



躍動する中国と米国：知的財産とビジネスのリスク管理

Changes Are Afoot in China and the US: Proactive IP and Business Risk Management

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SECOND GENERATION CHINESE PATENT SOPHISTICATION: LESSONS FROM *CHINT V. SCHNEIDER**

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I. OVERVIEW

China's intellectual property system has reached a new level of sophistication in *Chint v. Schneider*¹ both through an award of damages for patent-like protection unprecedented up until the present time as well as for the aggressive positive use of the local intellectual property system by increasingly patent-sophisticated businesses against western competition.

This paper commences with a brief summary of the decision itself and the legal environs of what clearly is *not* a "Marshall Texas". See § II, *The Chint v. Schneider Decision*. To guard against a *Chint v. Schneider* debacle, a western company entering China for the first time should carefully plan a strategy that includes a prophylactic patent-defeating patent filing regime. See § III, *A Patent-Defeating Patent Strategy*. Western businesses must also be aware of the probability that expert scientists and engineers from a Chinese outsourcing partner may make improvement inventions; they must be considered in contracts to avoid serious patent problems in the future. See § IV, *Patent Rights as Part of any Outsourcing Agreement*. An aggressive patent strategy includes the use of the local patent office to invalidate any competitor's worrisome patent grants. See § V, *Patent Defeating Actions at the SIPO*. Perhaps more so than in many countries, forum shopping is an important ingredient to a proper understanding of the local legal landscape. See § VI, *Forum Shopping*.

* This paper was prepared based upon discussions held in early October 2007 by the authors that included meetings with Catherine Sun, Chair of the Asia Practice Group of Foley & Lardner LLP.. The discussion of utility models is based largely on unpublished information provided by Ms. Sun. See § III-C, *Gebrauchsmuster or Utility Model Protection*. The remarks are solely attributable to the authors and do not necessarily reflect the views of any colleague, organization or client thereof.

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¹ Wenzhou Intermediate People's Court (September 29, 2007). The official government website of the Ministry of Commerce of the People's Republic of China includes a summary on its website, *attached* as an appendix.



This paper focuses on what can be done *within China* to protect the continued right of a western concern to operate in that country. It is beyond the scope of the present paper to deal with actions to protect outsourcing ventures by creating a legal framework *at home* in western countries, and to take action against Chinese exporters *in home fora*.

II. THE *CHINT V. SCHNEIDER* DECISION

The September 29, 2007, Wenzhou Intermediate People's Court \$ 45,000,000 infringement verdict for its hometown electronics manufacturer versus the global French-based leader represents a true milestone for infringement cases in China, both in terms of the nature of the victory of a home town plaintiff versus a world leader from the west and also in terms of the order of magnitude of the damages awarded, although utility model and not patent protection was involved.²

Chint v. Schneider involves a decade-long dispute between the French-based leading western manufacturer of low voltage electronics such as switches, circuit breakers and its top Chinese competitor Wenzhou-based Chint Electrics. Schneider battled Chint in Western Europe to retard Chint's expansion in Europe, thereby educating Chint into the hardball world of patent litigation. Chint retaliated by gaining a *domestic* portfolio of patent rights of its own which it successfully enforced in its hometown court of first instance – the Wenzhou Intermediate People's Court – winning a damages award of \$ 45,000,000. The battle is far from over as Schneider has a two-front patent war still going on against Chint. First, although it was unsuccessful in invalidation proceedings at the patent office – the SIPO – an appeal through the judicial system is slowly moving forward that would strike the Chint patents – if successful. *Second*, appeals are certainly expected from the Wenzhou proceedings themselves.

The two factors contribute to the emergence of the Chinese intellectual property community as having reached a much higher level of sophistication than many had thought imaginable in such a short period after the early 1990's liberalization of the Chinese patent system.

²For the distinction between a utility model and a patent, see § III-C, *Gebrauchsmuster or Utility Model Protection*.



While the primary focus of this paper is on maintaining rights to utilize existing technology in China, it is also important to craft strategies that take advantage of western legal systems to block imports from China that are based upon the western manufacturer's technology. This topic has been previously dealt with and considered in more detail elsewhere.³

III. A PATENT-DEFEATING PATENT STRATEGY

A. The Patent-Defeating Right of a Published Application

Western industry leaders entering China should make sure that they have a right to continue production of their products in China. Often, a western heavy manufacturing concern has not bothered to gain patents perhaps even in home markets. The fact that a production line may have operated for many years in Europe or the United States does not create a bar against a Chinese company independently developing the same technology and gaining local Chinese patents. If the only prior commercialization involved the secret factory use of the technology in, say, Berlin or Baltimore, this provides no patent-defeating right against an independent Chinese creator of the same technology. There is no international prior user right law to protect the western manufacturer.⁴

Accordingly, the western business concern would do well to consider filing a *home country* patent application with detailed drawings and manufacturing details for all but the most closely held trade secrets. Then, within one year, a Paris Convention application perhaps via the Patent Cooperation Treaty is thereafter filed for Chinese

³ See Sharon R. Barner & Harold C. Wegner, *China Outsourcing: A Technology-Based Strategy for Manufacture of Goods for the Domestic and Global Markets*, Foley & Lardner IP Roundtable, Detroit, Michigan, September 14, 2004 [available on www.foley.com]. Particularly important is an inventory of intellectual property necessary to practice an outsourced invention, and then creating an intellectual property "fingerprint". *Id.* at § III, *An Intellectual Property "Fingerprint"*, pp. 6 et seq. The entire production line should be protected against patenting. *Id.* at § III-A, *Fingerprinting the Production Line*, p. 8. Already commercialized domestic trade secrets may be included in a patent strategy. *Id.* at § III-B-3, *Chinese Patenting Already Commercialized Trade Secrets*, p. 10. Design patents also have a unique role to play. *Id.* at § III-D, *Design Patents for the "New Model"*, p. 11.

⁴ Typical prior user right statutes from western Europe and now the United States give a party the right to continue to commercialize an invention where there is a subsequent patenting by a third party. But, such a prior user rights statute is meaningless in terms of creating any rights in China or other foreign countries where there has been no pre-patenting commercialization of the invention.



rights.⁵ For eighteen months from the priority date, secrecy is maintained.⁶ Upon publication, a patent-defeating effect is created to bar any Chinese patent that reads on the disclosure in the published application unless it has a filing date earlier than the home country priority date.

To be sure, from a *theoretical* standpoint the western manufacturer could simply *publish* detailed drawings and other specifications in English, French, German or any other language, and rely upon such a publication in lieu of taking the patent route to delayed publication 18 months from the filing date. But, there are clear disadvantages to this route. First, there is no patent-defeating effect until publication, whereas by taking the patent route trade secrecy may be maintained for 18 months after the first filing with a *retroactive* patent-defeating effect as of the priority date, once the publication does occur. Second, if there is a published Chinese patent application as the prior art, this will be an obviously far more impressive document than some French or English or other publication. Is the “publication” in fact a patent-defeating publication under Chinese law? (The regularly filed Chinese patent application is automatically prior art.) Furthermore, a Chinese language official Chinese government document – the patent application – will have a greater effect on a local jurist otherwise unfamiliar with patents.

B. Offensive Rights Keyed to Already-Commercialized Processes

Many trade secrets are practiced for many years behind locked factory gates, while some *could be* reverse engineered by the competition, if there were a serious motivation to do so. Such trade secrets would be better transformed into patent rights, which of course is not possible in terms of *domestic* rights.⁷ But, a trade secret invention practiced in the United States may still be the basis for patenting in

⁵Under Art. 4B of the 1934 London Revision of the Paris Convention, an overseas application that is entitled to priority is given a patent-defeating effect as of the *priority* date for what is claimed in a Chinese (or other) patent. To be sure, most countries have gone beyond the Paris Convention minimum requirements to give the patent-defeating effect to bar a claim that reads on the *disclosure* of the priority document.

⁶The applicant thus maintains the option of maintaining trade secrecy for up to 18 months. He may elect to *forfeit* patent rights in this time and avoid publication of the patent application.

⁷ *Pfaff v. Wells Electronics, Inc.*, 525 U.S. 55, 68 (1998)(citing *Metallizing Engineering Co. v. Kenyon Bearing & Auto Parts Co.*, 153 F.2d 516, 520 (2d Cir. 1946)(L. Hand, J.)).



other countries.⁸ Here, a provisional application should be filed, and then within one year regular Paris Convention filings can be made to seek patent protection on such trade secrets.

C. *Gebrauchsmuster* or Utility Model Protection

The German *Gebrauchsmuster* system lives on in China, even though the country of origin continues the system in a much modified form. In its classic form, the *Gebrauchsmuster* – trivialized in translation as a “utility model” – provides patent-like protection but is a far simpler document. More importantly, it is *registered* without examination, which permits the quick grant of patent-like rights that avoids the examination backlog that exists at almost every patent office in the world.

The power of a Chinese *Gebrauchsmuster* is manifested by the *Chint v. Schneider Electric* case itself: It was *Gebrauchsmuster* protection that led to the \$ 45,000,000.00 infringement verdict, and not a classic, examined patent.

Although the United States patent system does not honor the *Gebrauchsmuster* in domestic practice, under the Paris Convention a party may file a *Gebrauchsmuster* as a first filing for purposes of overseas Paris Convention priority. Americans may enter the Chinese system by filing a home country provisional application and thereafter filing a *Gebrauchsmuster* within the Paris Convention period.

The Chinese patent system follows the classic German *Gebrauchsmuster* or “utility model” patent-like protection that permits a very simple filing that is *registered* and not examined. It is thus an extremely simple matter to put together a wide portfolio of patent-like protection in China. The Paris Convention fully recognizes a *Gebrauchsmuster* as one of the objects of protection for the Paris Convention,⁹ including a right of priority equated with regular patents.¹⁰

⁸ Only the United States adopted the unique bar against patenting an applicant’s secret invention. No other country has followed the lead of Learned Hand in *Metallizing Engineering*.

⁹ Article 1(2)(“ The protection of industrial property has as its object patents, **utility models**, industrial designs, trademarks, service marks, trade names, indications of source or appellations of origin, and the repression of unfair competition.”).



IV. PATENT RIGHTS AS PART OF ANY OUTSOURCING AGREEMENT

While apparently not implicated in *Chint v. Schneider*, it is anticipated that many disputes will arise as to ownership of *improvement* inventions that are made as part of outsourcing or joint venture agreements. Clearly, one of the great advantages for the western company choosing China for outsourcing is the very high educational and skills level of Chinese workers. It may be anticipated that if there is a long-running outsourcing agreement that at some point in time improvements will be developed by local Chinese scientists or engineers. This may lead to patent rights that should be determined before the outsourcing agreement itself is finally consummated.

For example, as a minimum, the original agreement should provide that any improvements that are made in the course of the outsourcing should give the western partner a royalty free nonexclusive right to make use or sell any improvements, whether in China or in other countries. A more ambitious agreement may seek to have all rights other than in China be exclusively assigned to the western party.¹¹

To the extent that there is no contractual agreement and the Chinese outsourcing partner obtains a global patent portfolio, it may well be in a position to exclude the western company from improvements in its home market.

¹⁰ *Id.*, Art. 4A(1), Right of Priority (“Any person who has duly filed an application for a patent, or for the registration of a utility model *** in one of the countries of the Union... shall enjoy, for the purpose of filing in the other countries, a right of priority...”). This is expressly recognized by the U.S. PTO. See MPEP § 201.13, *Right of Priority of Foreign Application* (“The right of priority can be based upon an application in a foreign country for a so-called ‘utility model,’ called Gebrauchsmuster in Germany.”)

¹¹ Obviously, it would be desirable from a business standpoint to have *all* rights exclusively assigned to the western party. Whether excluding the Chinese partner even from the Chinese market may be *desirable* this may push the envelope too far in terms of emerging policies of the Chinese authorities.



V. PATENT DEFEATING ACTIONS AT THE SIPO

The Chinese Patent Office – the SIPO – is a highly sophisticated patent granting authority, one of the largest in the world, highly experienced and with technical expertise to understand any technology. It is important to carefully monitor third party patents and *aggressively* pursue actions at the SIPO with top flight representation to make sure that marginal patents are defeated at the source, at the SIPO.

To be sure, there is a right to bring a court action from a defeat at the SIPO – as, apparently, is the case in *Chint v. Schneider*. Yet, the confirmation of patentability by the SIPO can be a powerful tool in the hands of the patentee at trial, particularly as seen from what has transpired in *Chint v. Schneider*.

VI. FORUM SHOPPING

Forum shopping is a major aspect of Chinese patent litigation and should be a component in any strategic planning.

A. *Chint v. Schneider* Itself

As made manifestly clear from the *Chint v. Schneider* case itself, the choice of forum can be extremely important to the outcome of a particular case. Western competitors would do well to heed the warning of this case, to avoid litigation in the home district of a competitor. Where the Chinese competitor has a significant patent portfolio, the countermeasures at SIPO as well as providing a blanket of patent-defeating published patent applications should be considered.

1. Wenzhou – Remote, but Hardly “Marshall, China”

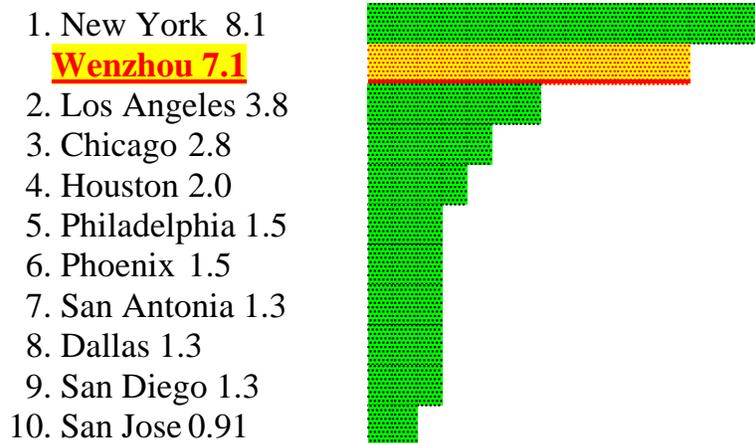
Typical “Old China Hands” from western countries have ventured beyond the big cities, but not very far. Frequent visitors to Shanghai have taken a several hours excursion into neighboring Zhejiang – but usually only as far as the scenic West Lake and other attractions in Hangzhou 160 km from Shanghai. Until the dramatic *Chint v. Schneider* ruling, Wenzhou was totally unknown to even the average western “China hand”. Tourist books describe Wenzhou in picturesque terms, newly opened up through rail service that commenced less than ten years ago (in 1998), and



which is now reached by train from Shanghai – roughly midway as the row flies between Shanghai and Taipei lying along the coast of the East China Sea¹²

It would be wrong to compare Wenzhou with Marshall Texas, if only from the size of this manufacturing center which is three hundred times as large – 7+ million versus less than 25,000. If ranked against the Top Ten American cities, Wenzhou would fall just below Number One New York City:

Wenzhou vs. The Ten Largest U.S. Cities
(population in millions)(2005)



Whereas patent infringement litigation may be one of the largest employers within the city of Marshall, patent law has barely touched the radar screen in Wenzhou – and possibly would still not be an item on Chint's agenda, but for the bruising patent wars initiated by Schneider in western Europe in the mid-1990's. Certainly from the standpoint of sophistication in patent law, Wenzhou is far behind the cosmopolitan court of Shanghai, Beijing and many other cities within China.

¹²Two maps are provided as part of the appendix, first pinpointing the province and the second showing the key cities.



B. Choice of Proceeding, Choice of Region

The forum shopping choices in China include both a component as to which *type* of forum should be chosen as well as geographic issues.

Validity challenges either at the SIPO or in Court may very well be a good preemptive strategy vis a vis waiting for suit in an infringement action. Where both parties have their own patents, suing first in a favorable forum will give an obvious edge. As a patentee, the choice of forum is quite wide as sales to a particular area will trigger infringement jurisdiction in that area.

VII. AN EVER MORE PATENT-SOPHISTICATED CHINA

China's growth as a patenting nation has been remarkable and continues to grow. Western companies entering China must do so with the full recognition and respect of their Chinese competitors or else fall victim to the system a la Schneider.



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[Homepage](#)[Sitemap](#)[Statement](#)[Mission](#)[Search](#)[Contact us](#)**Real-Time Update****Today Updates
News Release**[Current Location: Homepage > News Release > Common News > Text](#)**Chinese firm wins patent lawsuit against Schneider**

2007-09-30 05:41

From:Xinhua Article type:Reproduced

WENZHOU -- A Chinese low-voltage product company won a patent infringement lawsuit against France's Schneider Electric and its Chinese sales agent on Saturday, which involves 330 million yuan in compensation.

A court in east China's Zhejiang Province ordered that the Tianjin-based joint venture, in which Schneider holds 75 percent of stakes, and its authorized distributor Leqing Branch of Star Electric Equipment Co. Ltd. in Zhejiang, stop selling five models of products that are based on the technology owned by Chint Group, China's leading manufacturer of low-voltage electric apparatus.

In addition, the world's leading electric equipment maker should pay 334.8 million yuan (4.3 million U.S. dollars) in ten days to compensate Chint's economic losses due to the unauthorized production and sales of the apparatus, according to the verdict handed down by Wenzhou Intermediate People's court on Saturday.

Court investigations show that Schneider earned 883.6 million yuan (117 million U.S. dollars) by selling the five models of apparatus, which fell in the protected scope of Chint's patent right, from August 2004 to July 2006 and made a profit of 334.8 million yuan.

Chint filed the lawsuit against Schneider in August last year.

The amount of compensation is believed to be the highest in China so far in terms of intellectual property disputes.

The State Intellectual Property Office granted Chint with the patent of a utility model "a miniature circuit breaker" in 1999, which was used by Schneider in the manufacturing of C65a, C65N, C65H, C65L and EA9AN products.

Before the court ruling, the State Intellectual Property Office had refuted Schneider's application of invalidating the patented technology, which is "a crucial step for Chint that confirms the legal foundation of the case," said Xu Zhiwu, Chint's legal representative.

Schneider's attorney Ding Chen said the company will possibly file a lawsuit against the verdict to the supreme court.

He noted that Schneider had sued for the validity of the disputed technology to Beijing No.1 Intermediate People's Court. The court opened a trial on Monday and the final ruling is yet to be made.



