Thomson Reuters Patent Focus Report 2009

Joff Wild, Editor, IAM Magazine

In our annual report on patenting issues at the world's major issuing authorities, we take a look at the stories behind the statistics.

CHINA

In 2008, for the first time ever, a Chinese company topped the list of Patent Co-operation Treaty (PCT) applicants. According to a report issued by the World Intellectual Property Organization, Huawei Technologies Co Ltd, a telecoms company based in Shenzhen, filed 1,737 PCT applications during 2008, to finish in top spot above Panasonic (1,729) and Philips (1,551). Overall, Chinese companies accounted for 6,089 applications via the PCT, a rise of over 11 per cent on the previous year. Meanwhile, in China itself, the State Intellectual Property Office (SIPO) received 716,377 patent applications between January and the end of November 2008, 613,922 of which came from Chinese entities.

When looking at patent filing statistics in China the headline figure is always huge, but it is important to remember that the vast majority of applications received by SIPO relate to non-examined utility model and design patent applications. Invention patent applications, which are examined, came in at 255,797 for the first 11 months of 2008. By contrast, during 2007, a total of 245,161 invention patent applications were submitted. Applications from Chinese entities for the first 11 months of 2008 already exceed the total for 2007 by close to 15,000.

It is a similar story when it comes to patent grants. Between January and November 2008, Chinese applicants received 40,639 patents, compared to 31,945 for the whole of 2008. Although foreign companies look likely to get more grants during 2008 (to the end of November they had 41,569), the likelihood is that Chinese entities will overtake those from abroad for the first time in 2009.

All of this bears testament to the remarkable advances China has made since the country's first patent law came into force in 1985. Indeed, research published by Thomson Reuters in December 2008 indicates that by 2012 the country will be the world's leader in terms of the number of patent applications it generates, accounting for 34 per cent of the global total.

The most important legislative development of 2008 in China were amendments to the patent law, which were approved by the standing committee of the National People's Congress on December 27. This was after an extensive and—by most accounts—transparent consultation process in which views from all interested parties were canvassed, including foreign entities. The amendments will come into force on 1 October 2009 and will bring about a number of changes. Among the most significant of these are

provisions that the absolute novelty standard will be applied to all patent applications, as opposed to the relative novelty principle that is applied now. In addition Chinese entities will no longer have to apply for a Chinese patent before seeking protection overseas—although they will have to get a license from the government to patent outside of China first.

With regard to patent litigation, another foreign company found itself on the wrong end of a large (by Chinese standards) damages award as the losing defendant in a patent case during 2008. Although nowhere near the size of the USD40 million awarded against French company Schneider in 2007 (a decision that is still under appeal) Samsung was ordered to pay the equivalent of nearly USD7.5 million to a company in the eastern province of Zhejiang after being found to have infringed its dual-mode cell phone patent. There are now thought to be more patent disputes in China each year than in the United States, and although most patent litigation in China is between local businesses, foreign companies are increasingly involved in disputes. In 2005, for example, 268 non-Chinese companies were involved in Chinese patent litigation, a jump of over 75 per cent on the 2004 figure.

In short, China is emerging as a sophisticated patent jurisdiction. Businesses with any kind of patent-based output, wherever in the world they are based, should now be factoring the country into their strategic considerations – even if they are not yet operating there.

EUROPE

The European Patent Office is dealing with more applications than ever before. According to its most recent annual report—released in the middle of 2008—the EPO received 140,700 applications during 2007, up just over 3 per cent on the year before. By contrast, the number of patents granted fell from 62,800 in 2006 to 54,700. This equates to an allowance rate of around 51 per cent. In 2004, 59 per cent of examined patent applications were granted. As with the other two offices of the Trilateral Authorities (the Japan Patent Office and the US Patent and Trademark Office), statistically it is harder to get a patent from the EPO than it has ever been before.

At the beginning of 2008, the EPO published a study that had been approved by the Administrative Council in December 2007. Entitled Future Workload, the study was commissioned to look at the ways in which the EPO should deal with the expected increase in the number of patent applications that it will receive over coming years and the consequent strain this demand will place on the office's functioning. The study made five principal recommendations:

- Exploring the possibility of making greater use of work done by other bodies, such as other patent offices in Europe or outside Europe, applicants and third parties.
- Making it harder to obtain patent rights by "raising the bar". This was defined as: "granting exclusive rights only for technical innovations with sufficient inventive merit."

- Improving the examination process by developing new measures to deal with the workload in an efficient way
- Enhancing co-operation efforts in Europe by, for example, building the European Patent Network, to consist of the EPO and national patent offices.
- Making the European Patent Organization and the EPO fit for the future by enhancing their capabilities to meet new challenges, reviewing governance and finance

With regard to the second point, relating to making it more difficult to obtain a patent, the Head of the Controlling Office at the EPO, Ciáran McGinley, published an article in IAM magazine in June 2008 in which he explained in further detail what this would mean in practical terms:

- "First, create a better status quo by establishing quality standards across all European patent offices and by tightening up current practice."
- "Second, it is the intention of the EPO to fine-tune certain entry and process rules, and to remove (or limit) opportunities for abuse such that sharper boundaries are established earlier on in the procedure."
- "Third, and this may take longer, it is the intention of the EPO to raise the bar itself by making the man skilled in the art somewhat more modern, having greater immediate access to knowledge, more used to working in multi-disciplinary teams and endowed with a little bit more common sense."

One area that has proved perennially controversial in Europe is the patentability of computer programs. In the autumn of 2008, the EPO's president Alison Brimelow referred a series of questions to the EPO's Enlarged Board of Appeal with the aim of providing clarity as to what can and cannot be patented in this area. The board is expected to respond sometime during 2009.

Away from the EPO, in May 2008 the London Agreement on Translations entered into force, so making the translation requirements relating to an application through the EPO less onerous. However, any hopes that this may have heralded a major breakthrough in talks relating to the Community patent and a single patent court for Europe were dashed when it became clear that the French presidency of the EU, which took place between July and December 2008, had failed to persuade member states to find compromises relating to language issues and the distribution of revenue to national patent offices. Many are wondering if there will ever be the political will to see either of these projects become reality.

INDIA

The most recent annual report available from the Indian Intellectual Property Office covers the fiscal year 2006/07. The report shows that during 06/07, the office received 28,940 patent applications; while 14,119 were examined and 7,539 were granted. On the face of it, the only really noteworthy thing about these figures is that the amounts have grown so rapidly over recent times. In fiscal year 2002/03, for example, there were just 11,466 applications, 9,538 examinations and 1,379 grants. Of course, since that time there has been a change in Indian law (on January 1 2005), meaning that product patents can now be protected in the country.

However, while patent owners may welcome the WTO-inspired changes in the Indian patent regime, what may cause them some disquiet is the low number of examiners employed by the Indian Intellectual Property Office. According to the 2006/07 report, there were just 133 examiners operating across four regional offices—Calcutta, Mumbai, Chennai and Delhi. This figure becomes quite alarming when you consider the Indian IP Office's statistics for 2007/08, which have been reported in the Indian press. According to The Hindu newspaper's Business Line website, during 07/08 15,262 patents were granted—a rise of over 100 per cent on 06/07.

Given that the number of patent examiners in India has remained relatively static, it does not take much of a mathematician to work out that during the last fiscal year examiners granted an average of well over 100 of the applications they reviewed. Of course, this raises significant questions about the quality of what is coming out of the Indian IP Office. At the end of 2008, it was announced that 414 new examiner posts would be created by 2012. But with application numbers growing rapidly (there were over 35,000 during 07/08), that still may not prove enough.

Quality is not the only issue that the new head of the IP Office, PH Kurian, will have to deal with. During 2008, questions were also raised about potentially unhealthily close relationships between some private practice attorneys and some office staff. In October, the Livemint website reported on allegations that patent examiners are employed by some firms to write applications, and that some senior officials at the office have instructed examiners not to reject applications from certain attorney firms. While there is no proof that anything illegal has taken place, applicants and broader civil society in India will need reassurance that the IP Office—which will be so crucial to India's continued development over the coming years—is operating transparently and completely ethically if confidence in the country's patent system is to be fostered and then maintained.

As things stand, it does seem as if Indian companies are reluctant to embrace the patent system at home or abroad. According to research published in May, just 20 per cent of applications at the IP Office came from Indian entities, while very few Indian Organizations seek protection outside the country. By contrast, in China, over 60 per cent of applications come from local companies. This state of affairs is something

THOMSON REUTERS

that seems to have registered with the Indian government, which has begun to devote resources to educating Indian businesses about the benefits of intellectual property. In one concrete move, it has introduced a Bayh-Dole style bill into the country's parliament. If passed, this will allow academic institutions to patent the results of federally-funded research. Up to now, only the government has been able to do this. The proposed legislation is controversial, however, and it is not yet clear whether it will make it to the statute books.

JAPAN

The Policy Committee on Innovation and Intellectual Property (PCIIP) was established in December 2007 under the leadership of Tamotsu Nomakuchi (chairman of Mitsubishi Electric Corporation) with a brief to explore the IP policies Japan should pursue in order to foster innovation in the country. In August 2008 it delivered its report to the Japan Patent Office. New Intellectual Property Policy for Pro-Innovation - Intellectual Property System as Global Infrastructure came in at over 200 pages long in its English version and made a series of recommendations involving issues such as: closer international co-operation and further harmonisation; flexible examination; building an infrastructure to encourage innovation; and constructing a link between R&D policy and patent policy.

The committee also called for measures that would lower "uncertainty at the stages of acquisition and protection of patent rights as much as possible", and which would reduce business risks, enhance patent quality and also lead to a "a highly transparent and predictable patent examination mechanism". Interestingly, another area to come under discussion was the patent troll phenomenon. Although not widely known in Japan itself, trolls have successfully targeted a number of Japanese companies abroad, particularly in the United States. The committee recommended that there should be discussion of what it termed an "abuse of right" principle with regard to patent enforcement under Japanese law, which would discuss what such an abuse would entail so that measures can be introduced to prevent it.

Following on from the PCIIP report, at the beginning of 2009 it emerged that the JPO was in the process of constituting a new body whose remit is to study ways in which the Japanese Patent Law should be amended with a view to improving the international competitiveness of the country's companies. According to a report published in the Nikkei Shimbun newspaper (and translated into English by Edward Durney for the Bust Patents website), the new committee's brief is to explore the feasibility of:

- Revising the definition of "invention" that is protected subject matter
- Making a system for promoting innovation by terminating the "right to seek an injunction"
- Revising "employee invention provisions"
- Studying ways to resolve disputes promptly and effectively
- Speeding up examination and responding to applicants' needs

- Making the text and provisions easy to understand

The committee is due to report by the beginning of 2010. It is anticipated that changes to the law will be proposed by the government either later that year or in 2011.

In October 2008, the JPO introduced a trial of what it termed "a super accelerated examination" system. Once fully up and running this would cover internationally-filed applications that, among other things, cover inventions which are planned for early commercial application or which have a short lifecycle. The JPO currently gets around 8,500 annual applications under its accelerated program and expects that around 15 per cent of these will become applications under the super accelerated scheme. The first grant during the trial was given to Keio University for an "Electrochemical Analysis Method Using Boron Doped Electroconductive Diamond Electrode". It was made just 17 days after the application was submitted. The trial is expected to continue until March or April 2009.

According to the JPO's annual report—published in September 2008—the total number of applications submitted to the office fell during 2007 to stand at 396,291. This is the second year in a row in which applications declined and they now stand at their lowest level since the mid-1990s. In explaining the fall, the JPO identified two reasons:
(1) a change in focus among Japanese companies to concentrate on building high quality portfolios based on core business
(2) a tendency for more Japanese companies to seek protection abroad, resulting in more careful selection of domestic applications. The grant rate at the office rose very slightly, to stand at 48.9 per cent as compared to 48.5 per cent in 2006.

UNITED STATES

Patent approval rates at the US Patent and Trademark Office (USPTO) keep on falling. According to the USPTO's report for fiscal year 2008, which ran until the end of September 2008, the number of patent grants fell to below 50 per cent of applications examined, to stand at 47.3 per cent. This compares to 54 per cent in fiscal year 2007 and 72 per cent in 2000. Statistically, it is now harder to obtain patent protection from the USPTO than it is either from the JPO or EPO.

Other statistics from 2008 worth noting are that IBM became the first Organization ever to receive 4,000 US patent grants during one calendar year; and that for the first time ever, more US patents were granted to non-American applicants than to those from the US.

In 2008, Jon Dudas, the Director of the office completed his sixth year in charge. Initially appointed by President Bush in a temporary capacity and then confirmed in the role in 2004, Dudas was a target of much criticism from members of the US patent profession, many of whom believed that his background in

politics, rather than in IP law, did not make him sufficiently qualified to do the job. Symptomatic of this, they say, was the USPTO's decision to introduce a new claims and continuations regime, despite a consultation process that revealed widespread disquiet about the proposed rules. Just before they were due to come into force in October 2007 GlaxoSmithKline obtained an injunction that prevented it from happening. During 2008, the injunction was confirmed in a full court hearing. The USPTO appealed this decision and a judgement from the Court of Appeals for the Federal Circuit (CAFC) is expected some time in the next few months.

At the beginning of 2009, Dudas announced he would be standing down. He left his post on January 20, the day on which Barack Obama was sworn in as the new US President. Dudas has been replaced temporarily by John Doll, who was previously the USPTO's deputy director. At some stage, probably during 2009, President Obama will have to name a permanent director. It is hoped that this appointment will herald a new, more amicable relationship between the office and its user community.

Away from the USPTO, one of the most significant developments during 2008 was the failure of the Patent Reform Act to make it through Congress. Although the legislation had been approved by the House of Representatives during 2007, it got bogged down in the Senate as opposition to a number of its provisions—most notably those relating to the calculation of damages in litigation—grew more organized and vocal. In May, following the failure of last-ditch efforts to reach a compromise between the two sides in the debate, the Act was withdrawn. It remains to be seen whether it will reappear in the new Congress. The signs are that it may well do so.

After several years of relatively frenetic patent-related activity, the Supreme Court chose to take a back seat during 2008. This left the biggest case of the year to be decided by the CAFC. Sitting en banc, a relatively rare event, in In re Bilski the court took a look at the extent to which business methods and computer software could be granted patent protection. The full implications of the majority decision the CAFC handed down in October have yet to be worked through, but in broad terms its seems as if the relatively liberal (in comparison to other jurisdictions) business method patent regime that has existed in the US since the 1998 State Street decision is no more.

Staying with the courts, one final development of note during 2008 was a sharp decline in the number of patent suits filed in the last part of the year. It is possible that this is just a one-off, but it could be an indication that companies are more reluctant to spend money on expensive litigation as the full effects of the economic downturn begin to bite.

About the author: Joff Wild is editor of IAM magazine and writes a regular blog at www.iam-blog.com