

Negotiating IP Licenses and Technology Transfer Agreements Related to China

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China-specific Considerations

- Applicable Chinese Laws and Regulations
- Transactions Subject to Import/Export Restrictions
- Import Prohibited and Restricted Technology
- Export Prohibited and Restricted Technology
- Approval and Registration
- Void Provisions
- The Government's Role

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Legal Framework

- *The Regulations on Administration of Technology Import and Export* adopted by the State Council on October 31, 2001, which were promulgated on December 10, 2001 and came into force on January 1, 2002 (*2002 Technology Import & Export Regulations*);
- *Catalogue of Technology of Which China Prohibits or Restricts the Import* (First Batch) which were promulgated by the MOFTEC and SETC on December 30, 2001 and came into force on January 1, 2002, which was repealed on November 23, 2007, with the implementation of a new *Catalogue of Technology of Which China Prohibits or Restricts the Import*;
- *Catalogue of Technology of Which China Prohibits or Restricts the Export* which were promulgated by the MOFTEC on December 12, 2001 and came into force on January 1, 2002, which was revised on November 1, 2008;
- *The Catalogue for Guidance on Foreign Investment in Industries* issued by the State Development Planning Commission, the SETC and the MOFTEC on March 11, 2002 and which came into force on April 1, 2002;
- *The Regulations on Guiding the Direction of Foreign Investment* promulgated by the State Council on February 11, 2002 and which came into force on April 1, 2002;
- *Notice on How to Adjudicate Disputes on Technology Contracts by Intellectual Property Courts* issued by the Supreme People's Court on June 19, 2001;
- *The Supplemental Notice Concerning Strengthening Administration for Technology Import Contracts and the Sale and Payment of Foreign Exchange* issued by the MOFTEC and the SAFE on March 19, 2001;
- *Catalogue for Technology and Products that Are Encouraged for Import*, issued by National Development and Reform Commission, MOFCOM and Ministry of Finance on July 22, 2009.

Transactions Subject to Import & Export Regulatory Restriction

- Patent assignments
- Assignments of patent application rights
- Patent licensing
- Assignments of know-how or trade secrets
- Technical services and other unspecified forms of technology transfer covered by the *2002 Technology Import & Export Regulations*
- Cooperative research and development contracts
- Technology consultancy contracts
- Technical training contracts
- Technology brokerage contracts
- Software import and export contracts
- Trademark licenses or assignments involving patented or non-patented technology

Import Prohibited Technology

- import will harm national security or social public morality;
- import will have a serious impact on the health or safety of people or the health or safety of the animals or plants, or destroy the national environment;
- import will have a serious impact on the public interest;
- out-of-date technology should be eliminated in accordance with the law and regulations;
- in accordance with the law and regulations; and
- in accordance with the international treaties or conventions.

Import Restricted Technology

- import will have a negative influence on the national security, public interest or social public morality;
- import will have a negative influence on the health or safety of people or the health or safety of the animals or plants, or destroy the national environment;
- the restriction is for the establishment or development of certain domestic industry
- the restriction is for the country's international financial position and international balance of payment
- import is not in accordance with the industrial policy based on the laws and regulations,
- in accordance with the law and regulations; and
- in accordance with the international treaties or conventions.

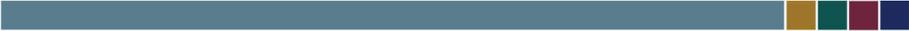
Export Prohibited and Restricted Technology

- maintenance of the national security, public interest or public morality;
- protection of health or safety of people, the health or safety of the animals or plants, or environment;
- in accordance with the law and regulations; and
- in accordance with the international treaties or conventions.

Approval and Registration

- Three categories for imported and exported technologies:
 - freely imported and exported technology: no prior application necessary only after the technology has been imported
 - restricted technology: prior license and approval
 - prohibited technology: not allowed
- Registration - online via the China International Electronic Commerce Network
- The Ministry of Commerce (MOFCOM) is responsible for registering technology imports for large projects, including projects that need approval from the State Council and projects funded partly by the national budget or by foreign government loans
- Provincial-level foreign-trade bureaus are in charge of registering other contracts involving the import of freely tradable technology
- For restricted technology, an application for import license must be filed with MOFCOM, before and after the technology-import contract has been signed and after approval of the license
- May be required to produce certificate when applying for foreign-exchange settlements, including overseas remittances of royalties

Void Provisions



A contract that contains the following prohibited terms is not registrable under Article 29 of the 2002 *Import & Export Regulations*:

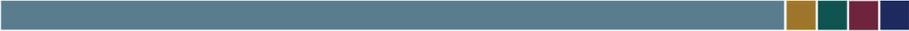
- Requirements for the transferee to accept conditions on the imported technology, including the purchase of unnecessary technology, raw materials, products, equipment, or services.
- Requirements for the transferee to pay for, or undertake obligations related to, an expired or invalidated patent.
- Restrictions on the transferee improving transferred technology, or using the improved technology.
- Restrictions on the transferee acquiring competitive or similar technology from a third party.
- Unreasonable restriction of the transferee's channels or sources for purchase of raw materials, parts and components, products or equipment.
- Unreasonable restriction of the quantity, variety or price of products produced by the transferee.
- Unreasonable restriction of the export channels for products produced by the transferee employing the imported technology.

Additional Considerations



- Warranty and Indemnification
- Grant Back
- Confidentiality/Protecting Trade Secrets
- Dispute Resolution
- Quality Control/Audits

Warranty and Indemnification



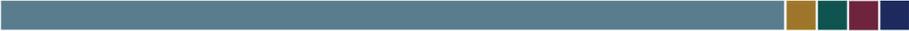
Articles 24 and 25 of the *2002 Technology Import & Export Regulations* require the assignor or licensor to warrant that it is the “lawful holder”, or “authorized” assignor or licensor of the technology and that the technology is “complete, error-free, valid, and capable of accomplishing contracted technical objectives.” Other than this, the parties can freely negotiate warranty clauses.

Grant Back



Article 27 of the *2002 Technology Import & Export Regulations* provides that during the validity of the contract, ownership of improvements in technology shall be vested in the improving party. Foreign transferors are advised to limit the geographical area of use of the licensed technology and its improvements, and to negotiate for a nonexclusive license and an exclusive license outside China for use of the improved technology.

Confidentiality



There is a three-party confidentiality requirement. The government employees who are responsible for approving and registering the technology import and export contracts must keep trade secrets and know-how received from transferors and/or transferees confidential. Article 26 of the 2002 *Technology Import & Export Regulations* require assignees and licensees to keep trade secrets and know-how received from assignors and licensors confidential during the validity of the technology contract. However, should the confidential information be publicly disclosed through no fault of the assignees or licensees during the validity of the contract, the confidentiality obligation will lapse.

Dispute Resolution



- Governing law could be negotiated;
- Arbitration in Hong Kong and Singapore have become popular;
- Approving agency would look at whether the technology agreements confirm PRC law even though a foreign law or forum is chosen.
- Litigation in China

Interplay with Anti-Unfair Competition and Anti-Monopoly Law

The prohibited acts of unfair competition include:

- 1) Deceiving consumers by passing off a registered trade mark of another person, using the specific name, packaging, decoration of well-known goods without authorization, or forging or falsely using symbols;
- 2) Abusing administrative powers;
- 3) Forcing others to buy goods designated by public utility enterprises or enterprises as having monopoly status;
- 4) Making tie-in sales;
- 5) Promotion of goods by offering fraudulent prize incentives;
- 6) Buying or selling goods by means of bribery;
- 7) Submitting tenders in collusion with others;
- 8) Damaging a competitor's reputations by fraud;
- 9) Causing prejudice to competitors by selling goods at below cost price;
- 10) Infringing other's trade secrets.

Acts 1), 3), 4), and 10) could be relevant in relation to licensing.