Intellectual Property Rights in China for European Businesses in the ICT Industries – Part 2

With China's intellectual property rights (IPR) protection system still evolving the protection of IPR should be a key part of any business strategy, whether entering or expanding operations in China. In this context there are a number of IPR issues that are specific to the ICT industries, for both software and hardware. Understanding the difference between China and Europe in this regard is crucial for any ICT company offering goods or services that are potentially attractive to users in China, even if the company is not yet operating in the country.

In last month's INSME Newsletter the China IPR SME Helpdesk discussed patent and trade secret strategies for European ICT companies; in this issue, enforcement of IPR is discussed through a case study of a company that has taken enforcement actions in China.

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, out of these only about 1,400 foreign companies participated, which means that less than 2% of Chinese IP disputes involved foreign parties.

The reluctance by foreign companies to enforce their IPR rights in China is largely due to the perception that China does not protect IPR and that foreign companies won't get fair treatment. However, such reluctance is misplaced: evidence suggests that case outcomes are not affected by litigants' nationalities or, in short, the Chinese IPR system has reached a point at which foreign companies can get justice through a number of channels.

Enforcement cases concerning ICT technology in China can be very complex, given the consideration of individual IP rights and industry standards that is often required. Therefore, it is beneficial for an ICT company that deals predominantly with incremental technology to consider their rights and how they may conflict with certain competitive market laws.

ICT company case

InterDigital, Inc. is a mid-sized U.S. wireless research and development company. In July 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.

Actions Taken

In December 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 standard essential patents (SEPs) (inventions that must be used to comply with technical standards) 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 *Fair, Reasonable, and Non-Discriminatory* (FRAND) terms with Huawei – a requirement of owners of SEPs. 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

In February 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 standard essential patents (SEP) - a patent that defines an invention that must be used to comply with a technical standard.

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 United States International Trade Commission (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 the European Telecommunications Standards Institute's (ETSI) IPR 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.

IP Lessons

- FRAND is *not* an essential patent holder's friend.
- Enforcing SEPs is problematic in China: injunctions may not be possible; royalties are lower than normal.
- Antitrust enforcement further limits the value of SEPs.
- Enforcement of SEPs outside China may give rise to countersuits in China.

For more detailed information on the topic, please see the China IPR SME Helpdesk guide to 'China IPR Considerations for the European businesses in the ICT industries' downloadable from the Helpdesk website.