IPR
Infringement by Asian companies
Case Study

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Brussels, 14.11.2011
Outline

• Five case studies from EPPSA members
• Implications for equipment suppliers
• Consequences of using infringing technologies
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Five EPPSA members encountered particular problems in protecting their IPR in and towards China:

- AE&E Lentjes (German Company)
- Magaldi (Italian Company)
- NEM (Dutch Company)
- Hitachi Power Europe (German Company)
- Alstom (French Company)
First case involving EPPSA members:

- AE&E Lentjes (German Company)
AE&E Lentjes – Desulphurisation
History:

• In 2001 the licence contract for Wet Limestone FGD (Flue Gas Desulphurisation) and CFB dry scrubbing technology was signed between AE&E Lentjes and a Chinese contractor.

• One of the main parameters: Licence territory is restricted to PRC.

• In 2009, the Chinese contractor started its market activities in Europe, requesting AE&E Lentjes to get the allowance to bid for projects in Europe, which was not given.

• Still in 2009 the Chinese contractor made a bid for a FGD project in Europe. However, since the tender was cancelled no further activities were done.

• In 2010 the Chinese contractor submitted a bid for another FGD project in Europe.

• AE&E Lentjes again has deposited in written form to the client and the Chinese contractor its concern of the violation of AE&E Lentjes IP rights.
Third case involving EPPSA members:

- Magaldi (Italian Company)
Dry bottom ash handling:
EXPERIENCE IN CHINA

• 1998–99: Installation of the first MAC system in Sanhe (Beijing)
• Oct. 2002: Magaldi signed a licence Agreement with SP Long Yuan, (owned by Guodian Group of the State Power of China)
• 2003: full technical training to SPLY engineers in Italy
• Since 2002: Chinese counterfeiters flourished, among them also Beijing Guodian Futong Science and Technology Development Co. Ltd—a spin-off from Electric Power Construction and Research Institute (EPCRI)

• Magaldi MAC dry bottom ash handling system was invented in 1985 in Italy and is patented
• All Magaldi technologies were legally patented in China

=> Magaldi tried to protect its interests suing the counterfeiters for patent infringement in front of the Chinese tribunal

In 2004 the ruling of the Middle Court of Beijing was that Magaldi was “not an original idea” thus claim # 1 was voided.
• Magaldi original drawing passed to competitors from Magaldi licensee SPLY and used by Magaldi counterfeiters as its own drawing in a public bidding.
Fourth case involving EPPSA members:

- NEM (Dutch Company)
NEM

Company Profile:
- NEM B.V. was established in 1929.
- NPS (NEM Power Systems) is NEM’s German subsidiary.
EXPERIENCE IN CHINA

• Jan 2001: NPS signed a **Secrecy Agreement** with Wuxi Hua Dong Electric Power Equipment Co-Ltd (HD) based in Wuxi.

• NPS sent drawings in 2001 to build a fully working model (never built)

• 1st June 2001: a **Sales and Manufacturing Agreement** was signed.

• Jan 2002: NPS received a copy of the Chinese patent for a Twin-Blade damper for application in FGD plants **in HD’s name**. used NPS drawings in March 2001!

• April 2002: HD finally signed a **licence agreement** with NPS allowing them the exclusive rights to the patent!

• August 2002: competition from another company was driving the prices down they could not pay NPS the engineering fee anymore.

• A client complained to NPS that the lamella seal strip had corroded too quickly, NPS found out that HD copied their strip, using inferior materials.

• On August 28, 2002 NPS **cancelled the agreement**. After months of discussion the original patent was transferred to the name of NPS Chinese lawyer.

• NPS lawyer also found out that Madam Zhang patented NPS diverter damper in China along with 3 patents for Bachmann’s damper designs!
Fifth case involving EPPSA members:

- Hitachi Power Europe (German Company)
EXPLORE IN CHINA

• HPE signs the contract to build in Germany the Datteln Power Plant

• 2007: Shanghai Boilers was manufacturing for Hitachi Power Europe specific boiler parts as a subcontractor for this Power Plant

• 2009 and 2010: HPE built the boiler in Germany with the sub-supplied parts

• 2010: HPE realises that sketches of their original drawings for this contract appear in 4 international patents applications (PCT Patent application), based on a Chinese Patent application submitted in 2008

• HPE is now defining how they want to deal with this topic, since they fear that if the patent is accepted, HPE would have to foresee a lawsuit everytime they want to use their own original technology where patent protection would have been granted to Shanghai boilers (see Schneider case with Chint Group)
Second case involving EPPSA members:

• Alstom (French Company)
History:

- 2004: Licence agreement signed between Alstom and Insigma Technology granting to Insigma the access to a technology of “wet desulphurisation” to the Chinese market only
- 2005: Several projects correctly launched with this technology
- 2006: Insigma stops paying royalties to Alstom and transfers the licence to one of its subsidiary, Insigma M&E, thus disregarding the terms of the agreement
- Alstom terminated the agreement and started litigation against Insigma at the Singapore International Arbitration Court, as foreseen under the licence agreement in case of litigation.
- 2010: The arbitration court confirmed that Insigma had continued to use illicitly Alstom’s technology well after the licence termination and awarded to Alstom 26,6 M$ damages. The arbitration court prohibited Insigma to use Alstom technology perpetually outside China
Alstom

First Case – Romania:

• In violation with its licence, Insigma, allied to Idreco, an Italian engineering company, started competing against Alstom in Europe

• Alstom offered in April 2009 the best tender (53 M€) for the desulphurisation project at the Craiova power plant. The contract was awarded in June 2009. The project is funded by EC Structural Funds

• This award was challenged by the Idreco–Insigma–Romelectro consortium on the grounds of an alleged non-conformity of Alstom’s technical tender. The challenge was successful and the contract was awarded in July 2009 to the consortium with for a 10% higher price

• Alstom challenged the decision of the first instance court but its appeal was dismissed. Alstom also appealed against the second award decision as the consortium is not meeting the qualification criteria, appeal still pending

• Alstom filed a complaint at OLAF and this has led to an infringement procedure

• After arbitration Alstom has requested to check the technology used by the consortium and access to the technical tender. All these requests were rejected!

• The first award proceedings was finally cancelled in October 2010

• The tenders for the rebid were opened on February 10th 2011. This time Insigma has disappeared but was replaced by Longking with a price 25% lower than everybody else and questionable references.
Alstom
Second Case – Bulgaria
Second Case – Bulgaria:

- 2008: Insigma–Idreco wins the tender for the PP Maritza East 2 (BG)
- Co–financed by the EBRD (36 M€ loan) and the EC (34 M€ ISPA grant)
- After the Bulgarian courts decided it had no jurisdiction for contract award claims as the project is financed by international funds, Alstom claimed to the EBRD, indicating that its IPR was violated and that Idreco–Insigma had fraudulently represented its references to qualify for the contract award. In spite of these claims the EBRD released its no objection to the contract signature in Dec 2008
- Jan 2009: Alstom filled a complaint with the European Commission and the EBRD
- This time both the EC and the EBRD reacted: an OLAF investigation was opened in March 2009 and the funding has been temporarily stopped
- Jan. 2011 Alstom files a complaint at the National Admin. Court (CPC) in Bulgaria
Second Case – Bulgaria:

- 04/2011 OLAF report confirms fraud. Grants are stopped and Bulgarian Prosecutor is asked to open a case against the fraudulent companies (this is not done since over a ½ year!)

- 05/2011 CPC recognised the fraud and fined the Consortium with approx. 75,000€ (< than 1/1000 of contract value!) and the CPC found that there were no infringements of Alstom’s intellectual and industrial property rights (IPR) since:

  there is no evidence of an industrial or trade secret and that “the consortium is not using anything that belongs to the complainant and that is an exceptional engineering achievement, giving to the complainant a competitive advantage.”

  If this would not be “an exceptional engineering achievement”, why did Insigma pay for a licence? Why did the court in Singapore award to Alstom 26,6 M$ damages?

- 08/11: EBRD finalised report confirming the fraud. They blacklisted Idreco-Insigma for 3 years and cancelled the funds. This blacklist is also valid for all projects funded by the World Bank and their partners

- Not only is the Bulgarian Prosecutor seeming to not following the OLAF findings, but the National Government is lending money to finalise this project since EU and EBRD funds were cancelled and the project execution still continues
• Implications for equipment suppliers
Implications for equipment suppliers

1) Complete loss of the Chinese–Asian market.

2) Endangerment for all other markets where Chinese counterfeiters start selling the copied technology after having saturated their internal market.

• Equipment suppliers are highly concerned with the situation and see protection of IPR vital for the industry.

• Committed to ensure that European market will follow IPR regulations that would prevent the infringement companies from breaching the rules.
• Consequences of using infringing technologies
Consequences of using infringing technologies

Risk of delays in project execution

If infringing companies are chosen project would be challenged by verification process that would ultimately result in a delay of a project execution. The PP Maritza East 2 (Bulgaria): failed to meet the deadline of 31.12.2010. The deadline was extended but the future of the project implementation is vague. Craiova 2 (Romania): The first award proceedings was finally cancelled in October 2010 due to the infringement procedure launched by the EC.

Civil & Criminal responsibility for using infringing technologies

Risk of suspension of funds

A. The use of infringing technologies can lead to the suspension, even cancelation of funds. Bulgarian example: An OLAF investigation concluded with the temporary suspension of funding (34 mil.€ of European funds & 36 mil.€ from EBRD).
B. Bank loans are also at risk.
About EPPSA

This leading technology sector has more than 100,000 employees and an annual revenue of over €20 billion.