

# Strategies to leverage Chinese patent subsidies



With patent filings in China booming, **Jeremy Kriegel**, partner at law firm Marshall, Gerstein & Borun, offers his advice on utilising patent subsidies in the country

**T**he opening ceremonies of the Beijing Summer Olympics in 2008 were a wake-up call to the rest of the world. Thousands of Chinese performers working in unison with machine-like precision were a testament to a nation dedicated to exhibiting superior capabilities.

In November 2010, China sent another signal that it means business when it comes to its role in technology. This time, the message came in the form of an unprecedented objective for the number of annual patent filings. The National Patent Development Strategy (2011-2020) (NPDS) published by the State Intellectual Property Office of China projected among its goals for 2015 that “[t]he annual quantity of applying for patents for innovations, utility models and designs will reach two million.... The number [of] patents [per] every one million people and the number of overseas patent applications filed by Chinese applicants will double”.

A *New York Times* article quoted US Patent & Trademark Office (USPTO) Director David Kappos as calling the Chinese targets for annual patent filings by 2015 “mind blowing”.<sup>1</sup> The article cites China’s NPDS as calling for a doubling of China’s patent examining corps to 9,000 examiners. In an effort to reach its astronomical goals, China is subsidising the costs of patent applications filed by Chinese residents.

China’s comparatively low costs for labour and raw materials, and its high productivity have been luring US and European businesses to partner with Chinese manufacturing facilities in ever-increasing numbers. Patent-savvy companies outside of China that regularly do business with Chinese manufacturers may be missing an opportunity

to have the Chinese government cover at least some portion of patent preparation and filing costs.

## Subsidy levels in various Chinese provinces Shanghai

In Shanghai, residents who file patent applications qualify for a subsidy of 3,000 Yuan per domestic patent application, 800 Yuan per utility model application, and 300 Yuan per design application. If a patent application is extended to Hong Kong or Macao, there is a subsidy of 10,000 Yuan, and each additional application in foreign countries, up to a maximum of three, qualifies for an additional subsidy of 30,000 Yuan.<sup>2</sup>

## Guangdong

In Guangdong, different cities have their own levels of subsidies.

In Guangzhou City, subsidies range from 1,000 to 4,200 Yuan for each domestic patent application. The subsidy for applications filed in Hong Kong, Macao or Taiwan is 5,000 Yuan. Individuals filing a PCT application qualify for 5,000 Yuan in subsidies, while companies qualify for 10,000 Yuan. Residents qualify for an additional 40,000 Yuan for filings in Europe, Japan, or the US, and 10,000 Yuan for other foreign countries (limited to two). Applicants have six months from the date of filing to submit a request for the subsidy.<sup>3</sup>

In Shenzhen, a subsidy of 2,200 Yuan is available for filing and requesting examination, and an additional subsidy of 2,000-3,800 Yuan if a patent certificate is granted. Foreign patents in the US, Europe, or Japan receive subsidies of 50,000 Yuan.

## Beijing

Beijing will fund 10,000 Yuan for each Patent Cooperation Treaty filing, 10,000 for each national phase filing, and 20,000 per country for each direct foreign patent filing, up to five countries. A bonus of 10,000 Yuan per granted foreign patent is paid to residents filing more than 10 foreign applications in a calendar year. Applicants are limited to a maximum subsidy of 500,000 Yuan for foreign applications annually.<sup>4</sup>

## Strategies

With the Chinese government subsidising patent applications, corporations outside of China that regularly do business with Chinese manufacturing partners have an opportunity to offset patent filing costs. To take advantage of these subsidies, the applications must be owned

**“Alternatively, the agreement could provide that any damages awards for infringements will be kept by the Chinese entity, but the non-Chinese entity is instead entitled to discounts or other benefits.”**

by a Chinese entity. A subsequent assignment of even an undivided interest in the application to an entity based outside of China may result in revocation, requiring repayment of the subsidies. Companies outside of China, may consider negotiating an agreement with an entity in China, such as their manufacturer. Under such an agreement, the Chinese manufacturer would own the patent rights, providing eligibility for the government patent incentives.

The agreement should provide adequate protections to prevent the Chinese manufacturer from using the patent rights to the disadvantage of the non-Chinese concern. The agreement might, for example, require the Chinese manufacturer to sell products covered by the patent exclusively to the non-Chinese entity.

Tooling, eg moulds, could be owned by the non-Chinese entity. The non-Chinese entity may want to consider requiring an irrevocable licence under any patent(s) obtained. The licence could be exclusive, or the non-Chinese entity might retain a right of first refusal against other potential licensees. The agreement could describe scenarios under which the non-Chinese entity is authorised to sublicense alternate Chinese manufacturers, eg in the event the Chinese entity were to fail to satisfy product requirements, have difficulty obtaining raw materials of adequate quality, or unreasonably raise prices.

Giving the Chinese manufacturer ownership and control of patent rights could offset minimum annual purchase requirements or other obligations the non-Chinese entity might otherwise have to guarantee. It may be desirable to oblige the Chinese manufacturer to enforce the patent rights at the request (and possibly expense) of the non-Chinese entity and require damages for third party infringement (or some percentage thereof) be paid to the non-Chinese entity. However, in some jurisdictions, the right to receive damages for infringement may provide a basis for a court to find an agreement amounts to an assignment (rather than a licence), potentially requiring joinder of the non-Chinese entity, divesting the court of jurisdiction over infringement cases, or requiring that subsidies paid to the Chinese entity be returned. Alternatively, the agreement could provide that any damages awards for

infringements will be kept by the Chinese entity, but the non-Chinese entity is instead entitled to discounts or other benefits.

## Dispersing patent rights among several Chinese manufacturers

For multi-component products requiring the efforts of a number of different Chinese manufacturers, a more intricate set of agreements could vest the rights to inventions or designs embodied in particular subcomponents with the Chinese manufacturers of each different inventive subcomponent.

This potentially increases the maximum number of patent applications qualifying for subsidies, as compared to having a single Chinese entity file a family of patent applications directed to a combination of subcomponents, due to limits on the number of applications for which a single applicant can receive subsidies and the maximum subsidies per year. The fact that no one Chinese manufacturer possesses all of the patent rights to a system of subcomponents, but rather, Chinese manufacturers of different components hold patents to the respective subcomponents they manufacture, also provides an increased level of protection to the non-Chinese entity. Additionally, the patchwork of patents increases the complexity for competitors of designing non-infringing systems.

## Treating trademarks differently from patents

The non-Chinese entity may want to consider registering trademarks in China for products made within the scope of the patent application(s), as this can facilitate exporting products from China. When allocating ownership of intellectual property, the parties should consider specifying that the Chinese entity (or entities) will own the patent rights and that the non-Chinese entity will own and have the exclusive right to apply for trademarks.

## Summary

Companies that regularly do business in China can offset patent costs by trading patent rights to their Chinese manufacturers, whose costs for obtaining patent protection in China and abroad are subsidised. Non-Chinese entities may structure an agreement to prevent the Chinese manufacturer from using the patent rights to the benefit of competitors.<sup>5</sup>

## Footnotes

1. Lohr, Steve, “When Innovation, Too, Is Made in China,” *The New York Times*, January 1, 2011.
2. <http://www.sipa.gov.cn/gb/zscq/node3/node34/userobject1ai3655.html>
3. <http://www.gzipo.gov.cn/web/html/index/contents/81.html>
4. [http://www.bjipo.gov.cn/zwgk/bszn/xzgl/201106/t20110614\\_22124.html](http://www.bjipo.gov.cn/zwgk/bszn/xzgl/201106/t20110614_22124.html)
5. The author thanks Linda Liu & Partners, Beijing, China, for assistance with this article.

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