China IPR Considerations for European Businesses in the ICT Industries

1. Introduction

China’s IPR protection system is expanding and improving, but it remains vastly different from the European system. Accordingly, to be successful in China your business must take preventative measures to protect your intellectual property rights. In order to make use of Chinese courts and government agencies to combat infringement, one must obtain valid IPR rights in China as a minimum first step. In other words, the protection of IP rights in China should be a key part of your business strategy, whether entering or expanding operations in China.

While some IPR issues are common to all types of European companies doing business in China, others are specific to the ICT industries. Such industry-specific issues include software protection by patents and standard essential patents. This Guide focuses on the top IPR issues for European ICT businesses in China. Additional general information on IP protection in China can be found in other China IPR SME Helpdesk materials (see the contact information at the end of this guide).

2. Developing Patent and Trade Secret Strategy for China

2.1 Patent Protection

As discussed in the China IPR SME Helpdesk’s Guide to Patent Protection in China, China has three types of patents: invention, utility model, and design patents. For a hardware invention, all three should be considered because each can protect your product in different ways.

An invention patent has a term of twenty years and should be used to protect important inventions which have a relatively long life. On the other hand, the life of a utility model patent is only ten years. Because the novelty threshold for utility model patents is lower than that for invention patents, utility model patents are especially suitable for incremental inventions and technologies with a shorter life span. Procedurally, there are some differences in how invention patents and utility model patents are enforced in China; but there are no substantive differences in infringement and compensation determinations. Therefore, utility model patents should have a strategic position in a company’s patent portfolio in China.

Design patents can be used to protect the shape, pattern, or colour (and combination of these attributes) of a product. For example, the shape of a phone or computer can be protected by design patents.

A software invention is more suitable for protection under an invention patent. The Chinese patentability standards for software inventions are similar to those in Europe, therefore a software invention that is patentable in Europe generally should be patentable in China. Due to IP rights being territorial in nature, such patents should be filed in China.

2.2 Trade Secret Protection

The antithesis of patents is trade secrets. They are complementary, yet equally valuable, intellectual property. Due to their distinctive nature – the fact that they are not registrable rights – the protection strategy is different.
A trade secret is defined as:
1. Technical and business information that is unknown to the public;
2. Which has economic value and practical utility; and
3. For which the trade secret owner has undertaken (demonstrable) measures to maintain its confidentiality.

Trade secrets can include a myriad of technologies, including source codes (to the extent that they cannot be reverse engineered). Trade secrets can also include operational information, such as processes, methods, and recipes; or other information, such as marketing strategies, customer lists, materials, terms, and prices, so long as they meet all of the above requirements.

China does not have a stand-alone law on protection of trade secrets, but quite a comprehensive set of laws, regulations, and judicial interpretations designed to protect the rights of trade secret owners, however enforcement of trade secrets has not been straightforward. This is primarily due to the high evidential requirements upon plaintiffs filing trade secret misappropriation cases in Chinese courts. Notwithstanding the difficulties, there have been numerous cases of successful enforcement, both civil and criminal. Thus experience shows that it is possible to protect and enforce trade secrets in China, but it is crucial to preserve all documentary evidence relating to your trade secrets.

To prevail in a trade secret misappropriation action in China, a trade secret owner must prove by admissible evidence that: (1) the asserted trade secret is not publicly known; (2) the asserted trade secret has economic benefits and practical utility; (3) the trade secret owner has taken measures to protect the confidential nature of the asserted trade secret; and (4) there is misappropriation of the asserted trade secret by a wrongdoer or a third party. Chinese courts prefer evidence in its original form: documentary evidence is practically the only form of evidence that carries significant weight in Chinese courts. Oral testimonies are generally disregarded.

Although trade secrets can be protected by means similar to those used in Europe, such as a confidentiality agreement, the mere existence of such an agreement may not be sufficient. In addition to a confidentiality agreement, it is highly recommended to have recipients of confidential information sign an acknowledgement prior to receiving it. Given this, such confidential information must be documented in writing.

In the case of trade secrets, prevention is the best medicine. But don’t shy away from enforcement actions in China if misappropriation occurs - companies can and have received positive outcomes from Chinese courts.

3. Enforcement

China is the most litigious country for IP disputes in the world in absolute terms. 87,419 IP suits were filed in Chinese courts in 2012. However, only about 1,400 foreign companies participated in such IP litigation in 2012, which means that less than 2% of Chinese IP disputes involved foreign parties.

The reluctance by foreign companies to enforce their IP rights in China is largely due to the perception that China does not protect IP and/or that foreign companies won’t get fair treatment, but such reluctance is misplaced. Anecdotal and empirical evidence suggests that case outcomes are in most cases not affected by litigants’ nationalities or, in short, the Chinese IPR system has reached a point at which foreign companies can get justice using private mediation, administrative, civil litigation and criminal channels. For more practical information on enforcement, please see the China IPR SME Helpdesk guide to Enforcing your Intellectual Property Rights in China.

SME Case Study

Background
InterDigital, Inc. is a mid-sized U.S. wireless research and development company. On July 26, 2011, it filed a complaint with the United States International Trade Commission (USITC) against Nokia Corporation and Nokia Inc., Huawei Technologies Co., Ltd and its affiliates, and ZTE Corporation and its affiliate, alleging patent infringement of certain 3G wireless devices, such as WCDMA- and CDMA 2000-capable mobile phones, USB sticks, mobile hotspots and tablets and components of such devices.

Action Taken
On December 5, 2011, Huawei filed two suits against InterDigital in the Shenzhen Intermediate People’s Court in China. The first suit alleged that InterDigital had a dominant market position in China and the United States for the licensing of essential patents owned by InterDigital, and abused its market power by engaging in unlawful practices, including differentiated pricing, tying, and refusal to deal. The second suit alleged that InterDigital failed to negotiate on FRAND terms with Huawei. It asked the court to determine the FRAND rate for licensing essential Chinese patents to Huawei and also sought compensation for its costs associated with this matter.

Outcome
On February 4, 2013, the Shenzhen Intermediate People’s Court ruled that the royalties to be paid by Huawei for InterDigital’s 2G, 3G, and 4G standard-essential patents should not exceed 0.019% of the actual sales price of each Huawei product. This appears to be the first time that any judicial authority has ruled on the appropriate royalty rate for a FRAND encumbered SEP.

With respect to the first suit, the court held that InterDigital violated China’s Anti-Monopoly Law by (1) making proposals for royalties from Huawei that the court believed were excessive, (2) tying the licensing of essential patents to the licensing of non-essential patents, (3) requesting as part of its licensing proposals that Huawei provide a grant-back of certain patent rights to InterDigital, and (4) commencing a USITC action against Huawei while still in discussions with Huawei for a license. The court ordered InterDigital to cease the alleged excessive pricing and
bundling of InterDigital’s Chinese essential and non-essential patents, and to pay Huawei approximately USD 3.2 million in damages. The court dismissed Huawei’s remaining allegations, including Huawei’s claim that InterDigital improperly sought a worldwide license and improperly sought to bundle the licensing of essential patents on multiple generations of technologies.

With respect to the second suit, the court determined that, despite the fact that the FRAND requirement originated from ETSI’s Intellectual Property Rights policy, which refers to French law, InterDigital’s license offers to Huawei should be evaluated under Chinese law. Under Chinese law, the court concluded that the offers did not comply with FRAND.

InterDigital is reported to have filed appeals to both decisions.

Take-Away Messages

- Software inventions can be protected in China similarly to in Europe.
- Don’t look down upon utility model patents; they can fulfill important roles in your Chinese patent portfolio.
- Trade secrets can be protected in China, but additional precautions must be taken.
- The mere existence of a confidentiality agreement is not sufficient. It is critically important to have recipients of confidential information sign an acknowledgement prior to giving such confidential information to the recipients.
- IP enforcement in China is improving, although cumbersome evidence rules make it difficult.

Related information and additional links


Glossary*

**Industrial applicability** (for patents) – This is a requirement for all inventions across any kind of industry in order to qualify for a patent. For example, surgery, therapy and diagnostic methods practiced on the human body would not be regarded as having industrial applicability.

**Novelty** (for patents) – Novelty means that, before the date of filing, no identical invention or utility model has been publicly disclosed in publications in the country or abroad, or has been publicly used or made known to the public by any other means in the country, nor has any other person filed previously with the Patent Administration Department under the State Council and are recorded in the administration department.

**Patents** – Patents are licenses which protect innovations and must be filed before the invention becomes known to the public. In China there are three types of patent – invention (20 years duration), utility model (10 years duration), and design (10 years duration). It should also be noted that a European registered patent has no legal effect in China.

**Small and Medium Enterprises** (SMEs) – SMEs are companies with less than 250 employees and with either a turnover of less than or equal to EUR 50 million, or a balance sheet total of less than or equal to EUR 43 million.

**Trade secrets** – A trade secret is any non-public information with actual or potential commercial value that is guarded by confidentiality measures. Trade secrets can ensure business advantage over competitors but must remain secret – once a trade secret becomes publicly known, it can no longer be protected as a trade secret. Most theft of trade secrets cases involve current or former employees.

**Utility Models** – This refers to a sub-set of patents in some jurisdictions for inventions that have a lower degree of inventiveness than is required for invention patents. The subject matter patentable as a utility model varies between jurisdictions, and may exclude methods and compositions. A utility model often has a shorter term of protection than an invention patent.
The China IPR SME Helpdesk provides free, confidential, business-focused advice relating to China IPR to European Small and Medium Enterprises (SMEs).

Helpdesk Enquiry Service: Submit further questions to the Helpdesk via phone, email (question@china-iprhelpdesk.eu) or in person and receive free and confidential first-line advice within three working days from a China IP expert.

Training: The Helpdesk arranges training on China IPR protection and enforcement across Europe and China, tailored to the needs of SMEs.

Materials: Helpdesk business-focused guides and training materials on China IPR issues are all downloadable from the online portal.

Online Services: Our multi-lingual online portal (www.china-iprhelpdesk.eu) provides easy access to Helpdesk guides, case studies, E-learning modules, event information and webinars.

For more information please contact the Helpdesk:

Room 2480, Beijing Sunflower Tower No. 37 Maizidian Street
Chaoyang District Beijing 100125, P.R. China
Tel: +86 (10) 8527 5705
Fax: +86 (10) 8527 5708
question@china-iprhelpdesk.eu
www.china-iprhelpdesk.eu

Disclaimer:

The contents of this publication do not necessarily reflect the position or opinion of the European Commission. The services of the China IPR SME Helpdesk are not of a legal or advisory nature and no responsibility is accepted for the results of any actions made on the basis of its services. Before taking specific actions in relation to IPR protection or enforcement all customers are advised to seek independent advice.