

Navigating the Chinese Patent System: What U.S. Patent Counsel Need to Know, Changes After the Phase One Trade Deal

Protecting IP Rights in China, Leveraging Recent Amendments, Understanding Current Litigation Trends, and More

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PATENTS IN CHINA

Thomas T. Moga

Strafford Webinar – November 12, 2020



PATENT OVERVIEW

- **Invention Patent (very similar to US Utility Patent)**
 - 20 year life
 - Substantive examination – interviewing helps
- **Utility Model Patent (no US parallel)**
 - 10 year life
 - No substantive examination – but other review being undertaken
- **Design Patent (similar to but not the same as US Design Patent)**
 - 10-year life (but will change to 15 years under amended Patent Law)
 - No substantive examination – interviewing again helps
 - But recently “image search software” being used for “formal examination”

PATENT OVERVIEW

Chinese approach:

- Utility model first, then invention, design patent last
- Experienced Chinese applicants know that utility model patents are easier to obtain in China than elsewhere and can be granted quickly for a broader variety of inventions

Foreign approach (particularly US):

- Invention patent first, then design, then utility model
- Even experienced US applicants aren't aware of flexibility of design patents in China and are even less familiar with utility models (but, if aware, sometimes reluctant to file them or simply refuse to file them)

PATENT OVERVIEW

By the numbers:

- In **2019**, CNIPA (formerly “SIPO”) received **4,380,468** patent applications (down from **4,323,112** in 2018)
 - Invention patent applications: 1,400,661 (2018: 1,542,002)
 - Utility model patent applications: 2,268,190 (foreign: 8425) (2018: 2,072,311)
 - Design patent applications: 711,617 (2018: 708,799)
- In **2009**, SIPO received **976,686** patent applications
 - Invention patent applications: 229,096
 - Utility model patent applications: 308,861
 - Design patent applications: 339,654

FOCUS: UTILITY MODEL PATENT

- Why file UM?
 - Easy way to get a patent
 - Relatively low cost
 - Relatively prompt issuance
 - Unlike Design patent, scope of protection defined by claims
 - “Easy to get, tough to invalidate”

FOCUS: UTILITY MODEL PATENT

- Why *not* file UM?
 - 10 years vs. 20 years
 - Invention patent stronger than UMP (no substantive exam)
 - Need “Evaluation Report” before litigating

Tip: File *both* Invention Patent and Utility Model patent applications simultaneously (but ultimately can only have one)

See “**China’s Utility Model Patent System: Innovation Driver or Deterrent**” – U.S. Chamber of Commerce:

(https://www.uschamber.com/sites/default/files/legacy/reports/1211_china_patent_paper.pdf)

FOCUS: UTILITY MODEL PATENT – “EXAMINATION”

- Not subjected to substantive examination (not enough examiners)
- But every incoming UMP application is subjected to “Intelligent Patent Search System”
 - Claims only
 - Database comprises Chinese patents only
 - No plans to expand the data base as of now
 - May miss applications based on foreign-issued patents
- Also, if examiner has independent knowledge or has results (e.g., from a PCT search) can undertake substantive examination based on rule changes
- Looking for something “abnormal” – application is deemed to be of “inferior quality” and is subjected to examination
- “Notification of Rectifications” becoming common

FOCUS: DESIGN PATENT

- Experienced Chinese applicants file about many more design patent applications in China compared with foreign applicants (as noted earlier, in 2019 there were 691,771 design patent applications filed by domestic applicants, while only 19,846 were filed by foreign applicants)
- They know that design patent protection is typically easier to obtain in China than elsewhere (e.g., the U.S.) and can be granted for a broad variety of inventions
- Reliance is on post-grant invalidation to cure errors in the grant system
- Thus China's system for granting design patents is closer in practice to the system of copyright registration in the U.S.

FOCUS: DESIGN PATENT

- So why don't foreigners file more design patent applications in China? Foreign applicants are constrained by their own experiences and, as a result, anticipate not only large prosecution bills but also *limitations on what can be protected*
- Thus, and continuing the example, design patent protection in the U.S. is limited to protecting an article having an ornamental appearance (that is, the design elements must be *ornamental* and not *functional*); Chinese design patents may cover functional products
- These "design inventions" would not be good candidates for patent protection in most other countries

UTILITY MODEL/DESIGN DEVELOPMENTS – FOURTH AMENDMENT TO THE PATENT LAW

- Set to become law June 1, 2021
- “Open license statement” – when filed for UMP or design patent a patent evaluation report must be provided
- Today only a patentee or licensee in an action involving a UMP or a design patent can request an evaluation report; defendant will also be able to make the request
- Change in term from 10 to 15 years (part of China’s effort to become a member of the Hague Agreement)
- Protection will become available for a portion of a product (“partial design”)
 - Broadens design protection
 - Supports GUI design patents
- Will allow domestic priority for design applications

CHINA PATENT STRATEGY - SUMMARY

1. Finding the right mix of the right mix of invention, UM, design patents (present, future)
2. Understanding the value of each from a Chinese POV
3. Making the portfolio China-only
4. Follow up with Customs Office registration (design patents)
5. Related issue: Monitoring competitors' patents and applications
6. UMP/design applications – *file, file, file* – but tread carefully
7. Keep “hands on” – personally engage Chinese associate, examiners

THANK YOU



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Updates on IP Protection in China

What US Counsel needs to know post the US-China Trade Agreement

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Disclaimer

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Bilateral Trade Agreement – Phase I

The US-China Phase I trade agreement was signed on January 15, 2020.

- The agreement temporarily cooled down the trade war between the two countries that started in 2018.
- The agreement contains 7 chapters. Chapters 1 and 2 are related to IP protection and technology transfer.
- Chapter 2 - Technology Transfer:
 - “(E)nsuring that the transfer of technology occurs on voluntary, market-based terms....”
 - Uses short and generalized terms: any party, neither party, the parties.

US-China Trade Agreement – Phase I (cont.)

Chapter 1: Intellectual Properties

- Detailed obligations on strengthening IP protection
 - Most of the 36 articles in this chapter impose obligations on China only
 - US affirms that its existing measures are consistent with its obligations in this chapter
- Separate sections on trade secrets, pharmaceutical-related IP, patents, piracy and counterfeiting on E-commerce platforms, geographic indications and generic trademarks, export of pirated and counterfeit goods, bad-faith trademarks, judicial enforcement and procedure in IP cases.

Post-Agreement IP Laws/Regulations in China

Regulations listed here: <https://www.aipla.org/advocacy/international>

- 4th Amendment of China's Patent Law (Oct. 17, 2020)
- Draft Administrative Measures for Trademark Agencies (Sept. 2020)
- Draft of the Amendments to the Chinese Patent Law (Aug. 14, 2020)
- The Supreme People's Court's Draft of Certain Rules of Evidence in Intellectual Property Litigation (July 30, 2020)
- Regulations of the Supreme People's Court on Issues in Hearing Administrative Cases of Granting & Determination of Patent Rights (June 14, 2020)
- Draft Implementation Plan and Draft Guidelines for IP Judgment Enforcement from the Supreme People's Court (the "SPC") (May 14, 2020)
- Draft Administrative Measures for Public Disclosure of E-commerce Information (Mar. 11, 2020)

Others: Draft Data Security Law (July 2020); Draft Implementations of Early Resolution Mechanisms for Drug Patent Disputes (Sept. 2020); SPC Draft Provisions on patent linkage trials (Oct. 2020);

Trade Secret Protection

New laws/regulations

- Supreme People's Court's judicial interpretation on Certain Issues in Applications of Law in Adjudicating Civil Trade Secret Cases (July 2020)
- Amendment to the Anti-Unfair Competition Law (April 2019)
- Anti-Unfair Competition Law (January 2018)

Definition of "trade secret"

- Similar to DTSA
- Secret, valuable, and reasonable efforts

Strong positions in the SPC's JI

- Burden of proof: plaintiff needs to show a prima facie case of trade secret misappropriation, the burden then shifts to defendant to prove independent development or other legitimate channel of obtaining the secret
- Courts are obligated to protect the trade secret during litigation
- Punitive damages if found willful

Trademark Protection

It is not easy to procure or enforce trademark rights in China.

- First to file v. First to use
- Rampant trademark squatting and heavy defensive trademark filings
- New CNIPA regulation against abusive trademark filings and against bad faith filings
 - *Certain Stipulations on Regulating Behavior of Applying for Trademarks (2019)*
- Transliteration – select the right Chinese words for an English mark
- How to deal preemptive registration in China (and in the US)
 - Cancellation based on bad faith and/or non-use
 - Register early
 - Expansive list of goods/services

Copyright Protection

- China is part of the Berne Convention. No registration is required.
- Protecting GUI using copyright law and design patent
 - *Beijing Qihu Technology Co. Ltd. v. Beijing Jiangmin New Science*
- Partial design codified in the 4th amendment of the Patent Law
- Copyright registration of software

Patent Protection

Differences between the US and Chinese patent laws

- Grace period: limited 6-month grace period in China v. 1 year grace period for disclosures derived from inventor in the US
- Utility model applications that are available in China but not in the US
- Under the Chinese patent law, inventors do not have the initial ownership. But Chinese inventors nevertheless sign an assignment to comply with the US patent law.
- Foreign filing license required by both China and US
- Courts do not adjudicate patent validity; only CNIPA has the authority
- Two-route system in patent enforcement: courts and administrative agencies (i.e., local government agencies)

Patent Law – 4th Amendment of the Patent Law

- Enacted on Oct. 17, 2020
- Major changes:
 - Partial designs are allowed in design applications
 - New article (Art. 20) on abuse of patent rights: “Patent rights shall not be abused to damage public interests....”
 - Patent-term adjustment if the prosecution takes too long (>4 yrs), to compensate for the review and marketing approval of new drugs
 - Open license system
 - Willful infringement and punitive damages: 1-5 x normal damages
 - Increased statutory damages (not more than 5 million RMB)

Litigating Patent Infringement Lawsuits in China

It is doable and it is getting better.

- Two-route IP enforcement system: courts and admin. agencies at local municipal government levels
- No Markman-hearing on claim construction; unique evidence gathering procedures
- Fast and cheap compared to patent litigation in the US
- In China, injunction is the goal of an infringement lawsuit.
- Damages are capped at 5 million RMB (< 1 million USD)

Other Laws/Regulations

- Data Security Law
- Patent Linkage System
- IP Enforcement: customs, criminal procedures, etc.
- SEP/Antitrust and anti-unfair competition law
- Foreign Investment Law

Summary

Take-aways for US counsel:

1. Patentability standard is different. It is easier to obtain a patent in the AI/software area.
2. Claim construction principles are similar to the US standards. Claim drafting differ in some important aspects.
3. Enforcement is cheaper and faster. Injunction is the main goal for Chinese litigants, instead of royalty/licensing fees.
4. Discovery/evidence gathering is drastically different.
5. Trademarks: don't forget to monitor USPTO gazette.

Thank You

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Current Litigation Trends

■ Law

- *The Fourth Amendment of the Patent Law of the PRC*
- Passed on October 17, 2020, will take effect as of **June 1, 2021**

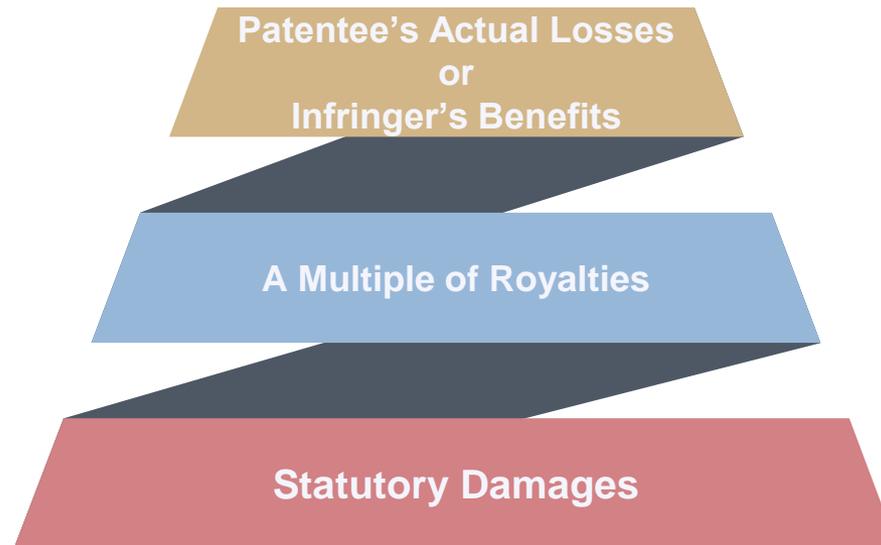
■ Judicial Interpretations of the Supreme People's Court (SPC)

- *Several Provisions of SPC on Evidence in Civil Procedures*: will take effect as of **May 1, 2020**
- *Provisions of SPC on Several Issues concerning Application of Law in Trial of Administrative Cases Involving Patent Licensing and Confirmation (I)*: will take effect as of **September 12, 2020**
- *Several Provisions of SPC on Evidence in Civil Procedures for Intellectual Property (Draft for Comment)*: published on **June 15, 2020**

Patent Law: Increase Damages Compensation

Calculation Method for Infringement Damages Compensation

- According to the new *Patent Law*: three levels



■ Punitive damages rule introduced:

- For willful infringement where the case is serious
- Calculation method: **1~5 times of damages**

■ Ceiling for statutory damages increased:

- Factors in consideration: (i) type of patent right, (ii) nature and (iii) seriousness of infringement
- Amount: from RMB 30,000 (USD 4,476) to **RMB 5,000,000** (USD 746,000) (RMB 1 million before)

■ Linked to Article 1.27 Deterrent-Level Penalties of *the Economic and Trade Agreement*

■ A principled rule introduced:

- Against patent misuses based on “*Good Faith Principle*”, including:
 - frivolous patent infringement, unfair competition, and even monopoly based on patents conducted by NPEs, licensors or others.
- Corresponding to *the Anti-monopoly Law*: abuse of patent rights to exclude or restrict competition, which constitute a monopolistic act, are governed by *the Anti-monopoly Law*.

Patent Law: Shift Burden of Proof regarding Damages Calculation

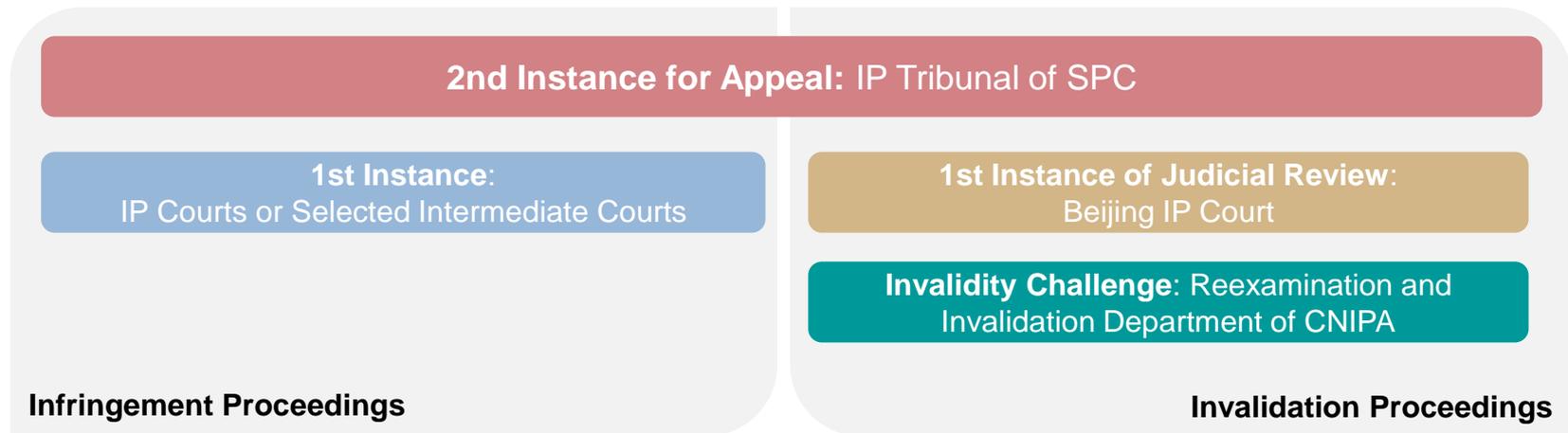
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- **If the patentee has exhausted its capacity to provide damages evidence:**
 - **Burden will be shifted:** infringer shall provide financial documents and materials
 - **Consequence if infringer fails to provide evidence:** award damages referring to the claims and preliminary evidence of the patentee

- **Simplify notarization and authentication procedures for foreign evidence:**
 - **For public documentary evidence:** notarization
 - **For evidence involving identify relations:** notarization + authentication
 - **For other evidence:** no requirement for notarization or authentication

- Corresponding to Article 1.30 Document Authentication of *the Economic and Trade Agreement*

■ Illustration of each character in the system:

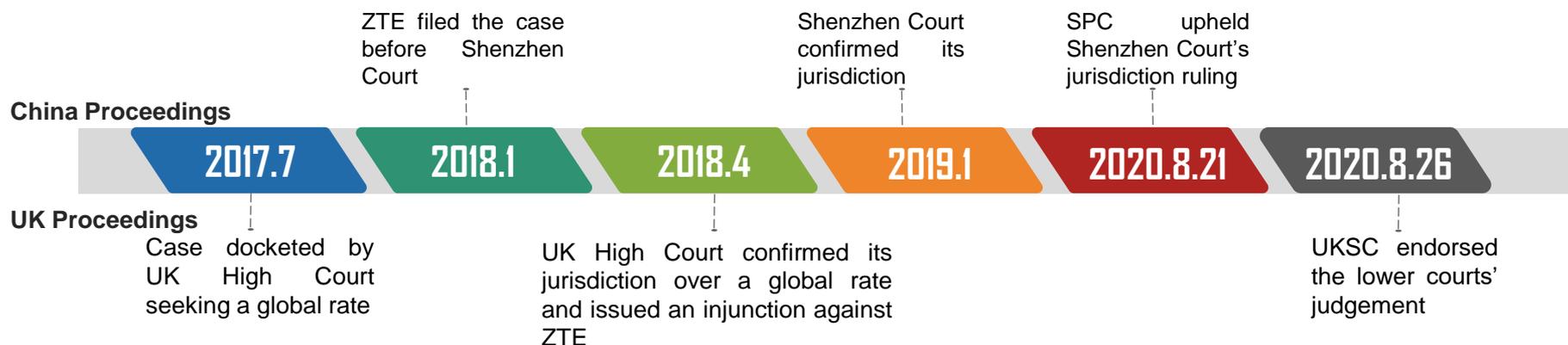


- First combined trial for infringement case and administrative case: October 12, 2019 IP Tribunal of SPC

ZTE v. Conversant SEP Royalty Case

■ The second-instance jurisdiction ruling issued by SPC on August 21, 2020:

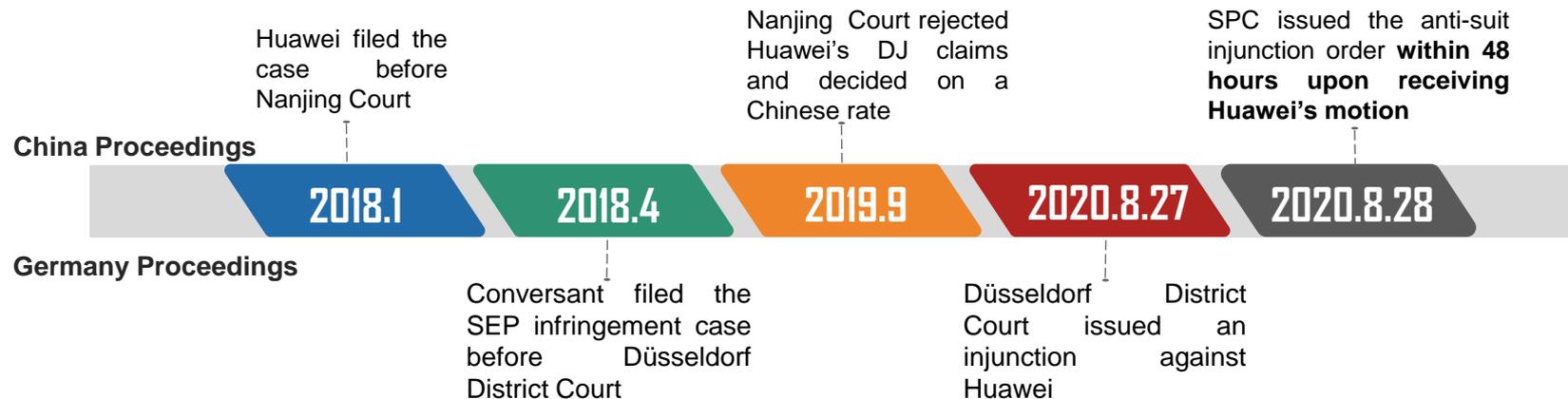
- **SPC held that:** a Chinese Court has the jurisdiction and it is the appropriate forum to decide the **Chinese rate** of SEP FRAND royalty, regardless whether the determination of the Chinese rate would be under the English court's determination of the global rate.



Huawei v. Conversant DJ and SEP Royalty Cases

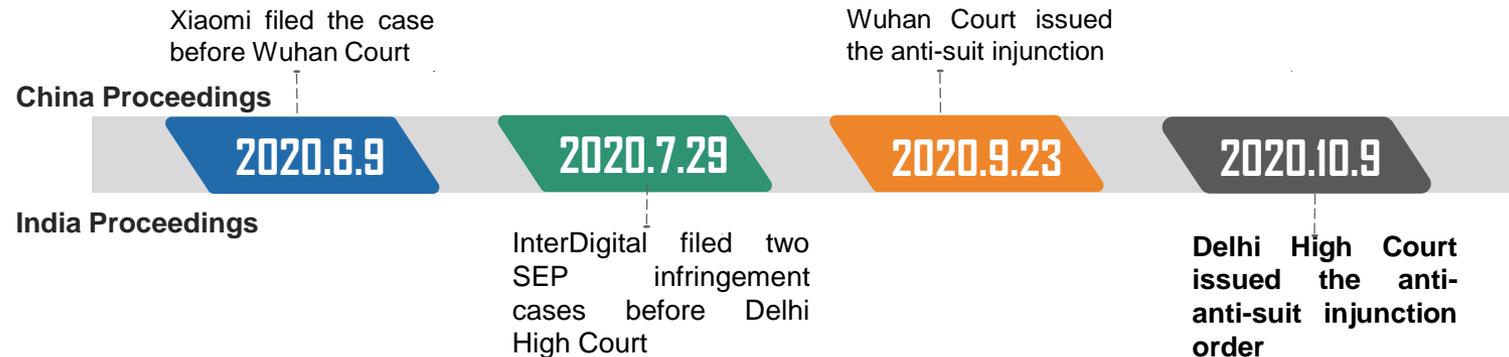
■ The very first anti-suit injunction in China issued by SPC on August 28, 2020:

- No enforcement of the permanent injunction that Conversant obtained in Germany
- A fine of RMB 1 million (USD 149,000) per day for violating the injunction



Xiaomi v. InterDigital SEP Royalty Case

- The anti-suit injunction issued by Wuhan Intermediate Court on Sept. 23, 2020, ordered InterDigital:
 - Immediately withdraw or suspend the motions for temporary and permanent injunctions in Delhi High Court against Xiaomi;
 - Cannot apply for **any other injunction and royalty disputes** regarding **3G, 4G SEPs** before **any other courts in China or other countries/regions**;
 - A fine of RMB 1 million per day for violating the injunction



Chinese Courts Show a More Aggressive Attitude

■ Competing for both Chinese and global jurisdiction of SEPs:

- Foreign Cases are irreverent to Chinese court's jurisdiction over Chinese rate;
- China steps into the competition of global case jurisdiction of SEPs;
- Whether Chinese courts will determine a global rate for SEP cases remain unclear.

■ Attempting to issue anti-suit Injunction:

- Judicial interpretations regarding act preservation in IP disputes serves as the legal basis for anti-suit injunction in China;
- NPE factor has been counted when assessing irreparable harms and balance of interests.

Latest Changes in Chinese Export Law

■ **Export Control Law of the People's Republic of China (“Export Control Law”)**

- To be effective as of **December 1, 2020**
- First law in China targeting export control issues

■ **Two Relevant Regulations:**

□ **Catalogue of Technologies Prohibited and Restricted from Export (2020 Revision) (“Tech Export Control Catalog”)**

- Effective as of **August 28, 2020**
- Updated on the basis of the Catalogue amended in 2008

□ **Regulations on the List of Unreliable Entities (“Unreliable Entities List”)**

- Effective as of **September 19, 2020**
- Counter-measures against foreign entities violating general trade rules

Scope of Controlled Items

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■ Related Technical Materials and Data

- First-ever specified
- May include source code, algorithm, etc., to be further clarified

■ Will Publish A Controlled Items List Later

- **v. Tech Export Control List:**
 - **Different Focus:** national security & interests v. economic policies

	Controlled Items List	Tech Export Control List
Legal Basis	<i>Export Control Law</i>	<i>Foreign Trade Law</i>
Items	Goods, Techs, Services, and Related Technical Materials and Data	Techs
Scope	Dual-use Items, Military Products, Nuclear and Others related to the Protection of National Security and Interests	Items related to the Protection of National Security, Public Interests, Economic Policies, etc.

Tighten the End-user and End-use Control

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■ **Exporter:**

- **End-user/End-use Certificate:** issued by the end-user or the local government
- **Timely Report:** if any inconsistency of the actual end-user or end-use

■ **Export Control Authority:**

- **Continuous Supervision :** establish a risk management system; conduct access and review; reinforce the management of end-user and end-use
 - May conduct on-site access and review

Introduce the Control List of Importer and End-user

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- **Chinese Counterpart of the U.S. Entity List, Yet to Be Published**
- **Importers and End-users on the Control List:**
 - beach end-users or end-uses requirements;
 - pose a threat to national security and interests; or
 - use any controlled item for any terrorist purpose
- **Consequences:**
 - **Importer and End User:** restricted from controlled items-related transactions; suspension of the exporting controlled items, etc.
 - **Exporter:** must secure the authorities' approval; otherwise would be strictly penalized.
- **In and out: Able to be removed**

Comparison with Unreliable Entities List

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- **Different Focus:** Controlled Items v. Behaviors Violating Trade Rules
- **Restriction Scope:** Export (China → Abroad) v. Export, Import & Activities in China

	Control List of Importer and End User	Unreliable Entities List
Legal Basis	<i>Export Control Law</i>	<i>Foreign Trade Law, State Security Law</i>
Main Application	Breach the regulatory requirements regarding end-users or end-uses	Breach the regular market transaction principle
Consequence	Foreign Party: Restrictions on import activities	Foreign Party: Restrictions on import & export activities, investments in China, entry permit, residential qualification, etc.
	Chinese Party: trade without authorities' approval would be strictly penalized	Chinese Party: N/A

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