Jiafu, *The Construction of a Legal System for China's Market Economy*, 3 WASH. U. GLOBAL STUD. L. REV. 297 (2004).

⁷ Evans, *supra* note 2, at 587.

⁸ DANIEL C.K. CHOW, *THE LEGAL SYSTEM OF THE PEOPLE'S REPUBLIC OF CHINA* 416-17 (2003).

⁹ *Id.* at 417. See also Agreement on Trade-Related Aspects of Intellectual Property Rights, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, art. 27-34, Legal Instruments—Results of the Uruguay Round vol. 31, 33 I.L.M. 81 (1994) [hereinafter TRIPS].

¹⁰ TRIPS art. 4.

¹¹ TRIPS art. 3.

or immunity” granted by a member nation to any other nation to be immediately granted to all other member nations.¹² National treatment requires that member nations treat the citizens of other member nations no less favorably than they treat their own citizens with regard to intellectual property protection.¹³ China’s current patent law meets the requirements set forth in TRIPS and its related treaties.¹⁴

Although a well-developed system of intellectual property protection exists in China, enforcement of the laws has proven to be a significant challenge for the Chinese government.¹⁵ This has added to China’s reputation for not providing intellectual property protection. There are multiple reasons why China has had and continues to have difficulty enforcing intellectual property rights, but one of the most significant is that the concept of intellectual property did not exist in any significant way in traditional Chinese culture.¹⁶ With the exception of certain government-sponsored works and immoral materials, copying was not unlawful under early Chinese law.¹⁷ To the contrary, it was encouraged as an important way to educate the populace.¹⁸ Confucian thought, with its focus on society over the individual, looked down upon the realization of personal profit from creative or academic endeavors.¹⁹ This further distanced Chinese culture

¹² TRIPS art. 4.

¹³ TRIPS art. 3(1). National treatment is also found in other treaties that bind WTO members, including the General Agreement on Tariffs and Trade (“GATT”). See General Agreement on Tariffs and Trade, Oct. 30, 1947, 61 Stat. A-11, T.I.A.S. 1700, 55 U.N.T.S. 194.

¹⁴ CHOW, *supra* note 8, at 417-18.

[China’s] current intellectual legal regime . . . complies in all substantial respects with the requirements of TRIPS and other major international agreements. As a signatory to TRIPS, China is also required to comply with the Paris Convention, the Berne Convention, the Rome Convention and the Treaty on Intellectual Property in Respect of Integrated Circuits.

Id. See also TRIPS, *supra* note 9, art. 2.

¹⁵ Scott J. Palmer, Note, *An Identity Crisis: Regime Legitimacy and the Politics of Intellectual Property Rights in China*, 8 IND. J. GLOBAL LEG. STUD. 449, 450 (2001). “[China] has created an elaborate U.S.-inspired intellectual property legal regime without the political and social foundations to insure its effective enforcement.” *Id.*

¹⁶ John R. Allison & Lianlian Lin, *The Evolution of Chinese Attitudes Toward Property Rights in Invention and Discovery*, 20 U. PA. J. INT’L ECON. L. 735, 742 (1999).

¹⁷ *Id.* at 743.

¹⁸ *Id.*

¹⁹ *Id.* at 743-44.

from the concept of intellectual property.²⁰ When Mao Zedong came to power, communist ideology reaffirmed and extended the Confucian emphasis on society over the individual.²¹ The Chinese government encouraged copying as a means of providing the masses with access to creative and intellectual works.²² Additionally, the acquisition of private property was outlawed as anti-Marxist.²³

Local protectionism also contributes to China's difficulties in intellectual property rights enforcement. Although the central government in Beijing is responsible for creating laws and policies, enforcement of these laws is primarily carried out at the local level.²⁴ Many local economies are at least partially dependant upon trade that violates China's current intellectual property laws.²⁵ As a result, many local governments have a financial interest in breaking the very laws they are supposed to enforce.²⁶ Additionally, local governments appoint local law enforcement agents and judges, who are likely to bow to pressure from their employers to protect trade and manufacturing that violates intellectual property laws.²⁷

Finally, China's recent history has produced a poor legal system. Mao believed that laws hurt society because they focused on individual rights.²⁸ Consequently, the government did not prioritize development of the law and legal training until China reopened to the world in the late 1970s and early 1980s.²⁹ In effect, China's current legal system has only operated for about twenty-five years.³⁰ Because of the lack of trained lawyers, judges were initially appointed directly from the Chinese Communist

²⁰ Taylor, *supra* note 1, at 4.

²¹ Evans, *supra* note 2, at 589.

²² *Id.*

²³ *Id.*

²⁴ CHOW, *supra* note 8, at 439.

²⁵ *Id.* at 440.

²⁶ *Id.* at 441.

²⁷ Evans, *supra* note 2, at 592.

²⁸ *Id.* at 590.

²⁹ Zhenmin Wang, *Legal Education in Contemporary China*, 36 INT'L LAW. 1203, 1205 (2002).

³⁰ *Retrospect and Prospect, Legal Profession in China—A Discussion with President Gao Zongze of All China Lawyers Association on the Report on the Development of Chinese Legal Profession*, CHINA L., Feb. 2001.

Party and had very little, if any, legal training.³¹ These political appointments weakened an already unsteady legal system and led to inconsistent judgments and a general distrust of the judiciary.³²

Although China has struggled to enforce intellectual property rights, there is substantial evidence that China is moving toward stricter enforcement of intellectual property rights. Some believe that China's entry into the WTO indicates that China is interested in fostering a legal climate that is attractive to foreign investors.³³ But, in reality, China was making progress in that direction prior to its admission into the WTO.³⁴ It is possible, then, that China sought entry into the WTO primarily for the purpose of placing external pressure on the provincial governments and forcing them to comply with the laws promulgated by the central government.³⁵

Improved training for lawyers and judges provide additional evidence of China's commitment to stricter intellectual property enforcement. There are now over 260 law schools and over 60,000 law students in China.³⁶ The Lawyers Law of the People's Republic of China, enacted in 2001, provides that applicants for a lawyer's practice certificate must, among other requirements, pass

³¹ ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT, CHINA: PROGRESS AND REFORM CHALLENGES 112 (2003) [hereinafter ORGANISATION FOR ECON. CO-OP. AND DEVELOP.].

Most of the 200,000 judges in China, except in the major coastal cities where the courts are better established, are drawn from the ranks of retired officers from the People's Liberation Army (PLA) and more than two-thirds have no higher educational qualifications whatsoever, let alone law degrees. The legal system is so new that there is not yet a cadre of experienced lawyers to provide the feedstock for the judiciary; those judges that are legally qualified therefore tend to be recent law graduates.

Id.

³² George O. White III, *Navigating the Cultural Malaise: Foreign Direct Investment Dispute Resolution in the People's Republic of China*, 5 TRANSACTIONS: TENN. J. BUS. L. 70.71 (2003).

³³ ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT, *supra* note 31, at 37.

³⁴ Donald C. Clark, *China's Legal System and the WTO: Prospects for Compliance*, 2 WASH. U. GLOBAL STUD. L. REV. 97 (2003). "Tariffs and non-tariff trade barriers had been steadily dropping prior to WTO entry, while rules on foreign investment were gradually liberalized." *Id.*

³⁵ *Id.* at 98. "[P]art of the whole point of China's joining the WTO — a central government decision essentially imposed on local governments — was to add foreign pressure to existing domestic pressures for reform." *Id.*

³⁶ Wang, *supra* note 29, at 1205.

the national uniform judicial examination and have at least one year of practical legal training.³⁷

The legal community also enjoys greater independence because lawyers are now considered independent professionals and not administrative officials.³⁸ In addition, Xiao Yang, the president of the Supreme People's Court, has publicly acknowledged the importance of an impartial judiciary.³⁹ This type of support for a legal system independent from the political system is an encouraging sign that China is serious about reforming its legal system.

China's protection of intellectual property rights has come a long way in a short time, and the Chinese government is actively putting tools in place to continue this trend. In fact, China recently allowed a representative from the United States to aid in the improvement of its patent law system; Mark Cohen, a representative from United States Patent and Trademark Office, is on a two-year assignment to work with Chinese officials to harmonize intellectual property laws, regulations, and enforcement procedures.⁴⁰ While many foreigners persist in their

³⁷ Lawyers Law of the People's Republic of China, art. 6, 8 (2001), available at <http://www.cecc.gov/pages/newLaws/lawyersLawENG.php> (last visited Oct. 8, 2005).

³⁸ Zhen Dong, *Lawyers No Longer Officials*, CHINA L., Dec. 1994, at 30-32.

³⁹ AMNESTY INT'L, PEOPLE'S REPUBLIC OF CHINA: ESTABLISHING THE RULE OF LAW AND RESPECT FOR HUMAN RIGHTS: THE NEED FOR INSTITUTIONAL AND LEGAL REFORMS (2002), available at <http://web.amnesty.org/library/index/engasa170522002> (last visited Oct. 8, 2005).

In December 2001, the President of the Supreme People's Court, Xiao Yang, stressed that courts should conduct trials impartially and efficiently, and announced a series of measures to improve the professional standards of judges. These measures included amendments to the Law on Judges and new regulations stipulating the procedures to dismiss incompetent or corrupt judges. While announcing the new measures, the Supreme Court President also acknowledged that people's confidence in the judicial system had been seriously harmed by nepotism and bias, particularly in many provincial courts.

Id.

⁴⁰ Press Release, United States Patent & Trademark Office (USPTO), USPTO China Expert Assigned to Am Embassy in Beijing (Sept. 13, 2004) (on file with author), available at <http://www.uspto.gov/web/offices/com/speeches/04-22.htm> (last visited Oct. 8, 2005). Under Secretary of Commerce for Intellectual Property Jon Dudas noted:

The USPTO is proud to assist the Administration's efforts to enhance intellectual property protection in China by sending Mr. Cohen to the

negative views concerning enforcement of Chinese intellectual property laws, others are pleased with the government's swiftness in cracking down on infringement and the improved efficiency of the courts.

III. *Types of Patents and Scope of Protection*

Chinese patent law provides for three different types of patents: invention, utility, and design. This section details the requirements for each type and their scope of protection.

An invention patent is granted for "a new technical solution relating to a product, a process or improvement thereof."⁴² It requires novelty,⁴³ inventiveness,⁴⁴ and practical applicability.⁴⁵ An invention patent grants twenty years of protection from the date of filing.⁴⁶ This protection specifically prohibits production, use, sale,

U.S. Embassy in Beijing. Mark's expertise in intellectual property rights, combined with his knowledge of Chinese language, culture, and law are assets in furthering the Administration's goal of improving the intellectual property environment for U.S. companies doing business in China. We believe this assignment will advance the Administration's work in the region, particularly in addressing the widespread counterfeiting and piracy that cost U.S. businesses billions of dollars in lost revenue and tens of thousands of U.S. jobs.

Id.

⁴¹ Yahong Li, *Pushing For Greater Protection: The Trend Toward Greater Protection of Intellectual Property in the Chinese Software Industry and the Implications for Rule of Law in China*, 23 U. PA. J. INT'L ECON. L. 637, 650 (2002).

⁴² Implementing Regulations of the Patent Law of the People's Republic of China, r. 2 (2001) [hereinafter *Implementing Regulations*], available at http://www.sipo.gov.cn/sipo_English/flfg/zlflfg/t20020327_33871.htm (last visited Oct. 8, 2005).

⁴³ Patent Law of the People's Republic of China, art. 22 (2001) [hereinafter *Patent Law*], available at http://www.sipo.gov.cn/sipo_English/flfg/zlflfg/t20020327_33872.htm (last visited Oct. 8, 2005). Novelty requires (1) no public disclosure in national or international publications; (2) no national public use or knowledge; and (3) no previous domestic filing describing the identical invention or utility model. *Id.* Novelty is not lost as a result of the following occurrences within six months before the date of filing: (1) exhibition at an international exhibition sponsored by or recognized by the Chinese government; (2) public disclosure at an academic or technological meeting; or (3) disclosure without the consent of the applicant. *Id.* art. 24.

⁴⁴ *Id.* art. 22. Inventiveness requires: (1) prominent substantive features and (2) notable progress over the prior art. *Id.*

⁴⁵ *Id.* Practical applicability requires "that the invention can be made or used and can produce effective results." *Id.*

⁴⁶ *Id.* art. 42.

offer for sale, or importation of the item granted an invention patent.⁴⁷

A utility model patent is granted for "any new technical solution relating to the shape, the structure, or their combination, of a product, which is fit for practical use."⁴⁸ It requires novelty,⁴⁹ inventiveness,⁵⁰ and practical applicability.⁵¹ A utility model patent confers ten years of protection from the date of filing⁵² and provides protection against unauthorized production, use, offering for sale, sale, and importation.⁵³

A design patent is granted for "any new design of the shape, the pattern or their combination, or the combination of the color with shape or pattern, of a product, which creates an aesthetic feeling and is fit for industrial application."⁵⁴ It requires uniqueness.⁵⁵ A design patent confers ten years of protection from the filing date,⁵⁶ and protects against unauthorized production, sale, and importation.⁵⁷

IV. Patentable Subject Matter

Although Chinese patent law defines patentable subject matter as described below, it should be noted that interpretation of the law by legislative and administrative agencies has been incomplete and contradictory,⁵⁸ and unlike the United States, court decisions do not contain any legal reasoning or analysis and

⁴⁷ *Id.* art. 11.

⁴⁸ Implementing Regulations, *supra* note 42, r. 2.

⁴⁹ Patent Law, *supra* note 43, art. 22. For further definition of novelty, *see supra* note 43.

⁵⁰ Patent Law, *supra* note 43, art. 22. Inventiveness requires: (1) substantive features and (2) progress. *Id.*

⁵¹ *Id.* For further definition of practical applicability, *see supra* note 45.

⁵² Patent Law, *supra* note 43, art. 42.

⁵³ *Id.* art. 11.

⁵⁴ Implementing Regulations, *supra* note 42, r. 2.

⁵⁵ Patent Law, *supra* note 43, art. 23. A design patent "must not be identical with and similar to any design which, before the date of filing, has been publicly disclosed in publications in the country or abroad or has been publicly used in the country, and must not be in conflict with any prior right of any other person." *Id.*

⁵⁶ *Id.* art. 42.

⁵⁷ *Id.* art. 11.

⁵⁸ CHOW, *supra* note 8, at 170-77.

have no precedential value.⁵⁹ Therefore, investors and legal practitioners should exercise caution in interpreting the following language and should consult with a Chinese lawyer concerning current interpretation of the laws and regulations.

In order for an item to be patented under Chinese patent law, it must be considered patentable subject matter.⁶⁰ Patentable subject matter must have industrial applicability, which means that the item must be made or used in industry and produce effective results.⁶¹ Chinese patent law particularly forbids a patent grant to any invention that is “contrary to the laws of the State or social morality or... is detrimental to [the] public interest.”⁶² The patent law explicitly excludes scientific discoveries from being patented, but does allow for patentability of technical solutions based on scientific discoveries.⁶³ Additionally, rules and methods for mental activities are not eligible for a patent, as they are considered to

⁵⁹ *Id.* at 211-12.

⁶⁰ Wenping Chen & Xun Feng, *The China IP Focus 2003: How to Distinguish Patentable Subject Matter*, MANAGING INTELLECTUAL PROPERTY, Jan. 2003, available at <http://managingip.com/?Page=17&ISS=12709&SID=473279> (last visited Oct. 8, 2005) (explaining how China’s Patent Law, the Implementing Regulations and the Guidelines for Patent Examination limit the scope of patentable subject matter).

⁶¹ Patent Law, *supra* note 43, art. 22. The phrase “can be made or used in industry” is further defined as “any exploitable technical solution that conforms to the laws of nature and possesses technical features.” Chen & Feng, *supra* note 60. “Effective results” are defined as “any economic, technical or social results that can be expected by a person skilled in the art on the date of filing, [and] shall exhibit [a] credible useful purpose.” *Id.* The following types of inventions expressly lack industrial applicability: “[1] [those that] are not repeatable; [2] [those that] are contrary to the laws of nature; [3] [those] relate[d] to products produced under unique natural conditions; [4] [those] relate[d] to surgical operations on human or animal bodies; and [5] [those] relate[d] to methods of measuring physical parameters of human beings under extreme conditions.” *Id.*

⁶² Patent Law, *supra* note 43, art. 5. The following are not patentable because they are considered to be immoral:

- [1] Processes for human cloning and so cloned human beings;
- [2] processes for modifying the germ line genetic identity of human beings;
- [3] uses of human embryos for industrial or commercial purposes;
- [4] processes for modifying the genetic identity of animals which are likely to cause them suffering without any substantial medical benefit to man or animal, and also animals resulting from such processes.

Chen & Feng, *supra* note 60.

⁶³ Patent Law, *supra* note 43, art. 25(1); Chen & Feng, *supra* note 60. “A discovery of a previously unknown substance in its naturally occurring state is not patentable . . . [but] a useful substance isolated from its natural environment is potentially patentable.” *Id.*

lack technical characteristics.⁶⁴ Some computer programs are excluded from patentability, but these exclusions are limited to programs that purely relate to mathematical calculations or involve "methods for processing data that do not represent any physical elements."⁶⁵

Generally, medical treatments and diagnostic methods are not patentable subject matter for reason of being against public policy and for lack of industrial applicability.⁶⁶ There are some important exceptions to this general rule, such as in-vitro diagnosis methods, methods for killing pathogens on the exterior surface of the body, and methods of pure cosmetology.⁶⁷ While

⁶⁴ Patent Law, *supra* note 43, art. 25(2); Chen & Feng, *supra* note 60. Mental activities specifically include:

- [1] methods for examining patent applications; [2] methods of and schemes for management in organization, production, commercialization and economic administration and so on; [3] traffic rules, timetables, games; [4] methods of deduction, reasoning and managing; [5] library classification rules, dictionary-compiling methods, information searching methods, patent classification rules; [6] calendar-coding rules and methods; [7] operating instructions of machine or equipment; [8] grammar of any language, methods for encoding Chinese characters; [9] computer languages and calculating rules; [10] mathematical theories; [11] psychometrical methods; [12] methods of teaching, training and presenting; [13] rules and methods of entertaining games; [14] methods of statistics and accounting; [15] music scores, recipes and chess manuals; [16] methods of doing physical exercises; [17] methods of epidemic investigations and population census; [18] presentation of information; and [19] computer programs *per se*.

Id.

⁶⁵ Patent Law, *supra* note 43, art. 25(2). Programming skills are also not patentable subject matter. *Id.* The following is a non-exhaustive list of computer-related inventions that are patentable: "[1] inventions involving a computer program for controlling an industrial process; [2] inventions for improving performance of operations within a computer; [3] inventions involving a computer program for controlling processes of measurement or test; and [4] [i]nventions involving a computer program for processing external data." *Id.*

⁶⁶ Patent Law, *supra* note 43, art. 25(3); Chen & Feng, *supra* note 60. A diagnostic method is defined as something that is practiced on the human body, the immediate purpose of which is to obtain diagnostic results. *Id.* The method must encompass the entire course of the diagnosis, and may include methods such as x-ray and endoscopic diagnosis. *Id.*

⁶⁷ Patent Law, *supra* note 43, art. 25(3). More specifically, medically-based patentable subject matter includes: (1) methods for acquiring information concerning human or animal bodies that is not for the direct purpose of obtaining a diagnosis; (2) methods for making artificial limbs; (3) methods for slaughtering animals; (4) methods for killing lice, fleas, bacteria, or viruses on the exterior surface

plant and animal varieties are not patentable themselves, their cells are eligible for patent protection under Chinese patent law.⁶⁸

V. *Procedures for Obtaining a Chinese Patent*

The state body primarily responsible for all aspects of patent law within China is the Patent Administration Department under the State Council.⁶⁹ It is responsible for receiving and examining patent applications and granting patent rights under Chinese law.⁷⁰ Assignment of a license or other patent right by a Chinese individual or entity to a foreigner requires additional approval by the appropriate department of the State Council.⁷¹

Under Chinese patent law, any invention-creation made by an employee who mainly uses the materials or technical means of the employer is called a service invention-creation and is owned by the employer.⁷² The employer is given the right to patent the invention-creation,⁷³ while the employee/inventor is given a reward and reasonable remuneration based upon the economic benefits gained from the invention-creation.⁷⁴ Additionally, the

of the body; (5) non-surgical methods for modifying animal growth; (6) new medical uses for a known substance; and (7) methods of pure cosmetology. *Id.*

⁶⁸ Patent Law, *supra* note 43, art. 25(4); Chen & Feng, *supra* note 60.

⁶⁹ Patent Law, *supra* note 43, art. 3.

⁷⁰ *Id.*

⁷¹ *Id.* art. 10.

⁷² *Id.* art. 6. The materials or technical means of the entity refers to money, equipment, spare parts, raw materials or technical data. Implementing Regulations, *supra* note 42, r. 11. A service invention-creation specifically includes any invention-creation made by the employee:

- (1) in the course of performing his own duty; (2) in execution of any task, other than his own duty, which was entrusted to him by the entity to which he belongs; (3) within one year from his resignation, retirement or change of work, where the invention-creation relates to his own duty or the other task entrusted to him by the entity to which he previously belonged.

Id.

⁷³ Patent Law, *supra* note 43, art. 6.

⁷⁴ *Id.* art. 16. The award must be paid within three months from the date of the announcement of the patent grant. Implementing Regulations, *supra* note 42, r. 74. The award may not be less than 2000 RMB for an invention or 500 RMB for a utility or design patent. *Id.* The remuneration may not be less than 2% of the after-tax benefit for an invention or utility patent or less than 0.2% of the after-tax benefit for a design patent. *Id.* r. 75. When any state-owned enterprise or institution grants a license to a third party, the inventor or creator is entitled to not less than 10% of the

patent document names the employee as the inventor.⁷⁵

In summary, a patentee must meet three requirements in order to obtain protection under Chinese patent law. First, the patentee must comply with all statutory filing requirements. Second, the invention must fall within the scope of patentable subject matter.⁷⁶ And third, the patent holder must act to enforce his or her patent rights against potential infringement.⁷⁷

VI. *Application Process*

Chinese patent law operates under a first-to-file system, meaning that the first applicant to file his or her application with the patent office will receive the patent, regardless of who actually created the invention-creation first.⁷⁸ An application for an invention or utility patent must include a request, a description of the invention-creation sufficient to enable a technician skilled in the art to produce it, an abstract that briefly states the main technical points of the invention-creation, and further information that supports the description and states the extent of the patent protection requested.⁷⁹ An application for a design

after-tax profits of the license. *Id.* r. 76.

⁷⁵ Patent Law, *supra* note 43, art. 17.

⁷⁶ See generally Chen & Feng, *supra* note 60.

⁷⁷ Robert Bejesky, *Investing in the Dragon: Managing the Patent Versus Trade Secret Protection Decision for the Multinational Corporation in China*, 11 TULSA J. COMP. & INT'L 437, 478 (2004).

⁷⁸ See Patent Law, *supra* note 43, art. 28. The date of filing is either the date of receipt of the application or the date of mailing, as indicated by the postmark. *Id.* The application is published eighteen months from the date of filing or earlier upon request. *Id.* art. 34. See also Implementing Regulations, *supra* note 42, r. 46.

⁷⁹ Patent Law, *supra* note 43, art. 26. An applicant must submit two copies of each document to the Patent Administrative Department under the State Council. Implementing Regulations, *supra* note 42, r. 16. A request must include: (1) the title of the invention; (2) the name and address of the inventor; (3) the name of the country where the applicant has his or her principal place of business; (4) contact information for an agent, if required; and (5) a list of documents constituting and appending the application. Patent Law, *supra* note 43, art. 26; Implementing Regulations, *supra* note 42, r. 17. The description must include the following: (1) the technical field that the invention or utility model falls into; (2) information relating to the background art, which facilitates the "understanding, searching, and examination of the invention or utility model," and includes, if available, documents reflecting such art; (3) the technical problem to be solved and the technical solution adopted by the invention, indicating its advantages over the prior art; (4) descriptions of any drawings contained in the application; and (5) a detailed

patent must include a request, drawings or photographs of the design, and disclosure of the product incorporating the design and the class to which that product belongs.⁸⁰ The application must also contain a brief explanation of the design, including a description of main design elements and colors.⁸¹ Additionally, the applicant may be required to submit a sample or model of the product that incorporates the design.⁸²

Foreign applicants are required to appoint an agent designated by the Patent Administrative Department under the State Council.⁸³ If the foreign applicant has previously been granted a patent on the invention-creation in question in another country, the applicant must follow the procedures set forth in the Patent Cooperation Treaty.⁸⁴ Additionally, any Chinese entity that intends to file for a patent in a foreign country for an invention made in China must first file an application with the Patent Administration Department under the State Council and appoint a patent agent designated by that department to act as its agent.⁸⁵ This information is important for all individuals or corporations that are involved in joint ventures with a Chinese company, as these requirements apply to all invention-creations produced by the joint venture in China. Additionally, it should be noted that non-Chinese lawyers are not permitted to engage in any legal services involving Chinese law and are not permitted to sit for the Chinese bar examination.⁸⁶ Therefore, foreigners doing business in China should obtain legal services from Chinese counsel.

description of the optimum mode contemplated for carrying out the invention or utility model. *Id.* r. 18. An abstract must include an outline of the contents disclosed in the application, including: (1) invention title; (2) technical field; (3) technical problem to be solved; and (4) the essential technical features of the technical solution. *Id.* r. 24. *See also id.* r. 20-23 for claim drafting guidelines; *id.* r. 25 (for additional requirements for patents relating to new biological materials not accessible to the public).

⁸⁰ Patent Law, *supra* note 43, art. 27.

⁸¹ Implementing Regulations, *supra* note 42, r. 28.

⁸² *Id.* r. 29.

⁸³ Patent Law, *supra* note 43, art. 19.

⁸⁴ Implementing Regulations, *supra* note 42, r. 100.

⁸⁵ Patent Law, *supra* note 43, art. 20.

⁸⁶ THE AM. CHAMBER OF COMMERCE—PEOPLE'S REPUBLIC OF CHINA, LEGAL SERVICES (2001), available at <http://www.amcham-china.org.cn/amcham/show/content.php?Id=370> (last visited Sept. 14, 2005). Foreign law firms are permitted to provide legal services relating to international law and to the laws of their home country. *Id.*

All applicants are permitted to amend defects in their applications.⁸⁷ However, the amendments may not go beyond the scope of the disclosure found in the initial description and claims submitted for an invention or utility patent, or the initial drawings or photographs submitted for a design patent.⁸⁸

Chinese patent law provides for both domestic and international priority.⁸⁹ International priority preserves the filing date of a patent that was initially filed in a country other than China.⁹⁰ International priority is granted if the application is filed within twelve months of the foreign filing date for an invention or utility patent, or six months from the foreign filing date for a design patent.⁹¹ Domestic priority is provided for patent applications concerning the same subject matter that have been filed within twelve months of the previous patent, and preserves the filing date of the previous patent for the new patent application.⁹² In order to take advantage of the priority date, the applicant must submit a written declaration of the right of priority when the patent application is filed, and a copy of the previously filed patent application must be submitted within three months of the filing of the subsequent application.⁹³

An applicant is required to request a substantive evaluation within three years of the filing date.⁹⁴ A failure to request a substantive evaluation within this time frame results in withdrawal of the patent application.⁹⁵ When requesting a substantive evaluation, the applicant must provide all pre-filing date references concerning the invention-creation.⁹⁶ Applicants who have previously filed for a patent in a foreign country may also be required to produce all documents related to the patent

⁸⁷ Patent Law, *supra* note 43, art. 33.

⁸⁸ *Id.*

⁸⁹ *Id.* art. 29; *see also* Implementing Regulations, *supra* note 42, r. 32-34.

⁹⁰ MARTIN J. ADELMAN ET AL., CASES AND MATERIALS ON PATENT LAW 13 (2d ed. 2003).

⁹¹ *Id.*

⁹² *Id.*

⁹³ Patent Law, *supra* note 43, art. 30.

⁹⁴ *Id.* art. 35.

⁹⁵ *Id.*

⁹⁶ *Id.* art. 36.

examination in that country.⁹⁷ Although there are no specific time requirements relating to the carrying out of the substantive evaluation, the law does require that such examination be "timely."⁹⁸

Subsequent to the substantive evaluation of an application for an invention patent, a decision is made whether to grant the patent.⁹⁹ If the decision is favorable for the applicant, a certificate is issued, and the invention patent is registered and announced.¹⁰⁰ The patent right takes effect on the date of the announcement.¹⁰¹ After the notification of approval has been issued, the applicant has two months to complete the formalities of registration; if the time limit is not met, the applicant is deemed to have abandoned the right to obtain the patent.¹⁰²

A utility or design patent must undergo a preliminary evaluation, rather than a substantive evaluation.¹⁰³ After the preliminary evaluation, a decision is made whether to grant the utility or design patent.¹⁰⁴ If the decision is favorable to the applicant, a certificate is issued, and the decision is registered and announced.¹⁰⁵ The patent right takes effect as of the date of the announcement.¹⁰⁶

If the applicant is not satisfied with the decision of the Patent Administration Department, he or she may, within six months of notification, request reexamination by the Patent Reexamination Board.¹⁰⁷ If the applicant is not satisfied with this decision, he or she may institute legal proceedings in the people's court within three months of notification.¹⁰⁸

⁹⁷ *Id.*

⁹⁸ *Id.* art. 21.

⁹⁹ Patent Law, *supra* note 43, art. 39.

¹⁰⁰ *Id.*

¹⁰¹ *Id.*

¹⁰² Implementing Regulations, *supra* note 42, r. 54.

¹⁰³ Patent Law, *supra* note 43, art. 40.

¹⁰⁴ *Id.*

¹⁰⁵ *Id.* art. 40.

¹⁰⁶ *Id.*

¹⁰⁷ *Id.* art. 41; *see also* Implementing Regulations, *supra* note 42, r. 59-71.

¹⁰⁸ Patent Law, *supra* note 43, art. 40.

VII. *Judicial and Administrative System of Patent Enforcement*

If a party believes its patent rights are being infringed upon, it must initially consult with the infringing party in an attempt to resolve the dispute.¹⁰⁹ In the event that this consultation fails, the party may choose to pursue the matter in the people's court or it may request the administrative authority for patent affairs to handle the dispute.¹¹⁰ If the administrative authority determines that an infringement has occurred, he may order the infringer to stop the offending behavior.¹¹¹

An alleged infringer may institute legal proceedings in the people's court if he or she disagrees with an administrative determination of infringement.¹¹² Alternatively, if the alleged infringer fails to comply with the administrative authority or challenge the order, the authority may require the parties to engage in mediation to determine the amount of damages.¹¹³ The administrative authority may impose a fine of up to three times the illegal income, or 50,000 RMB if there are no illegal earnings.¹¹⁴ If the parties are unable to agree on damages through mediation, either party may institute legal proceedings in the people's court.¹¹⁵

In all cases, legal proceedings for patent infringement must be instituted within two years of the date that the injured party knew or should have known of the alleged infringement.¹¹⁶ Patent disputes fall under the jurisdiction of the intermediate people's courts.¹¹⁷ The domicile of the defendant or the place where the

¹⁰⁹ *Id.* art. 57.

¹¹⁰ *Id.*

¹¹¹ *Id.* The local patent authorities may request a court order for compulsory enforcement of the administrative decision. *Id.*

¹¹² *Id.*

¹¹³ *Id.* In addition to damages, the administrative authority also is allowed to mediate disputes over: (1) the right to apply for a patent and ownership of the patent right; (2) the qualifications of the inventor or creator; (3) remuneration owed to inventors or creators of service inventions; and (4) remuneration owed for the exploitation of an invention in the period of time after the patent application, but before the grant of the patent right. Implementing Regulations, *supra* note 42, r. 79.

¹¹⁴ Patent Law, *supra* note 43, arts. 58-59.

¹¹⁵ *Id.* art. 57.

¹¹⁶ *Id.* art. 62.

¹¹⁷ The 1180th Meeting of the Adjudication Committee of the Supreme People's Court, *Several Provisions of the Supreme People's Court on Issues Relating to Application of*

infringing acts occurred determines which intermediate people's court has jurisdiction over a patent infringement case.¹¹⁸

Court-imposed damages are determined by one of three methods.¹¹⁹ The court may calculate damages according to the loss incurred by the patent right holder, the profits of the infringer, or an appropriate multiple of the royalties of a license, had it been granted.¹²⁰ A court may also grant a preliminary injunction.¹²¹ A preliminary injunction is available upon proof that the defendant is engaging or is likely to continue engage in infringing activities and that irreparable harm will occur unless there is immediate intervention.¹²²

If a defendant in a patent action files a request for invalidation of the patent right at issue, the people's court may suspend legal proceedings until the question of validity is resolved.¹²³ If the people's court decides to suspend legal proceedings, a plaintiff may simultaneously request a court order for the defendant to stop all infringing activity.¹²⁴

Law to Adjudication of Cases of Patent Disputes, art. 2 (2001) [hereinafter Adjudication Committee Provisions], available at http://www.cpahkld.com/Archives/Several_Provisions2.html (last visited Oct. 8, 2005). The judicial system of the People's Republic of China contains four levels. CHOW, *supra* note 8, at 199. The county level is the lowest, with approximately 3000 basic people's courts, in addition to over 30,000 subordinate divisions known as people's tribunals, which are located in towns and villages. *Id.* at 200. At the next level are 390 intermediate people's courts, located in cities and prefectures within provinces. *Id.* Following this, there are thirty-one high-level people's courts at the provincial levels. *Id.* The highest court in China is the Supreme People's Court, located in Beijing. *Id.*

¹¹⁸ Adjudication Committee Provisions, *supra* note 117, art. 5. See also *id.* art. 6.

¹¹⁹ Patent Law, *supra* note 43, art. 60.

¹²⁰ *Id.*

¹²¹ *Id.* art. 61.

¹²² *Id.*

¹²³ Adjudication Committee Provisions, *supra* note 117, art. 9. Suspension may not occur in the following instances:

(1) [W]here no technical documentation is found in the search report produced by the plaintiff that results in the loss of novelty or inventiveness of the patent for utility model; (2) where the defendant's evidence is sufficient to prove that its or his used technology has been known to the public; (3) where the proof or basis the defendant has furnished for requesting the invalidation of the patent right in question is obviously insufficient; or (4) any other circumstances where the people's court finds that the legal proceedings should not be suspended.

Id.

¹²⁴ *Id.* art. 12.

A party is not liable for “innocent” infringement of a patent right.¹²⁵ Innocent infringement occurs when the alleged infringer did not know that the product was made and sold without authorization and can prove that the product came from a legitimate source.¹²⁶ In addition, innocent infringement may be found in cases where an individual made or used an identical product prior to the filing date of the patent application.¹²⁷

Chinese patent law provides for the granting of compulsory licenses.¹²⁸ Any patent that is held by state-owned enterprises, including those that are joint ventures with foreign investors, may be licensed to designated entities if it is found to be “of great significance to the interest of the State or to the public interest.”¹²⁹ In order for a designated or requesting entity to be eligible for a compulsory license for an item with an invention or utility patent, the entity must be qualified to exploit the patent, have made licensing requests to the patent holder that have contained reasonable terms and conditions, and such requests must have been denied or ignored for a “reasonable” period of time.¹³⁰

Any entity may request a compulsory license from the Patent Administrative Department under the State Council three years following the grant of the patent right.¹³¹ In addition, a

¹²⁵ Patent Law, *supra* note 43, art. 63.

¹²⁶ *Id.*

Any person who, for production and business purposes, uses or sells a patented product or a product that was directly obtained by using a patented process, without knowing that it was made and sold without the authorization of the patentee, shall not be liable to compensate for the damage of the patentee if he can prove that he obtain[ed] the product from a legitimate source.

Id.

¹²⁷ *Id.* art. 63(2). Infringement does not occur “[w]here, before the date of filing of the application for [a] patent, any person who has already made the identical product, used the identical process, or made necessary preparations for its making or using, continues to make or use it within the original scope only.” *Id.*

¹²⁸ See generally *id.* arts. 14, 48, 49, 53 and 54. See also Jiwen Chen, *Better Patent Law for International Commitment—The Amendment of Chinese Patent Law*, 2 RICH. J. GLOBAL L. & BUS. 61, 64-66 (2001).

¹²⁹ Patent Law, *supra* note 43, art. 14. The licensee must still pay a licensing fee to the patent holder. *Id.* A compulsory license may be granted in cases of national emergency, where there is an extraordinary state of affairs, or where it is in the public interest. *Id.* art. 49.

¹³⁰ *Id.* art. 48.

¹³¹ Implementing Regulations, *supra* note 42, r. 72.

compulsory license is only granted where it will be predominantly used to supply the domestic market.¹³² After a request for a compulsory license is made, the patent right holder receives a copy of the request and has a prescribed period of time to comment.¹³³

All compulsory licenses are non-exclusive and non-assignable.¹³⁴ Additionally, an entity granted a compulsory license must pay the patent holder a reasonable fee, either agreed upon by both parties or determined by the Patent Administration Department under the State Council if the parties do not reach an agreement.¹³⁵

Challenges to patent validity must take place through the invalidation procedure.¹³⁶ The party challenging the patent's validity must initially request that the Patent Reexamination Board declare the patent invalid.¹³⁷ If either party is unhappy with the decision of the Board, it may institute legal proceedings in the people's court within three months of receipt of notification of the Board's decision.¹³⁸

VIII. How to Plan Ahead to Maximize Protection

An understanding of some basic differences between Western and Chinese methods of negotiation is vital to obtaining effective intellectual property protection in China. Unlike the United States, where directness is a sign of strength and power, in China, confrontational and direct approaches are considered to be rude and offensive, causing a loss of "face."¹³⁹ Therefore, foreigners

¹³² *Id.* For a compulsory license relating to semi-conductor technology, the exploitation is limited either to public and non-commercial use or to remedy an anti-competitive practice as determined by judicial or administrative procedure. *Id.*

¹³³ *Id.*

¹³⁴ Patent Law, *supra* note 43, art. 53.

¹³⁵ *Id.* art. 54. See also Implementing Regulations, *supra* note 42, r. 73.

¹³⁶ Patent Law, *supra* note 43, art. 45.

¹³⁷ *Id.* The requesting party must provide two copies of all documents, and these documents must specifically state the reasons for the request and include all evidence necessary to support the request for invalidity. Implementing Regulations, *supra* note 42, r. 64.

¹³⁸ Patent Law, *supra* note 43, art. 46.

¹³⁹ White, *supra* note 32, at 58. "Face is a Confucian concept meaning 'prestige' and 'personal character.'" *Id.*

conducting business in China should either become practiced in a more subtle approach to doing business, or should negotiate through a trusted individual with experience doing business in China.

Another important difference between Chinese and Western business relationships is the importance of *guanxi* in the formation of business relationships.¹⁴⁰ *Guanxi* is a “special relationship individuals have with each other in which each can make unlimited demands on the other.”¹⁴¹ Because of the importance of trust and mutuality of obligation in business relationships, negotiations with Chinese entities may take longer and be less direct than negotiations with Western entities.

The Chinese also differ from Westerners in their perception of the nature of a contract. The Chinese perceive a contract to be a broad document that recites the general principles of an agreement, rather than a detailed set of rules.¹⁴² As a result, a high premium is placed on post-contract negotiations, with mutual, long-term benefit and social harmony of the utmost importance.¹⁴³

Conciliation and domestic and international arbitration are important tools that foreigners can use to maximize intellectual property protection. Conciliation is the primary method of dispute resolution in China,¹⁴⁴ and is more commonly used than litigation.¹⁴⁵ This is generally due to the fact that conciliation is quicker, cheaper, and less confrontational than other methods of dispute resolution.¹⁴⁶ The expectation of conciliation is that both parties wish to reach an “amicable settlement agreement.”¹⁴⁷ The

¹⁴⁰ *Id.* at 58-59.

¹⁴¹ *Id.* at 59 (quoting BEE CHEN GOH, CHINA'S INTERNATIONAL TRANSACTIONS: TRADE AND INVESTMENT 39-40 (K.C.D.M. Wilde ed., 2000)). “What is uniquely Chinese is the fact the moral sense of obligation is so overwhelming that one normally has to comply with requests, unless the request itself is impossible, or outside one's means to perform it.” *Id.*

¹⁴² *Id.* “Chinese handle contracts by establishing a very general contract, which can be amended at various times to allow the parties greater maneuverability.” *Id.* at 61.

¹⁴³ *Id.* at 60.

¹⁴⁴ ORGANISATION FOR ECON. CO-OP. AND DEVELOP., *supra* note 31, at 116.

¹⁴⁵ *Id.* at 115. Over five million civil dispute cases were handled by local mediation committees in 2000. *Id.*

¹⁴⁶ *Id.*

¹⁴⁷ *Id.*

thirty conciliation centers throughout China are members of the International Federation of Commercial Arbitration and the London Court of International Arbitration.¹⁴⁸ Cases are only accepted for arbitration when there has been a contractual conciliation agreement between the parties or when both parties have consented to the use of conciliation to resolve the dispute.¹⁴⁹

Domestic arbitration is handled through the China International Economic and Trade Arbitration Commission ("CIETAC"), which is located in Beijing, Shanghai, and Shenzhen.¹⁵⁰ Domestic arbitration requires the presence of an arbitration clause in a contract or other written agreement.¹⁵¹ CIETAC selects arbitration panels from a pool of qualified Chinese and foreign individuals.¹⁵² A panel must grant an arbitration award within nine months of the formation of the panel, guaranteeing a relatively rapid resolution to the dispute.¹⁵³

A final alternative means of dispute resolution is the use of international arbitration. Using international arbitration facilitates enforcement of awards because China is a member of the International Centre for the Settlement of Investment Disputes.¹⁵⁴ Therefore, disputes involving China and the other 135 contracting states are enforceable under the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards.¹⁵⁵ Although the awards must still be enforced by the Chinese courts, international arbitration should reduce parties' worries about local protectionism or the underdeveloped nature of the Chinese legal system.¹⁵⁶

¹⁴⁸ *Id.*

¹⁴⁹ *Id.*

¹⁵⁰ ORGANISATION FOR ECON. CO-OP. AND DEVELOP., *supra* note 31, at 116.

¹⁵¹ *Id.*

¹⁵² *Id.*

¹⁵³ *Id.*

¹⁵⁴ *Id.* at 117.

¹⁵⁵ *Id.* Main arbitration centers are the Stockholm Chamber of Commerce (SCC), the London Court of International Arbitration (LCIA), the International Court of Arbitration of the International Chamber of Commerce (ICC) and the Hong Kong International Arbitration Centre (HKIAC). *Id.*

¹⁵⁶ ORGANISATION FOR ECON. CO-OP. AND DEVELOP., *supra* note 31, at 117.

IX. Conclusion

Intellectual property protection in China is possible, but it requires vigilance on the part of the individual or entity requesting protection. China has a well-developed system of patent law and there are multiple methods of enforcement, but a foreign investor in China should not expect the Chinese government to protect his intellectual property rights for him. A foreign individual or corporation should obtain effective counsel as a guide through the administrative and judicial landscape. Finally, investors should consider the advantages of a joint venture with a Chinese individual or business since they can provide help in a foreign culture and have a vested interest in the success of the business venture.