

## Intellectual Property Rights in China for SMEs in the ICT Industries

China's IPR (intellectual property rights) 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 - one must obtain valid IPR rights in China as a minimum first step. In other words, the protection of IPR rights 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. In the first of a two-part article the China IPR SME Helpdesk discusses appropriate patent and trade secret strategies, and the type of patents particularly relevant to ICT companies.

### Developing a Patent and Trade Secret Strategy for China

#### Patent Protection

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.

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, though the patents must also be registered in China.

#### Trade Secret Protection

Trade secrets are complementary, yet equally valuable, intellectual property. However, due to the fact that they are not registrable rights, the protection strategy is different.

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 and methods; or other information, such as marketing strategies and customer lists, so long as they meet all of the above requirements.

Although trade secrets can be protected by a confidentiality

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.

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agreement, like in Europe, it is also recommended to have recipients of confidential information sign an acknowledgement prior to receiving it. If it later becomes necessary to file a misappropriation action, a trade secret owner must prove by admissible evidence that the trade secret meets the above requirements (*see box*), in addition to proving there is misappropriation of the trade secret by a wrongdoer or a third party.

In the case of trade secrets, prevention is the best medicine. Although companies that take enforcement actions can and have received positive outcomes from Chinese courts.

### **FRAND: Interface of Standards and Patents**

While in the past it was a viable strategy to obtain patents on industry standards, recent developments in the law on Standard Essential Patents (“SEPs”) have changed this. A standard essential patent generally refers to a patent that defines an invention that must be used to comply with a technical standard.

Standards for different industries are set by regional organisations, such as The European Telecommunications Standards Institute (ETSI), which amongst other standards covers wireless communications. Due to inter-operability requirements on this technology, certain ETSI standards are adopted in China.

ETSI generally does not determine whether a particular patent is essential to a standard. Rather, it typically provides some mechanism by which the patent owner itself can make a declaration of essentiality, coupled with *a commitment to license any SEPs on Fair, Reasonable, And Non-Discriminatory (“FRAND”) terms and conditions*. Therefore, where a European patent is declared by the patent owner as essential to an ETSI standard, the Chinese patent corresponding to the European patent is also considered as essential in China, so FRAND terms and conditions also apply.

If a patentee engages in standard-setting or agrees that a patent be incorporated into a national, industrial, or local standard, it permits others to exploit it for purposes of implementing the standard. Those using the patented technology to implement the standard may be charged royalties by the patentee for use of the patent, but are not deemed to be committing an infringement.

### **SEPs versus Implementation Patents**

Implementation patents refer to patents that are not incorporated into a standard but facilitate the implementation of the standard. For example, a patent on a new form of touch-screen glass is not essential to the 5G wireless standard, however, if the innovation was considered superior to the extent that all 5G phones incorporated it, such a patent would be invaluable.

As implementation patents are not incorporated into standards they are not subject to FRAND obligations, so normal infringement damages and injunctive relief are available. Therefore, due to the lower royalties available because of FRAND conditions, implementation Patents will often be more valuable to your business.

### **Take-Away Messages**

- Software inventions can be protected in China similar to as in Europe.

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- Utility model patents can fulfil important roles in your Chinese patent portfolio.
  - Implementation patents are much more valuable than standard essential patents.
  - Trade secrets protection should be complimented by additional confidentiality measures that require signed acknowledgements.
  - IP enforcement in China is improving, though cumbersome evidence rules make it difficult.

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](#)'.



*The China IPR SME Helpdesk is a European Union co-funded project that provides free, practical, business advice relating to China IPR to European SMEs. To learn about any aspect of intellectual property rights in China, including Hong Kong, Taiwan and Macao, visit our online portal at [www.china-iprhelpdesk.eu](http://www.china-iprhelpdesk.eu). For free expert advice on China IPR for your business, e-mail your questions to: [question@china-iprhelpdesk.eu](mailto:question@china-iprhelpdesk.eu). You will receive a reply from one of the Helpdesk experts within three working days. The China IPR SME Helpdesk is jointly implemented by DEVELOPMENT Solutions, the European Union Chamber of Commerce in China and European Business Network (EBN).*