

Kluwer Patent Blog

Continued Vitality of Utility Model Patents in China

Benjamin Bai (Allen & Overy) · Tuesday, December 30th, 2014

Call them “junk patents” or “low quality patents”, however you’d label China’s utility model patents; earlier this year, a utility model patent owner obtained a damages award of USD6 million and a permanent injunction for the infringement of such a patent. This is likely to be the second largest damages award after the famous USD48.5m damages award against Schneider in September 2007 for a utility model covering low voltage switches. The Schneider case was considered by some to be a one-off phenomenon. With another multi-million dollar infringement award, should we really pay attention to utility model patents in China?

GoerTek v. Knowles

In April 2014, the Weifang Intermediate Court handed down an infringement award of RMB37.2m (about USD6m) and a permanent injunction. Here, GoerTek owns a Chinese utility model patent, ZL200820187748.7, which relates to the microstructure of printed circuit boards used in MEMS and ASIC devices. It found the defendant company infringing this patent and filed a lawsuit in the Weifang Intermediate Court, seeking injunctive relief and damages of RMB45m. The alleged infringing product is a MEMS microphone. To prove damages, the plaintiff submitted a sales report found on the defendant’s website. The sales figures matched the defendant’s export data obtained from the Chinese Customs. In this case, the plaintiff successfully persuaded the court to request the Customs’ assistance in providing the data. Moreover, the plaintiff also provided an expert report by an accounting firm on the profitability of the patented product. The calculation of damage was based on the defendant’s sales multiplied by the reasonable profit margin of the patented product. The evidence supported an award of RMB37.2m (about USD6m).

This case illustrates that Chinese courts continue to enforce utility model patents. It also proves that large damages awards are possible as long as plaintiffs provide sufficient evidence to substantiate such damages claims. When all the stars are lined up, utility model patents would shine, just like an invention patent.

Utility Model Patents in a Nutshell

China has three types of patents: invention, design, and utility model. A utility model patent covers a new technical solution relating to the shape, structure or combination thereof, or to a product. Compositions and processes are excluded from utility model patenting. Generally speaking, utility model patents are not substantively examined and thus are granted as a matter of course. While the novelty standard is the same for invention and utility model patents, the inventiveness standard is different – the inventiveness threshold is lower for utility model than invention patents. Consequently, utility model patents are thought to be easier to obtain but harder to invalidate.

Utility model patents are enforced in the same way as invention patents: the infringement standards are exactly the same; as is the methodology for calculating damages. The only difference is that there is a greater likelihood that a utility model patent infringement suit will be stayed, pending the resolution of an invalidity action before the Chinese Patent Office.

Utility model patenting is largely a domestic play: 99% of utility model patents are filed by Chinese companies. However, in recent years, some foreign companies, such as Ford, have begun to file utility model patent applications in China. Because utility model patents will not go away in the foreseeable future there, multinational companies should follow suit.

Addressing Quality Issues

Starting early this year, the Chinese Patent Office began to selectively examine the novelty of utility model patents. This initiative is intended to deter filing of utility model patent applications that clearly lack novelty and also to prevent such patent applications from being granted. This should address some of the quality issues associated with utility model patents. See Thomas Moga, China's Utility Model Patent System: Innovation Driver or Deterrent? November 2012

https://www.uschamber.com/sites/default/files/legacy/reports/1211_china_patent_paper.pdf

Validity Statistics

We recently surveyed 361 utility model invalidity decisions rendered during January 2014 and July 2014 by the Patent Re-examination Board of the Chinese Patent Office and found that about 53% of the utility model patents were wholly invalidated. On the other hand, about one-third of the utility model patents were found to be valid.

Wholly-invalidated	Validity-maintained	Partially-invalidated
190	120	51
52.6%	33.3%	14.1%

Concluding Thoughts

Regardless of which side you are on, utility model patents continue to show vitality in China. It seems more likely than not that a utility model patent will be invalidated. However, about one-third of the challenged utility model patents have been found valid. And these patents can do damage to competitors just like invention patents. To paraphrase the greatest pragmatic leader of China, Deng Xiaoping, it doesn't matter whether a patent is a utility model or not, as long as it catches infringers.

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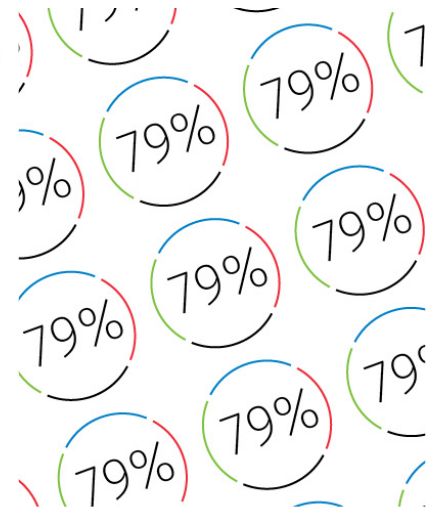
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