



Photo: Eckhart K. Gouras

The launch of a joint venture has to go along with IP protection measures. Pictured here: Paul Grunow, CEO of PI-Berlin, and Sisi Chen, General Manager of PI China, celebrate the opening of their Sino-German JV in Suzhou.

Protecting intellectual property in China

China: Intellectual property and copyright protection remain key issues for foreign PV suppliers doing business in mainland China.

In the latest “CEIBS Business in China Survey” by the China Europe International Business School (CEIBS), 61% of the companies sampled claim some damage to their business caused by IP infringement in China. A rather significant 27% claim serious or very serious damage. While the CEIBS survey covered a wide range of sectors and not just the PV industry, the gist of the report is

that IP protection or the lack of it remains a serious issue for companies venturing into the Chinese market. On the other hand, China has made significant strides in the past decades to improve its IP protection regime and there are a range of measures companies can adopt to safeguard their IP in this leading PV market. Further progress can be expected, especially as Chinese manufacturers con-

tinue to innovate themselves and thereby become proponents of better safeguards to protect their intellectual property (IP) assets.

Launching a JV in China

The scene is a familiar one for reporters covering the PV industry in mainland China: With much pomp and celebration a Sino-foreign joint venture (JV) or

factory with foreign investment is opened in the heartland of Chinese PV production in the region surrounding Shanghai. In the case pictured above in August 2012 the German PV testing and certification service provider Photovoltaic Institute Berlin (PI-Berlin) was celebrating the launch of a new joint venture in Suzhou with its Chinese JV partner and a range of potential customers and other partners who have assisted in the JV formation process or who might be helpful in advancing the JV's business in the months and years ahead. The atmosphere was festive as Paul Grunow, CEO of PI-Berlin, and the local JV team, headed by Sisi Chen, General Manager of the JV, added the company color orange to a transparent block showcasing the new company's logo "PI China."

For Falk Lichtenstein, Counsel at the international law firm CMS in their Shanghai office, the launch of PI China on August 30, 2012 marked the end of a long series of negotiations, where both the foreign and Chinese side to the JV have to agree on a wide range of issues to form a solid foundation for their future cooperation (and hopefully success) in the Chinese market. Traditionally, the Chinese side is less interested in detailed legal agreements and more interested in the chemistry between the main actors behind the JV and the opportunities the JV can seize in the growing Chinese market. The German side might have similar inclinations, but Lichtenstein's job is to go through all sorts of scenarios, some of them not so fitting to the enthusiasm of two parties eager to seal their joint undertaking and take advantage of a growing market.

"Worst case" scenarios

One "worst case" scenario which needs to be addressed is the fate of the JV's name and corporate logo if the JV turns out not to be a success. In most cases Lichtenstein advises his foreign clients to take ownership of such IP from the beginning and then license such IP rights (IPR) to the JV for the duration of the JV's existence. The goal is to leave these important IP rights – after all, the Chinese and English versions of the JV's company name and logo will be the face of the company to the Chinese market – with the foreign supplier, so that it can maintain these brands in the Chinese market should the cooperation with the Chinese partner not turn

out as both JV partners had expected and hoped for. In this "worst case" scenario the foreign suppliers can keep the facade they have invested in, including the Chinese and English company brands and possibly product brands as well, and just switch his Chinese partner(s) or move on to a "wholly foreign-owned enterprise" (WFOE) they control one hundred percent.

JVs and WFOEs

JVs and WFOEs are just two examples of the many forms foreign business engagements with China can take. JVs used to be the favored form of doing business in mainland China, at least when sizeable investments were involved and the Chinese government was keen to tap foreign know-how as foreign companies rushed into China to tap this vast market of 1.3 billion people and a geographic area larger than Europe. In some sectors such as the auto industry, joint ventures are still the norm, partly because this has been a booming market where the Chinese government is reluctant to leave all the spoils to well-known Western brands. In other sectors, such as the PV industry, WFOEs have emerged as the most popular form of doing business in China and there have been a string of foreign PV suppliers who have taken the WFOE approach to expand their business in China. The most recent example is the automation and robotics specialist Reis Robotics, that opened a WFOE in Kunshan in late April of this year. Other recent examples include the European PV backsheet manufacturers Coveme and Krempel, that both started wholly-owned factories in Zhangjiagang (like Kunshan and Suzhou in Jiangsu province) in the past two years.

Importance of registering IPR

Joint ventures and WFOEs represent one end of the spectrum in doing business in China. As Lichtenstein points out, Chinese IP protection should be an issue even for foreign companies who do not yet have China on their business development agenda: "One should start as soon as possible to include China in one's territorial IPR protection strategy and not make a big detour around China as unfortunately many companies did twenty or even ten years ago. They just left China as a white spot on the map, thinking that this market would not be rele-

vant or offered no chance of success from the beginning. Should one subsequently start to do business in China, then it is often too late or there is almost nothing one can do."

A smart IPR protection strategy recognizes the importance of registering IPR as early as possible in a wide range of key geographic markets. Especially in today's world and even more so in an area like renewable energy and PV, China will most likely factor as a key market going forward, if it is not so already. In this case, foreign companies must register important IPR as soon as possible with the appropriate Chinese registry (e.g. Chinese Patent Office for patents, utility models and design patents), even if they have no plans to enter the Chinese mar-



Photo: CMS

Falk Lichtenstein, Counsel at law firm CMS in Shanghai, has been advising clients in corporate law, Chinese and international commercial law, as well as dispute resolution, since 2006.

ket. If they don't, Chinese (or foreign) competitors can get wind of their innovative products or trademarks and register them in China before the actual innovator does so. In this case the first mover is awarded IP protection in China and not the true innovators, who might have registered the innovation in their home market and other markets they were active in, but never considered doing so in China.

Protecting a wide range of IP

Just as the range of doing business in China is a wide one, from a one-time business transaction to a JV or WFOE, IP is a very wide concept as well. It can range from know-how and technology a partic-



Coveme S.p.A. is another European PV manufacturer who took the leap from Europe to Zhangjiagang in China to set up its first operation overseas.

ular company has accumulated over time to official patents, trademarks and copyrights, where IP is typically accorded special protection by a country's legal system. Countries differ here, with the U.S., for example, requiring the formal issuance of a patent, trademark or copyright in order for such IP to be given protection under the country's patent, trademark and copyright laws. In Germany and China, an official act (registration) is only required in the case of patents and trademarks, with copyrights being protected as soon as the products are created, for example by an artist or an author.

Accordingly, if the IP rises to the level of a patent or trademark, then the best way to gain protection in China is to register such IP. For other kinds of IP, including proprietary know-how and technology, the focus has to be on keeping such information strictly confidential. Lichtenstein advocates a comprehensive range of "preventive" IP protection measures, including carefully drafted license agreements and confidentiality commitments in other key legal documents (e.g. joint venture agreements, employment agreements, commercial agreements) to keep proprietary information secret. Another sphere is IT security, which has become a major area of dispute between China and the U.S. recently and where adequate safeguards are essential to avoid the leakage of sensitive informa-

tion, including key technology, which is increasingly stored in digital form and as a result more prone to being siphoned off by insiders like employees or outsiders like hackers.

Registration not in every case

If keeping IP secret is the way to go with IP that does not rise to the level of a patent or trademark, Lichtenstein does not advocate registering patents in every case. Since registration means publication, the act of registering a patent can provide useful tips to the competition or motivate some competitors to simply copy the patent (or elements of it) in the hope of evading detection for at least as long as it takes to make a handsome profit off the illegally produced goods. If the innovation is a complex one, the best approach might be to avoid the IP registration and count on continued fast pace innovation to stay one step ahead of the competition.

A similar balancing act is required in the case of software. For example, one European software developer active in various Asian PV markets has not yet registered its software with the Copyright Protection Center of China (CPCC), despite the fact that software is afforded copyright protection in China, which can be enhanced by registering it with CPCC. What is keeping the company from going through with the registra-

tion is the requirement that the source code be provided as part of the registration. While parts of the code can be blackened out, this requirement creates a barrier for some software developers to take this precautionary measure.

Enforcing IPR in China

This brings us to the enforcement side of IPR in China. What good is an IP protection regime that pretty much – according to Lichtenstein – meets international norms, when perpetrators in China are not sought out and punished? Even in the above-mentioned case, there is the lingering fear among foreign market participants, in this case a European vendor of PV solutions eager to tap the booming PV installation market in China, that source code in the hands of CPCC might find its way to the domestic competition. On the enforcement side, there is the fear that Chinese courts and administrative agencies might be swayed by powerful local interests, political considerations or even outright bribes to keep their enforcement actions to a minimum or in the worst case even side outright with the offender.

But as with the legal framework governing IP protection, China is making progress on the enforcement front. Lichtenstein points to two available tracks for enforcing IPR in China: first, taking the infringement to the country's courts or second, applying to administrative agen-

cies to take action against the violators. The latter approach is generally faster and far less costly, since the high costs of protracted litigation (e.g. legal fees and court costs) can be avoided. In addition, using the administrative process brings with it the same arsenal as the judicial process, including injunctions preventing further infringement actions, confiscation of goods infringing the IPR of the claimant, destruction of the means of production enabling the manufacture of such goods, and finally the imposition of fines on the infringer. The only remedy which cannot be secured via the administrative process are compensatory damages. If these are substantial, then the only available way to gain justice is to go with the judicial process.

The one big caveat is that the case needs to be "crystal clear" according to Lichtenstein. If this is not the case, then the administrative process is not an option. Procedural considerations like instituting a legal action versus taking administrative measures (if available) form a key part of the IP protection regimen. To go back to the above-mentioned PV software example, registering software or any copyright for that matter is not mandatory in China. But it might nevertheless be a smart move, since the registration readily provides proof in a subsequent enforcement action that the software is in fact the claimant's IP. Lacking such registration the foreign claimant has to go through the often time-consuming process of securing such proof in his home country and then getting such proof notarized and certified so that Chinese courts will accept it.

Arbitration an attractive option

Another very important procedural device and one which should already be thought about at the preventive stage is a carefully crafted arbitration clause. Taking the PI China JV as an example, the license agreement licensing the "PI China" name and logo to the newly formed JV is a contract between a foreign party (PI Berlin) and a Chinese entity (the JV). In such cases – foreign party contracts with a Chinese party – an arbitration clause providing for dispute resolution outside the Chinese judicial system can be stipulated in the agreement. While it is difficult to negotiate a dispute resolution clause where arbitration, as in Germany or elsewhere in Europe,



PI China's home base in Suzhou prominently displays both its Chinese and English trademarks.

is made the obligatory way to resolve possible disputes, other options like the Hong Kong International Arbitration Centre (HKIAC) or Singapore International Arbitration Centre (SIAC) present themselves and even the Beijing-based China International Economic and Trade Arbitration Commission (CIETAC) has become a popular place to resolve disputes between foreign and Chinese parties to a contract. Lichtenstein points out that CIETAC allows the appointment of foreign arbitrators, an important consideration when looking for a forum where sound and impartial decisions can be reached.

Pursuing offenders

This is not to say that sound and impartial decisions cannot be had in the regular Chinese administrative or judicial process. It is all a matter of probabilities and shaping the course of events in the case that IPR are infringed. The freedom to negotiate a suitable dispute resolution mechanism is unfortunately only available to parties who are doing business together and decide to enter into contracts to regulate their relationship.

For IP owners confronted with infringement of their IP by parties in China they have not contracted with, the hurdles will generally be higher.

But even in such cases, Lichtenstein sees light at the end of the tunnel: "On

the enforcement side our experience has shown that determination and persistence pays off, as well as the willingness to accept certain costs. At the end of the day these costs are not always paid back directly, because the compensation amounts collected often do not completely cover the costs invested in the enforcement action. But the market remembers something like this and very quickly notices that someone is not prepared to accept this kind of behavior. Many of our clients have told us that even if taking action did not yield a positive financial balance at the end of the day, it was worth it from a long-term strategic perspective."

Lichtenstein's rather positive assessment shows that China has become less of a minefield in terms of IPR protection and enforcement. Chinese companies are also amassing ever more intellectual property, especially in markets where China is at the forefront of technological developments. Solar PV happens to be one such market and as leading Chinese PV manufacturers grow their technological base we can expect pressure from such industries as well to further bolster IPR protection. This is also in line with China's efforts to build a knowledge-based economy and move away from a past where cheap products (and illicit copies) formed the mainstay of its foreign trade. ♦

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