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Executive Summary

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❑ Understanding Patent Applications under Chinese Law

With the rapid development of China's economy and the improvement of China's investment environment, the country continues to be one of the main international destinations for foreign companies to invest or do business. For all kinds of goods, whether manufactured or sold in China, the patent system is the key to protecting such companies' intellectual property. This is true for many kinds of enterprises, but most of all for those with high technologies. For example, a manufacturer of MP3 Players must continually innovate and improve the functions and design of its products in order to respond to market demand and stay ahead of competitors. In light of the considerable investments in human and material resources devoted to the creation of intellectual achievements, what kind of patents may be applied for to ensure the protection of such intellectual property under Chinese law?

I. Three Kinds of Chinese Patents

There are three kinds of Chinese patents: for invention, utility model and design. Article 2 of the *Implementing Regulations of the Patent Law of People's Republic of China* provides the following definitions:

(1) "Invention" means any new technical solution relating to a product, a process or improvement thereof.
(2) "Utility model" means any new technical solution relating to the shape, the structure, or their combination, of a product, which is fit for practical use.
(3) "Design" means any new design of the shape, the pattern or their combination, or the combination of colour with shape or pattern, of a product, which creates an aesthetic feeling and is fit for industrial application.

II. Comparing Different Kinds of Patents

Applications for patents of utility model and design require only the passing of a preliminary examination, after which the relevant patent rights can be granted – a process which usually can be completed within one year. The patent application process for invention patents on the other hand consists of three stages, namely preliminary exanimation, publication of application, and substantive examination. Generally speaking, the application for an invention patent may take three to five years or even longer. Particularly during the stage of substantive examination of a patent for invention, pursuant to the provisions of the *Patent Examination Guide* of the China Patent Office, examiners will carry out a strict examination of whether the application fits the relevant requirements, especially as regards to novelty and inventiveness.

After the patent for utility model or design is registered, the holder will have exclusive rights to the patent for ten (10) years from the date of filing – conditional upon the payment of annuities. For patents of invention, the duration is twenty (20) years.

Due to the substantive examination, patent rights for invention are relatively stable – they have already been considered in detail, and will thus be difficult to overturn. On the other hand, without substantive examination a patent right for utility models and designs lacks such stability. This is especially apparent when patentees exercise their rights. In patent infringement litigation for utility models for example, if the Defendant files a request for invalidation of the patent right with the Patent Re-examination Board, unless the patent holder can provide a Utility Model Research Report (issued by the SIPO indicating that the latter has found no prior art before the patent filing was made) the court will likely suspend the infringement lawsuit until the appeal has been finalized. For design patents, as long as the Defendant can produce some evidence to support the grounds of its invalidation appeal,

the court will also likely suspend hearings. If the latter's decision is still in the plaintiff's favour and the patent right is upheld, the Defendant may appeal the decision in an administrative lawsuit, and a judgment may be further appealed in a court at higher level – which may cause years of delay. In the case of lawsuits for patents rights based on invention however, the court usually will not suspend the lawsuit, resulting in a relatively quick handling of the infringement lawsuit to the benefit of the rights holder / plaintiff.

In addition, the application fees for the three kinds of patent vary considerably, with fees for utility model and design patents being considerably lower than fees for patents of invention. This refers not only to registration fees and annuities, but also for agency fees. In short, since patents for invention must pass a rigorous process of examination, your lawyer or patent agent will need to spend more time on the initial draft of the patent documents, and also likely on amendments and revisions as per the directives of the patent examiner.

Applications for invention-creation

From the abovementioned definitions of the term "patent", inventions or utility models refer to a technical solution, i.e. a combination of technical features based on natural law to solve technical problems (see below). A product's shape, pattern, colour, and so forth, or a combination thereof, which fails to provide any solution to a technical problem, does not fall within the scope of a patent for invention or utility model, and can thus only be covered by a patent of design. Take a manufacturer of MP3 players for example. If a newly-invented MP3 Player consumes 20% less energy than other models, this relates to a technical solution which can be covered by a patent application either for invention or utility model. If the MP3 Player is unique because of its exterior design, then it can be protected as a design patent. If one MP3 player combines both new technical and new design features, for full protection it would be necessary to file two applications, one for invention or utility model and the other for exterior design. Thus the same way, for an MP3 Player with a uniquely-shaped protection cover, which is waterproof in function and has a special exterior, the function can only be protected through an invention or utility model patent, while a design patent can only protect the exterior design.

III. Strategies for Design Patent Applications

Patents of design may make reference to various characteristics, including separately or in combination the shape, pattern, or colour of the product. In the application, the shape and pattern (exterior design) shall be shown through clear pictures or photographs in the patent documents, while the applications for colour shall be described.

The inclusion of a specific colour as part of the defining characteristics of a specific design will lessen the protection scope of the design patent accordingly: even if other products have the same shape or pattern, as long as there is a great difference in colour then such products will be regarded as insufficiently similar to constitute am infringement. Therefore, in general, we would advise not to request protection for the colour of a specific exterior design unless such a colour makes the design unique and is a more defining characteristic then the shape or pattern. Alternatively, an applicant may consider filing two applications: one for protection of the colour, and the other for the shape or pattern only. This will give the rights' holder the most comprehensive scope of protection.

IV. How to Select between Invention and Utility Model

A technical solution can be protected through a patent for invention or a patent for utility model – how to choose? Besides the above-mentioned concerns relating to examination time and procedures, relevant fees, and validity period, the following factors should also be taken into consideration.

The *Patent Law of People's Republic of China* provides that under any of the following situations, no patent right shall be granted:

(1) Any invention-creation that is contrary to the laws of the State or social morality, or is detrimental to public interest;
(2) Scientific discoveries;
(3) Rules and methods for mental activities;
(4) Methods for the diagnosis or treatment of diseases;
(5) Animal and plant varieties;
(6) Substances obtained by means of nuclear transformation.

Except for the aforementioned, all technical solutions can be protected by patents of invention. On the other hand, utility models cover a much more limited field, because utility models refer merely to physical products. Utility models protected by patents must be substantial and take up space, and shall be manufactured through industrial methods. Most apparently, this excludes methods such as for manufacturing, use, communication or disposal computer programs, and so forth. Products protected by utility model patents must possess form or structure.

Form refers to the outer definite appearance of the products, which may be three-dimensional or two-dimensional. Substances and materials such as gasses, liquids, powders and grains are deemed without a definite appearance, and thus cannot be protected by a utility model patent. The structure of a product refers to the arranged, organized and mutual relation of all the products' composition, which may be mechanical, and may be a circuit. Composite layers may be considered as the structure of a product.

If the technical solution to be protected consists of a product, possessing either form or structure, then the application may be based either on invention or utility model. Then one should consider the need for inventiveness – generally speaking, this requirement is heavier for invention patents. Furthermore, this also relates to the stronger, and more durable protection of inventions, ideally suitable for technical solutions which are highly inventive and need long-term protection.

One strategy which is often adopted is to apply for patents for inventiveness and utility model concurrently (on the same day). The earlier granting of the utility model patent will give the applicant initial protection, and after the application for invention patent is finally granted to get better and more durable protection, the former can be given up. Under current laws however, the legal basis for such a strategy is arguable. After the utility model is given up (either immediately after the invention patent is granted, or at the end of the ten year validity period), the utility model patented technical solution will enter into the public technology domain. Any infringement of the invention patent (which continues to be valid) may be defended by arguing that there are no restrictions to using technical solutions in the public domain. At present, there is no predominating view on how to courts should deal with such cases.

V. Conclusions

An understanding of China's system for filing of patents – for design, utility model and invention – should form the basis of an innovative company's IP protection strategy in China. While many of the principles for patent protection are similar to other jurisdictions, the above specific traits of the Chinese system should be taken into consideration. In particular, it is important to realize the differences, as well as the advantages and disadvantages of the various kind of patents.

The preparing of patent applications, and the filing of such applications with the State Intellectual Property Office (SIPO) is a relatively quick and simple process. Yet during this process, the applicant and its lawyer / patent attorney should carefully reflect on the different options. Applications should be drafted not only to meet smooth approval from examination authorities; it is also crucial to take into full consideration the effectiveness of the patent in the face of future infringements.

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❑ Recent Improvements to China's Trademark System

The history of intellectual property protection in China is not so long, but its development surprises the world; the development of trademarks and brand names in China is drawing everyone's attention. According to statistics, in 2005, the number of applications for trademarks totaled 838,000, among which 664,000 applications for registration – compared to approximately 300,000, 400,000 and 500,000 applications respectively in 2002, 2003 and 2004. In each of these years, China received more application than any other country.

Besides the growing number of applications, there is more good news regarding trademark protection in China in the past year.

I. The Trademark Office of the State Administration for Industry and Commerce (SAIC) introduced the internet inquiry system for information on trademark registration.

On 26 December 2005, the State Trademark Office officially commenced an internet inquiry system for information on trademarks registration. This allows individuals and companies to inquire about information relating to the registration of trademarks free of charge at http://sbj.saic.gov.cn/. Through this system, one can get information related to identical or similar trademarks, comprehensive information for trademarks, and the status of examination for trademarks. The database includes not only the trademarks that are registered but also the trademarks that are at the stage of application for registration.

The establishment of this internet inquiry system for information on trademark registration is deemed a great convenience to both trademark applicants and their agents. Better access to relevant information will help to strengthen rights' protection, and facilitate the making of quick business decisions. It will also make it easier for regional administrations – administrative and judicial – to gather information relating to trademarks when they are handling their cases, further enhancing the protection of exclusive rights for registered trademarks.

II. Standards for examination and trials of trademarks introduced by the Trademark Office and the Trademark Review and Adjudication Board

On 31 December 2005, the Trademark Office and the Trademark Review and Adjudication Board of the SAIC jointly promulgated and published the *Guidelines for the Examination of Trademarks* and the *Guidelines for the Trials of Trademarks*.

The *Trademark Examination Guidelines* consist of 7 parts, namely, examination for marks that cannot be used as trademarks, examination for distinctive features of trademarks, examination of identical or similar trademarks, examination of three-dimensional trademarks, examination of color combination trademarks, examination of collective and certification trademarks, and examination of special marks. This normative document provides

further clarifications for relevant concepts in the Trademark Law, formulates more accurate examination principles, and offers a large number of true examples for comparison. The promulgation of these guidelines is of particular use to examination authorities, trademarks owners, trademarks applicants, and trademark agents and lawyers:

(1) they should help the examination authorities deal with filings and appeal cases in an objective, systematic and fair way;
(2) they give a clear legal basis for trademark owners to protect their rights against marks similar to their own;
(3) they offer trademarks applicants better insight on whether their applications will be accepted or rejected, thus avoiding unnecessary waste of efforts, time and money; and
(4) they enable lawyers and trademark agents to provide more pertinent opinions on the registrability or strength of a trademark.

For a detailed overview of the above Guidelines, please see the article "New Trademark Guidelines Disclosed" by this author, available on www.wjnco.com.

The *Guidelines for the Trials of Trademarks* consist of 8 parts, namely relating to standards for trial of cases relating to reproduction, imitation or translation of others' well-known trademarks; standards for trial of cases relating to agent or representatives registering the trademarks without authorization; standards for trial of cases relating to infringement upon other's priority rights; standards for trial of cases relating to rushing for registration of another's trademarks that are used with certain influence; standards for trial of cases relating to acquiring registered trademarks by cheating or other illegal means; standards for trial of cases relating to withdrawal of registered trademarks; standards for trial of cases relating to similar products or service; and standards for trial of cases relating to marks that have acquired distinctive features during the course of using. This document provides specific stipulations for the important conditions that will apply to different kinds of trademark cases, and will help to unify the conduct of examiners in dealing with such cases.

III. Official implementation of the *Rules for Trademark Review and Adjudication*, second amendment

The *Rules for Trademark Review and Adjudication*, a regulation forming an integral part of the Trademark Law and its implementation rules, was promulgated officially after the second amendment and put into force as of 26 October 2005. With the increasing number of applications to be reviewed, the newly amended Rules focus more on the principle of efficiency with consideration of fairness, and introduces certain improved procedures. In comparison with the former edition, the new Rules have been amended on ten issues which are relevant to reviews, such as deduction of repetitive provisions, handling cases of decision on ownership of trademarks by means of mediation, the period of evidence adduction and evidence exchange, and the notification of refusal of the examiner. When handling review cases of refusal, the Trademark Review and Adjudication Board may examine the marks that are prohibited to be used or registered as specified in the Trademark Law on its own initiative, which should draw further attention of the trademark applicants and agents.

IV. Conclusions

With China's continuing economic development, the role of intellectual property rights is becoming more important. The above changes not only clearly represent an improvement of China's trademark system, but also show the willingness of relevant authorities to continue to adapt the system to better reflect fair practice.

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In each issue's Feature Article, we respond to readers' suggestions to discuss a topic related to investment, law or this law Firm. Please send your ideas to mjroos@wjnco.com.

❑ Feature Article: Legislative Outlooks for 2006

China's National Working Group for IPR Protection, headed by Vice Premier Wu Yi, has officially formulated its 2006 national strategy for intellectual property rights (IPR's). In 2006, China will draft, formulate and revise 17 laws, regulations, rules and measures relating to IPR's, including.

On Trademark Protection

- Revision of the *Trademark Law of the People's Republic of China* (no timetable issued).
- Promulgation of rules on how administrative authorities should deal with disputes between trademark owners and business name owners.

On Copyright Protection

- Promulgation of the *Legally Permitted Payment Rules for Broadcast and Television.*
- Promulgation of the *Measures for the Protection of Copyright in Works of Folk Literature and Art.*
- Revision of the *Measures of Registering Works upon Free-will.*
- Drafting of the *Regulations on the Protection of the Right of Communication through Information Networks.*

On Patent Protection

- Revision of the *Regulations on Patent Commissioning*
- The Patent Office will amend and publish its *Manual for Patent Examining Procedures* (will be available in English)

Miscellaneous

- The National People's Congress (NPC) will draft / amend laws and regulations on medicine IPR protection
- Promulgation of the *Protection of IPR during Exhibitions* (Ministry of Commerce and State Administration for Industry and Commerce (SAIC) 1/10/2006; effective 3/1/2006)
- Chinese police will also continue their "Mountain Eagle" campaign, launched last year to crack down on IP crimes. Moreover, the government will invite representatives from business and the US and European governments to take part in the China IPR Criminal Protection Forum 2006

The Standing Committee of the 10th NPC of China recently announced its 2006 legislative plan, involving 39 draft laws. Specifically, the Standing Committee will conduct a first-round review of 16 laws, including the long-awaited Antimonopoly Law and Corporate Income Tax Law. The Standing Committee plans to review 9 laws carried over from past years, including the Property Law and the Labor Contract Law. In addition, if the 2006 schedule permits, NPC will review 14 additional laws for the first time, including the State-Owned Assets Law and the Law Against Unfair Competition.

Anti-monopoly Law

- The SAIC's Report shows that existing laws lack efficient provisions. The Antimonopoly Law's scope will cover monopolistic activities within China, and those outside of China that eliminate or have a restrictive effect on competition in China's domestic market.
- The draft prohibits monopoly agreements and abuse of dominant market position. Moreover, the terms "monopolistic conduct" and "dominant market position" are defined for the first time.

- The draft contains provisions regarding "concentration", meaning mergers of companies, and direct or indirect acquisition of other companies.

Corporate Income Tax

- Since the 1980s, to encourage foreign investment in China, foreign-invested enterprises have been offered preferential tax rates. As per commitments at accession to the World Trade Organization in 2001, this policy will be reviewed and all enterprises will receive equal treatment.
- The income tax law is expected to receive its first review in August 2006, but no timetable or tax rate for implementation of the future tax system has been proposed. The earliest possible implementation date of the new tax mechanism will be 2008.

Property Law and State-owned Assets Law

- The new Property Law will give more specifics to the protection of private property, which was for the first time described in China's constitution in the latter's 2004 revision.
- The draft of the State-owned Assets Law reflects the principles of equal protection of State-owned property, collective property and individual property. For example, the draft proposes that property owners shall be given reasonable compensation when their properties are seized for public use.
- The draft also aims to protect State property by defining that administrative staff in State-owned enterprises shall bear civil, administrative and even criminal liabilities if they transfer the ownership of public property through stock or company sales at prices lower than the actual value of the assets.

Labor Contract Law

- The proposed draft of the Labor Contract Law emphasizes protecting employees' interests. As many existing rules vary from place to place, the draft, for the first time, sets up national rules.
- The proposed draft requires that the non-competition period (restricting former employees with trade secrets from working for competitors) must not exceed two years, and that the extra payment during this period must not be less than the employee's original compensation.
- The draft also strongly requires that employment agreements are in writing and define factual employment relationships.

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