

2014 CALOBA IP Seminar Part II: Patent Portfolio Management Strategies for Chinese Companies

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Companies in the Greater China region have long recognized that their patent strategies are critical to their success in U.S. markets. While Chinese companies have made great strides in recent years to cope with the U.S. patent system, its costs and complexities remain daunting. To focus the discussion on this important issue, on March 19, 2014, CALOBA sponsored a seminar entitled “How Do Companies in the Greater China Region Fare in the U.S. Patent System?” The event was held in the Menlo Park office of Orrick, Herrington & Sutcliffe LLP, which jointly sponsored the event.

The second of two panels examined how Chinese companies can develop an effective U.S. patent portfolio and use it for business advantages. The panel featured seasoned patent practitioners: Don Daybell (Senior Associate, Orrick), Diana Fu (Partner, Van Pelt, Yi & James), Alex Zhang (Partner, King & Wood Mallesons), and Roger Shang (Alibaba’s Chief Patent and Technology Counsel). Michael Farn (Partner, Fenwick & West), moderated the panel.

What are the takeaways for the audience today?

Mr. Farn started the panel discussion by asking each panelist to give a few points that Chinese companies should take away from today’s session.

Mr. Daybell highlighted that Chinese companies should not overlook the use of Inter Partes Review (“IPR”) as a weapon to challenge patents. Not many issued patents are litigated and IPR provides an alternative platform to contest patents thereby getting ahead of their competitors, especially for those “key patents” and “core IPs” designed to cover core business.

Ms. Fu urged Chinese companies to ensure patent quality by asking U.S. counsels to do the work. Although U.S. counsels may cost higher than Chinese companies, they usually deliver patents of higher qualities. A U.S. counsel generally combs through an invention one-on-one with an inventor and tries to find and develop a patent strategy that is aligned with the company’s business goals and plans. In addition, a U.S. counsel who is fluent in both Chinese and English may prevent “loss in translation.”

Mr. Zhang encouraged Chinese companies to set their goals. Chinese companies, of which the majority are smaller companies compared to their U.S. counterparts, need to review their

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business strategies. Given high legal costs in the U.S., Chinese companies need to ask themselves whether they want to enter the U.S. market.

Mr. Shang prompted Chinese companies to develop localized strategies. There is no single approach that fits all geographic regions. For the same invention, the U.S. application tends to have broader claims, whereas claims of the European or the Chinese application usually have narrower scopes. For another example, a final office action in P.R.C. suggests the application has terminated; however, a final office action in the U.S. is not necessarily final. Furthermore, the U.S. patent strategy tends to have business implications whereas technical considerations usually determine the P.R.C. patent strategy.

What is the substantive work and Why should a client choose you?

Ms. Fu described that the firm sifts ideas based on the company's business, identifies the crown-jewels inventions that give the company an edge over the competition . As not all ideas need to be patented, an attorney typically performs a problem-solution analysis to filter out ideas and help a company identify their assets.

Ms. Fu said that most of her work is by referral. The U.S. counsel might be more expensive, nevertheless, patents are not commodities.

How should a Chinese company based in China select a patent counsel?

Counsels should be selected based on the jurisdiction where the company has a portfolio, said Mr. Zhang. For example, if an invention is invented in China, then the application must be first filed in China, and a foreign filing license needs to be requested for filing in other countries. In that case, a patent counsel who can draft the application in Chinese is desired.

The company's business objective and strategy determine the counsel selection. For key, critical, and core technologies based patents, which tend to be used offensively, the company may consider spend more resources on developing these patents. For example, a U.S. patent attorney may be hired to prosecute these patents. A more economical approach can be used to develop a portfolio of large numbers of patents, which are used defensively. That is, when threatened, the company can defend itself by asserting these patents. Local counsels can be employed to prosecute these patents.

Mr. Shang said that it is difficult to find the perfect counsel. Most of the time, the counsel is determined by conflicts and experience.

Chinese companies are doing a large number of filings now, is this a good approach for them, at least for the time-being?

Ms. Fu said that Chinese companies need to develop good patent portfolios. Compared with other economies (e.g., Taiwan, Japan, South Korea) of the same stage, the number of filings in Mainland China is still lower. For example, the current China economy is similar to Japan in the 90's. Japanese companies do not usually hire U.S. attorneys to prosecute their patents. More often, they file PCT applications and file U.S. applications in the national phase. In the U.S., there are many Chinese engineers that speak and write English well. They can communicate with Chinese inventors who do not have the language skills and prosecute patents directly in the U.S.

Referring to Samsung, a Korean company that is among the top U.S. patent recipients, Mr. Shang said that compared to quantity, quality is difficult to measure. Lack of measurement makes it hard to show that one patent is better than another one in quality. Not all patents get litigated and we cannot wait until trial to prove the quality of a patent. Compared to quality, quantity is a lot easier to measure. It is human nature that people are focusing on the number of filings.

A company has offices in China and the U.S., where should the company file the application when an invention is jointly developed?

The law has not yet caught up with the trend that cross-border teams collaborate. The company should just make a decision because there is no case law on this point yet.

What do you view the situation when a “high quality” patent is invalidated by court?

The fact that a patent is asserted in a litigation suggests the value, said Mr. Shang. Ms. Fu reminded the audience that every patent faces the risk of being invalidated. Mr. Farn noted that applications are not guaranteed to be patented despite the cost.

What are some of the challenges of managing a portfolio?

Mr. Shang said that good communications with executives and inventors can be challenging. A in-house counsel needs to understand the company's business strategy and adopt a patent strategy facilitating the business strategy. In addition, the in-house counsel has to explain to different audiences what inventions need to be patented and where the applications should be filed.

In your practice, how is it different to interact with a Chinese company in comparison to a U.S. company?

Mr. Daybell commented that the interactions, in general, are the same. The size difference, vis-à-vis, determines the level of sophistication. Big companies usually have international standard, added by Mr. Zhang.

How should a company use patents?

Companies should keep in mind of patent issues, which makes it easier to harvest ideas, said Ms. Fu. People have the opportunity to practice internally this way. “Don’t look for trouble until trouble finds you,” quoted Mr. Daybell. Competitors will notice you. Alternatively, you may compare your portfolio with your competitor’s.

What is the best practice that is also cost effective to ensure that translations of applications are correct?

It is the client’s choice to examine translations, answered Mr. Zhang. Clients may request us to verify the translation accuracies. One audience added that from time to time, translated applications may be spot-checked and used to evaluate the firm.