Pursuing overseas patents

Avoid missing the boat with respect to absolute novelty and expenses.

BY JAMES E. RULAND

Working diligently in the laboratory on various resin compounds, a chemist tells his manager about several promising leads that still require optimization. The manager mentions a meeting she had with marketing, and that their largest customer is demanding a new resin for a big project. One of the chemist's resins might just fit the bill. Working day and night, the chemist optimizes the resin, and when he is finished he sends some along to his manager, who passes a sample to the sales department. The manager then gets the firm's in-house patent attorney to prepare a domestic patent application.

One year later, with domestic sales booming, the company discusses the filing of international patent applications. However, when the manager talks to the sales manager about potential foreign markets, she learns that the sales team provided samples to potential clients without restrictions before the filing of the domestic patent application. Immediately, the manager realizes that the patents will most likely be barred in many foreign countries. When asked why they didn't first clear the sample distribution through the legal department, the sales manager mutters that it is important to be first to market.

What went wrong?

When seeking patent protection in countries outside the United States, one needs to be aware of two items—absolute novelty, and balancing the benefits against the expense of filing and prosecuting the underlying international applications.

Absolute novelty

Often, the marketing or sales department will inform the R&D department of product modifications sought by customers. This is an area ripe for obtaining valuable patent rights. Unfortunately, marketing or sales personnel will often ask for a sample of the modified product to provide to their customers. This is often necessary because companies are under tremendous pressure to cure a deficiency in a customer's product or process, or to be first to market with new products so that they can set the industry standard (*1*). Without being the standard, even good products can lose in the marketplace.

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However, unless these samples are given out under a confidentiality agreement or after the filing of a patent application, the inventors risk jeopardizing their international patent rights, because essentially all industrial countries other than the United States have an absolute novelty standard. Under absolute novelty, a public disclosure anywhere in the world that enables one to practice the invention can bar the patenting of an invention in that country. Thus, the date that samples will be distributed to potential customers should be tracked and the date communicated to a representing patent attorney. Ideally, a patent application should be filed prior to the distribution of samples. This would preserve both domestic and foreign patent rights. Failure to track samples may inadvertently destroy these rights.

Filing costs

For a large company, the revenues generated by its products can justify the costs of filing international applications. As an example, Pampers diapers, Procter and Gamble's biggest global brand, generates about $5 billion in worldwide annual sales (*2*). Spending a few million dollars on multiple patent applications covering various aspects of its diapers to protect its market share has been vindicated from a business perspective.

In marked contrast, a small business may have a new product with unknown market viability. In such a situation, spending as much as $250,000 is a risky proposition, particularly if the product fails to generate sales. On the other hand, if the product is highly profitable, then protecting one's share in a variety of international markets would typically generate returns far exceeding the costs of the international patents. Unfortunately, when the decision needs to be made whether to pursue patent protection, often the inventor or business owner does not know the market value of the new invention. Thus, he or she is put in the unenviable position of having to play a patent lottery.

As a result, the cost of international filing is often a major issue for small companies and individual proprietors. When seeking patent protection, it is important to remember that all intellectual property is territorial in nature. In other words, obtaining a patent in the United States gives one a right to exclude others from making, using, or selling the invention *within the United States*. However, it does not stop someone else from making and selling the invention solely in another country.

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Moreover, one should be willing to sue in those countries to enforce that patent right. Generally, foreign or domestic litigation is substantially more expensive than obtaining the patents. So unless the country is one where a large market exists to offset the costs of both procuring and enforcing the patent, one may want to avoid filing an application if costs are a substantial concern.

Another factor that must be considered is whether one can actually enforce a patent in the country where protection is sought. Such enforcement might be limited by a lack of financial resources on the part of the owner of the invention or the lack of a true enforcement mechanism in the patent-issuing country. For example, the ability to enforce a Mexican patent has been suspect because of long delays in bringing an action to trial and the lack of jury trials (*3*). To overcome the difficulties associated with local enforcement, some commentators have suggested forming a joint venture with a business in the foreign country to surmount potential local prejudice.

Although a host country may be hostile to enforcing its own patents, essentially all countries have patent terms for about 20 years from the filing date of the application. Consequently, if a country is moving toward enforcement of intellectual property, such as by adhering to international treaties—for example, the Uruguay Round of GATT (General Agreement on Tariffs and Trade)— it may be wise to file a patent application in that country with the expectation that the enforcement mechanisms will be in place sometime during the life of the patent.

With respect to the expense of international filing, a large share of the costs is due to application translations and the fees of the international associates representing the client in the foreign country. As an example, the total cost of filing worldwide in about 125 countries can be $500,000. Many of these countries have yearly charges, that is, annuities, during the pendency of the application and enforcement periods of the patent, which can last a total of 20 years from the filing date of the application. The annuities' fees for these countries over the entire lifetime of the applications and resulting patents can be over $1 million (*3*). These costs do not include the attorney fees after the filing of the application.

Even the costs associated with a more limited filing can be daunting to small enterprises. Assume your product has major markets in the following parts of the world: Europe, China, Japan, Australia, India, South Africa, Canada, and Mexico. The filing costs and annuities would collectively be roughly $40,000 and $75,000, respectively. These estimates do not include the attorney fees after the filing of the application or the subsequent national costs of registering in the selected European countries. Once examination is completed on a European Patent Office (unitary) application, this unified application must be registered in the selected European countries. The registering process includes additional expenses, such as, if necessary, translating the application into the language of each selected country.

Possible solutions

Regarding absolute novelty, it is recommended that companies file an application, even a provisional one, before samples or other disclosures are made. This will not only prevent foreign patent bars but also preserve domestic rights.

Concerning the high costs of international filing, if one owns a small or start-up business, financing of such applications should be a part of the business plan. A small business owner should try to have a line of credit available to pay for such expenses. Another option is to create a partnership with an entity or person with the financial means to undertake the requisite filings. Still another option is to engage a law firm that will undertake representation on a contingency basis for its fees. However, it is not clear whether firms are permitted to loan the client the international filing expenses. Generally, law firm fees will be substantially higher on a contingency because of the risk of the product not being sufficiently profitable to pay the fees.

Often, large companies will prioritize the countries where they are considering filing patent applications on the basis of factors such as which products are covered by the patents, the markets available in those countries for those products, and the ability to enforce the patents. Business managers will usually meet with their marketing, patent, and R&D departments at least once a year to ascertain demand for certain products. They determine which patent applications will probably cover one or more versions of the products, and which existing rights can be discontinued.

The bottom line

When considering whether to file overseas, one must balance protecting international rights with the costs associated with international filing. Particularly, owners of inventions should proceed with the knowledge that they will actually try to market products or have a licensee who wishes to market products in that country. In many instances, large companies will not seriously consider licensing an invention unless a patent application has already been filed. In addition, many of these companies wish to have patent rights not only in the United States but also in their foreign markets. Although international filing can be expensive, for a successful product the benefits of protection usually exceed the expenses, and in many cases are required for a successful marketing or licensing strategy.

In addition, one must always be aware of when the invention is going to be publicly disclosed. Failure to monitor disclosures may disastrously simplify one's options of whether to pursue international patent protection by eliminating it at the cost of maintaining market share for one's invention.

References

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