

Going global

Joseph Siino considers the IP challenges global expansion poses for Chinese businesses

Numerous questions face Chinese IP executives as they seek to increase their market share, protect their innovations from competitors, monetise their own growing patent portfolios, and secure patent and other rights. Questions that need to be seriously considered include:

- How can a company secure the IP rights it needs at a fair and reasonable cost?
- How can assets be protected from patent attack by others?;
- What steps should be taken to ensure that licensing negotiations are fair and transparent?
- How to access litigation expertise to deal with Western courts? and
- How to acquire 5G rights without being ensnared in a new patent war?

At times, Chinese IP executives find themselves at a disadvantage in trying to negotiate fair patent deals with Western licensors as they often have more experience in patent licensing, patent prosecution, and patent litigation.

There are five moves Chinese IP executives need to take to put them on a more equal footing with Western licensors, protect their companies from competitors, and secure the patent rights they need to operate freely in global markets.

- **Acquire top IP talent** – Hire in-house heads of licensing and litigation from Western countries. These executives should have deep experience in China, the most experienced litigators and the most effective strategies for dealing with patent assertion issues.
- **Create a patent licensing strategy** – Some competitors may claim your products infringe their patents and demand your company pay royalties. Since these firms also sell products, your best defence is to have your own patents that cover their products. But what if yours is a young company and does not have enough patents of sufficient strength to counter theirs? You need to acquire them. The two best ways to do this are to invest in an aggressive, high-quality patenting programme and complement your internal patent development effort by purchasing patents.

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“First, you’ve got to figure out which product companies might challenge you in a patent engagement someday,” according to Ira Blumberg, a former vice-president of litigation and intellectual property at Lenovo. Blumberg notes that it is not just about direct competitors. For example, even though Cisco does not make computers it could still pose a threat as it sells networking equipment. It is important to consider direct competitors and those in adjacent spaces. Also, it is important to continuously update threat analysis to keep abreast of changing competitor activity and market conditions. Furthermore, the potentially more difficult challenges could emerge from a type of licensing enterprise – the non-practising entity (NPE). These are companies that do not sell products covered by their patents, or even conduct research to develop their patents. Based on data from IP House, a Chinese judicial research firm, dealing with these firms successfully requires a more sophisticated and varied approach.

NPEs in the US generally ask for \$50,000 to \$1bn. The small NPEs rely on the fact that it would cost \$1m to hire outside litigation counsel to defend against a patent suit, so they anticipate a business would be willing to pay \$50,000 to resolve a challenge.

Blumberg cautions that: “If you give in unnecessarily and settle, your company may look like an easy target... If, on the other hand, you hit back hard and get the court to sanction the NPE when it engages in abusive litigation tactics, you may force them to pay your legal costs. And the word will very quickly get around that attacking you can be dangerous.”

The larger NPEs can be an even more challenging as they have very large patent portfolios, they ask for a lot of money, and they can afford to litigate for many years. They will hire very expensive and capable outside counsel. What’s more, they are not a one-shot problem and will ask for a five-year licence with every intention of coming back after five years and demanding another licence. Tackling this kind of scenario requires adept litigation strategy.

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- **Secure the right people** – Chinese firms should engage expert outside patent counsel to research issues such as whether the patent owner has sued anyone, and if so, what was the outcome? If the patent owner does litigate, where will it happen and what will it cost to defend? What are the potential damages a court might award? And what is the best way to respond to a patent assertion in various markets?

An expert analysis of all these factors is necessary to determine the potential cost of refusing to agree a licence. With this data in hand, it is possible to evaluate the licence offer properly. And for Chinese companies with limited experience in Western courts, it may be necessary to engage outside experts for this type of analysis.

Another challenge for Chinese IP executives is putting the right people on the licensing negotiating team. Some companies focus on the technical merits of the patents being asserted.

“But this can sometimes be a mistake,” argues Paul Lin, vice-president of IP strategy at top smartphone maker Xiaomi. “To secure licence deals that make good business sense, you need people who know how to add genuine business value to a licensing deal – perhaps

by the addition of a patent sale to sweeten the deal. Remember, only if the licensing deal makes good business sense will you be able to sell it internally to senior management.”

- **Consider collective licensing solutions** – Seek out patent pools and other collective licensing solutions, such as those offered by Via Licensing, Avanci, SISVEL, and others. These enterprises provide the efficiency, transparency, flexibility, and fairness that is so often lacking in the patent licensing business, and is the reason why the European Union, for example, recommends their greater use by companies selling products in Europe.

Via Licensing’s LTE wireless and audio patent pools, for example, offer product makers like Lenovo and Xiaomi licenses to a whole body of patents from multiple innovative companies at once. And these patents have been vetted by independent and neutral evaluators to verify their essentiality to the technology standard.

Via also publicly discloses its licence pricing and terms – and these are consistent for all licensees – as well as the list of all its licensees. In addition, Via provides complete patent and product coverage and does not come back later with additional demands.

There are other benefits for Chinese companies in choosing a collective licensing solution. Joining pools can lead to new partnering opportunities for Chinese members who join the pool. Although perhaps not well known outside the Chinese market, every Chinese pool member stands on an equal footing with other members, paying the same rate others pay. They are “outsiders” no more.

Collective licensing solutions also fit with Chinese cultural and business sensibilities, where cooperation is seen as a means to defuse potential conflict. This is especially critical given the threat of a possible new patent war looming with the imminent rollout of 5G products and services, for which major 5G equipment and software manufacturers will certainly be demanding large royalties. The last thing a Chinese company needs is a new round of patent wars like the smartphone war of a decade ago that cost companies and consumers billions of wasteful litigation expense.

Remember, the world’s very first patent pool was formed in 1853 expressly to end the bitter “sewing machine patent wars”. They succeeded magnificently and have served as a proven private market solution to patent conflict ever since.

Insist on price fairness. Virtually every licensing executive with experience in China concedes that price is an enduring challenge, given the thin margins of many Chinese consumer electronics manufacturers. One simply cannot dismiss the fact that many things, including patents, cost much less in China. So why should Chinese firms pay the same rate as more profitable Western product makers?

Chinese companies are now expanding all over the world. They need IP strategies appropriate to their newly-enhanced global role and influence.

Author



Joseph Siino is president of Via Licensing Corp. He has crafted major patent deals with Chinese companies such as the top-five smartphone makers Xiaomi and Lenovo, as well as with top global television maker Skyworth and consumer electronics giant Haier. Previously, when he was IP chief at Yahoo he cemented major technology and IP deals with Chinese companies like Alibaba.