European Commission

CHINA IP SME HELPDESK

Case Study: Licensing technology in China

SME details

Location of headquarters: Europe
Industry: ICT, innovative wireless charging technology
Status in China: licensing in China since 2019

Case background

The SME develops innovative wireless charging technology for various electronic devices. As a high-tech company, the SME understands the value of their IP. In fact, early investments in IP have enabled the company to change from their initial B2C product selling business model to a B2B licensing business model which has proven to be more lucrative for the SME. The company has developed a comprehensive IP strategy to protect their software, technology and know-how as well as the brand. The SME has registered patents, trade marks, layout designs and takes trade secret protection seriously. The SME has a very precise framework for patenting and licensing the new technology. Patent hold-outs, which is the practice of companies routinely ignoring patents and resisting patent owner's demands because the odds of getting caught are small, are one of the concerns when licensing, and the SME has developed a robust strategy to mitigate the risks. The China market has always been appealing to the SME and in 2019, they established a collaboration with Chinese enterprises in Mainland China and in Taiwan.

Actions taken

The SME found 3 potential business partners in China (Mainland and Taiwan) with whom they started licencing negotiations. To manage the language and business culture barriers, the SME regularly consulted with local law firms. With each Chinese company, the SME had a very different negotiation experience. The first Chinese company rapidly signed the licensing agreement, taking only a few days to negotiate and accept the SME's licensing conditions with only a few requests. The second Chinese company negotiated for a few weeks, mainly over the royalties' price and the payment conditions. With the third Chinese company, the negotiations took a year, with almost every article in the licensing agreement being discussed. The main concerns of the third company were not the royalty rates or the cost of the technology, but rather the issues of liability and warranty, such as what happens if the device in which the SME's technology is embedded fails, and what happens if the IP embedded in the device infringes a third party's IP.

The SME believes that the following 3 aspects greatly helped them with the negotiations around liability issues:

- The SME designed a very precise test plan with the licensees in case of product failure to define whether the issue is hardware based (in this case, it would be the Chinese company's responsibility) or firmware based (in this case, it would be the responsibility of the SME).
- To avoid patent hold-outs and maintain a strong position in the negotiations, devices embedding the SME's technology would not be able to work without the SME's firmware, over which they have a very strong control. The firmware has flashing units connected to the SME's server, which need to be given to the Chinese party by the SME. The firmware is accessible only through this process. The SME can lock the firmware unit anytime they want to. So, when the SME saw that one of the companies was going to start production without having signed the licensing agreement, they decided to stop the flashing units needed to access the firmware. This move forced every party to sit around the table and finally come to an agreement.
- The SME defined clearly what would happen if the device infringed upon third party IP.

Outcome

The SME successfully negotiated all 3 licensing agreements and has not had any mayor IP issues with the licensees. The only point of concern the SME has, is how to count the exact number of products manufactured embedding their IP and thus the amount of royalties to invoice. The SME can track the number of times their firmware was flashed in the Chinese companies' hardware with the use of the SME's "flashing units", but in some agreements, royalties are defined by devices "manufactured" not by the units "flashed". So, the SME often sees a difference between the number of devices declared as manufactured by the licensees, and the number of devices flashed. The difference can often also be caused by the fact that some boards are flashed but not yet assembled, and some boards naturally fail.

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Lessons Learnt

- Technology-intensive companies should invest in IP as early as possible. You must have your IP registered in China if you want to license it in China. Having a strong portfolio of patents, software, trademarks, design patents and protection of know-how provides you with a stronger position at the negotiating table when discussing licensing agreements.
- There are always language and business culture barriers when doing business in China. The EU SMEs should seek support from local legal experts.
- Patent hold-outs may happen in China and technology-intensive companies should be ready for this. To avoid patent hold-outs, it is a good practice to have a strong protection over the firmware, and a system of keys provided only by an independent entity, which can stop the supply of those keys to one manufacturer if they don't respect the licensing conditions.

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Publications Office of the European Union

Luxembourg: Publications Office of the European Union, 2025

Print: ISBN 978-92-9412-106-6 doi:10.2826/8454557 EA-01-25-057-EN-C
PDF: ISBN 978-92-9412-105-9 doi:10.2826/3349917 EA-01-25-057-EN-N