IPR protection in the ICT sector in China

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Agenda

• Regulatory issues specific for ICT market
• Intellectual Property Rights (IPR): concept, role, protection
• Chinese legal system
• Protection of IPR in China
• Case studies
• Strategies for European SMEs in China
China ICT market - regulatory barriers

- Telecommunications sector **heavily regulated**
- **Restrictions on market access** for foreign companies
- Public procurement market inaccessible for foreign contractors
- Protection of **intellectual property** (IPR)
What are Intellectual Property Rights?

• **Exclusive Rights + Intangible Property + Intellectual Component**
  – Arts (copyright) | Science/Technology (patent) | Know-how (trade secrets, competition) | Market identity (trademark)

• **What can/should be registered?**
  – Trademark, Patent (invention), Utility Model, Design

• **What is not registered?**
  – Copyrights, Trade Secrets

• Registration & protection is **territorial**
Legal system in China

• **Historical context** – original legal traditions (Confucianism v. Legalism), Western legal implants, 1949 – 1978 - 2004

• **Cultural issues**, law as framework for free market economy – what are interests of the state and of foreign investors

• **Misleading similarities** to Western legal systems – constitutional aspects (judicial review, dominant role of executive power) and cultural framework

• How to adapt to **Chinese legal reality** – contract negotiations, legal research, dispute resolution
IPR protection strategy

- Identify risks – based on type of presence
  - disclosure of technology, prototypes, samples, trademarks (problem for substantiating novelty in patent application) – trade fairs, direct negotiations, manufacturing, distribution/sales in China
  - Corporate presence

- Strategy on IPR protection - think ahead
  - Register patents and trademarks, consider using trade secrets
  - Seeking partners – contractual protection in place (NDA, non-compete)
  - Gather evidence of infringements (samples, pictures)
  - Cease and desist letter, formal complaints with authorities, litigation
Copyright

- Copyright Act (1990, revised in 2002):
  - "works of literature, art, natural science, social science, engineering technology and the like which are expressed" in **written form**, or musical, dramatic, fine art, photography, cinematography and videographic works, **drawings of engineering designs and product designs**, maps, sketches and other graphic works, **computer software**
  - Some tangible form required
  - Registration of copyright - not required but widely adopted
  - Creator's exclusive right to use (and benefit from) original work;
  - Computer software protectable under copyright law and a separate regime (Computer Software Protection Rules 1991)
Trademarks

- Recognizable sign, design or expression to identify products/services on the market;
- Territorial and temporary protection (but can be extended without limitation)
- China is a “first to file” jurisdiction
  - (i.e., no protection for the “well-known” but unregistered trademarks)
  - BEWARE of bad-faith trademark registration in China
  - How to protect our trademark if registered already by a third-party?
- Localization of trademarks
  - Common practice of „translating” brand names and trademarks
Choosing a Chinese Trade Mark

• **Literal translation**
  – Ping Guo [苹果] Apple
  – Zhong Lan [棕榄] Palmolive
  – Tong Yong Qi Che [通用汽车] General Motors

• **Phonetic translation**
  – Mai Dang Lao [麦当劳] McDonalds
  – Xi Men Zi [西门子] Siemens
  – Ao Di [奥迪] Audi
  – Suo Ni [索尼] Sony

• **Combined meaning and phonetic translation**
  – Ke Kou Ke Le [可口可乐]
  – Naike [耐克]
Technology Protection: China - Inventions

- **Inventions** – registration required
  - Territorial and temporary protection (exclusive use)
    - 10 years for utility models and design patents
    - 20 years for invention patents
  - In exchange for full disclosure to the public (after the protection expires everyone can use it)
    - China is a “first to file” jurisdiction
Protection of Technology - Trade Secrets

• Any valuable information (commercial or technical nature) **not available to the public** (deliberately kept secret);
  – No registration, no time limits for protection
  – Not-exclusive (can be circumvented)
  – Once discovered may be used by others
  – No infringement claims towards third parties
  – Could be patentable but even technology doesn’t need to be novel

• **Reverse engineering** and independent development allowed

• Importance of **contractual measures**
  – Non-disclosure of confidential information is not the only concern
  – **Key issues:** competitive activity usage or circumvention our IPR
Patents v. trade secrets

• Patent protection rather than relying on trade secrets:
  – value of information > cost of patenting
  – patent requirements (novelty) met
  – easily reverse engineered or independently developed
• Otherwise trade secret protection is preferred, or use both for different components of the technology
Trade Secrets – China

• **Unfair Competition Prevention Act** (1993)
  – only misappropriation of trade secrets by competitors covered (does not apply to employees)

• Reliance on *contractual provisions*
  – usually a standard NDA will not be sufficient – competitive activities and circumvention of IPR need to be eliminated

• **Criminal liability** for theft of trade secrets

• **Civil procedure** – limited discovery

• **Administrative enforcement** – AIC (Administration for Industry and Commerce) may order to stop sales of infringing product and/or a penalty
Trade secrets – contractual safeguards

Standard NDA will not be sufficient!

– Non-disclosure is not our only/main concern
  • Rather - using confidential information to for competitive activity or to circumvent our IPR
  • Secure all three aspects: Non-Disclosure, Non-Circumvention, and Non-Competition

– Prevent IPR being used for other party:
  • Independent business activity
  • Creating and developing own products, technology, production methods or management of their company
  • Creating and registering any IPR

– Secure that no supplier/manufacturer, distributor, consultant (and their employees, managers, shareholders, subcontractors) will establish a business relationship with such entities, that were contacted or introduced to him in relation to providing services to us.
Case Study: Huawei Technologies v. InterDigital

- Dispute over patent infringements regarding InterDigital (a US-based research company IDC) wireless technology – in the US, EU and China

- Huawei brought lawsuits in China based on the antitrust law (China AML) claiming that IDC had dominant position and abused its market power (excessive pricing, tying, refusal to deal) and failed to negotiate license on fair terms, and requested the court to grant a compulsory license for Huawei (and set license fee)

- Court decided that IDC abused dominant position (tying, setting discriminatory and excessive royalty rate) and ordered to cease such conduct, and awarded damages (decision upheld in appeal), and set a license royalty rate. Following the courts’ decisions IDC settled and agreed (1) to offer a worldwide portfolio license of only its standard essential patents (SEPs) and to comply with fair, reasonable and non-discriminatory (FRAND) principles while negotiating license agreements with Chinese manufacturers; (2) not to require royalty-free, reciprocal cross licenses; and (3) to offer binding arbitration before seeking exclusionary or injunctive relief.
Case Study: AMSC v. Sinovel

AMSC v. Sinovel Wind Group – dispute over proprietary product for wind turbines

– Background
  • Key components and software developed in USA
  • No patents in China (not available for software)
  • Reliance on effective protection of trade secrets (control of production)
  • Vulnerable for industrial espionage, corrupted employees
  • Some remedies available (criminal and contractual), but not against third parties

– Outcome
  • Litigation since 2011 (US$1.2 billion damages), so far AMSC loosing, now pending before the Chinese Supreme Court
  • AMSC successful in bringing criminal charges against corrupt employees
Case Study: New Balance v. 新百伦 (Xin Bailun)

• Recent (2015) decision of Guangzhou Intermediate Court
• NB infringed rights of a Chinese holder of Xin Bailun trademark, by using it on Chinese market for NB products
• NB had to pay RMB 98 million (approximately EUR 13.5 million) in damages, issue a public apology and was not allowed to use the Chinese name "新百伦" anymore
• **Lessons:**
  – Always necessary to check if our Chinese brand name is still available for registration in China, and register the trade mark early on.
  – In the case our brand name is taken:
    • try to invalidate registration or rebrand for the Chinese market
    • Do not use the trademark you have not registered!
Take-away messages

✓ First: prevent infringements
  – Register your trademarks and patents (also with customs administration)
  – Due diligence
  – Enforceable contracts (non-disclosure, non-compete)

✓ Cost-benefit analysis before litigation
✓ Enforcement: what are the best measures?
✓ Monitoring the market (early detection of infringements)
✓ Use different ways to protect the same IPR (assets)
✓ Manage confidential information appropriately
✓ Control key components, production or marketing stages
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- Bi-monthly Helpdesk Newsletters
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