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AIA fails to corral IP theft by Chinese

With help from U.S. law, Asian giant considers making its own reforms

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This is part four in a five-part series on the Leahy-Smith America Invents Act (AIA).

Billed by the White House as the biggest reform of the patent system since the 1950s, the Leahy-Smith America Invents Act (AIA) unsurprisingly addresses a host of common complaints lobbed at the American patent system.

In response to critics who say a shortage of patent examiners creates long delays, AIA provides about 1,000 more pairs of eyes. To quell critics who argue that patents not fit to make it out of the U.S. Patent and Trademark Office (USPTO) often still do, AIA adds a number of ways for the USPTO to check its work.

But AIA, by its very definition as a U.S. law, cannot address one problem that the U.S. International Trade Commission (ITC) said cost American companies \$48.2 billion in 2009: Chinese intellectual property infringement.

"China is the problem and China has been the problem for many, many years now," said Thomas A. Hallin, an officer at Greensfelder, Hemker & Gale P.C. who started battling Chinese counterfeit products as an in-house attorney at Ford Motor Co. in the 1990s.

China accounts for 79 percent of IP-infringing goods brought into the U.S., the ITC says. Complicating the issue, Hallin said, a U.S. report to Congress in 2011 said 8 percent of China's economy comes from counterfeit products.

"There's only so much the U.S. can do to change (China's) mind," Hallin said.

Outside pressure from U.S. legislation and politicians may not stop intellectual property infringement in China. But some local lawyers see the world's largest country slowly changing its stance from the inside.

As China's economy shifts from focusing on providing cheap labor to producing more innovative products, it creates an incentive for the country to back up its long-standing goal to enhance patent rights and enforcement, said Arthur Tan-Chi Yuan, executive director at The John Marshall Law School's Chinese IP Resource Center.

"The courts notice that and the Chinese population and public know that if they themselves want strong IP protection, they need to respect" the IP rights of other countries, Yuan said.

Indeed, Chinese companies seem to be warming to the idea of patents.

For the first time, China filed more domestic patents in 2011, 526,412, than the U.S., 503,582, a Sept. 5 article on DLA Piper's website says.

And recent legislation proposals in China would enhance some of the ways in which Chinese laws enforcing patents currently lag the U.S., Yuan said.

For instance, one proposal creates something similar to the U.S. discovery process for patent litigation, which currently does not exist in Chinese litigation. Another proposal would move Chinese patent infringement damages for "willful infringement" closer to the American policy of tripling damages for those types of infringers.

With Chinese companies starting to hold more patents of their own, they will start to see the rights they provide as "a two-way street," David L. Newman, an intellectual property partner at Arnstein & Lehr LLP, said.

"I think those who in the past may have considered copying may now understand the reason for patents and other intellectual property and be more respectful,"



Thomas A. Hallin

he said. "It's a learning process."

And while Chinese companies learn to appreciate their nation's patent system, Yuan said American companies should study up on it as well, as any changes in the Asian nation remain slow-moving.

Molex Corp., a Lisle-based electronic parts maker, for example, learned one way to leverage the Chinese patent system to its advantage in the early 2000s.

One type of patent China offers that the United States does not, called a utility model patent, allows a company to quickly obtain patent protection without a long examination, Yuan said. The patent allows 10 years of protection and must get vetted if used in litigation.

Partly due to a lack of understanding, non-Chinese companies hardly use them, Yuan said.

During a study of utility model patent applications, Yuan said he found about 1 percent of the 53,579 such patents filed in 2000 came from non-Chinese companies. A similar percentage of the 266,479 filed in 2009 came from non-Chinese companies.

Molex, though, stands out in both years. It filed 56 of the 120 total applications from U.S. companies in 2000 and continues to lead in the category, Yuan said.

Robert J. Zeitler, general counsel at Molex, said the patent



Arthur Tan-Chi Yuan

helps his company secure contracts with manufacturers in China. The patent quells business partners' fears that Molex may get accused of patent infringement, he said.

"Part of one of the reasons why Molex adopted that strategy is we have people in Molex that are familiar with the patenting system in those jurisdictions," he said.

While the company learned to leverage the Chinese patent system by placing lawyers on the ground there a decade ago, Zeitler said he remains uncertain about the pace of change within the nation.

In particular, copyrights and trademarks prove a bigger problem than patent infringement, he said.

On that front, China's own reports of its progress show how deep its problems run.

A Sept. 20 report from China's official news agency Xinhua cites a Chinese Ministry of Commerce official as saying "a remarkable achievement" for China's advancements in IP protection "was the elimination of pirated computer software from all government institutions." The eradication expects to be completed in 2013.

"It does take time to change and we'll see how committed they really are to this change," Zeitler said.