Featured Article

LAWS AFFECTING IP LICENSING —— China

The Civil Code of the People's Republic of China (effective January 1, 2021, the "Civil Code") provides the contract principle of freedom of contracting and of honestly and good faith in exercising parties' rights and performing parties' obligation in contracting; and includes a category of "technology license contracts" as defined by *Article 862*, the Civil Code. Intellectual property ("IP")[1] licensing includes trademark licensing, patent licensing, copyright licensing, and technology know-how licensing, and accordingly refers to both technology and non-technology license contracts.[2]

Trademark licensing is regulated by the Trademark Law of the People's Republic of China (effective November 1, 2019, the "Trademark Law") and the Regulations on the Implementation of the Trademark Law (effective May 1, 2014, the "Trademark Regulations").

Patent licensing is regulated by the Patent Law of the People's Republic of China (effective June 1, 2021, the "Patent Law") and the Regulations on the Implementation of the Patent Law (effective February 1, 2010, the "Patent Regulations"). The Patent Law has defined patents to include inventions, utility models, and designs (Article 2). Thus, a design is a type of patent and is also regulated by the Patent Law.

1. According to *Article 123* of the Civil Code, IP rights are the proprietary rights enjoyed by right owners in 3respect of works, inventions, utility models, and designs; trademarks; geographic indications; trade secrets (know-hows); layout designs of designs of interated circuits; new varieties of plants and other objects specified by laws.

2. Note that some answers below specifically discuss technology license contracts.

Copyright licensing is regulated by the Copyright Law of the People's Republic of China (effective June 1, 2021, the "Copyright Law") and the Regulations on the Implementation of the Copyright Law (effective March 1, 2013, the "Copyright Regulations").

The Anti-Unfair Competition Law of the People's Republic of China (effective April 23, 2019, the "Anti-Unfair Competition Law") is the governing law on know-hows, as well as on unregistered trademarks.

For international IP licensing (*i.e.*, at least one party being a foreign entity), there is no legislation in China directly governing an international licensing relationship. However, applied laws, regulations, and rules are applicable to the relationship, such as the Foreign Trade Law of the People's Republic of China (effective November 7, 2016, the "Foreign Trade Law") and the Technology Import and Export Regulations (effective November 29, 2020, "TIER"). Further, the parties involved in the international licensing relationship need to comply with tax and foreign exchange provisions, as well as relevant recordals with the government authorities in accordance with IP regulations.

1. Is there a requirement to register licences in your jurisdiction and, if so, what are the sanctions for failure to do so and how could either of the parties be adversely affected if licences are either not registered or are unregistrable?

The Civil Code requires all technology assignment/license contracts to be in writing *(Article 863)*. Further, based on the provisions of the Copyright Law, the Trademark Law, and the Patent Law, IP licensing requires an execution of a written contract.[3]

The licence contracts, including trademark license contracts, patent license contracts, and copyright license contracts, can be registered, but registration of the contracts is not mandatory.

2. Is it possible to register licences voluntarily?

Generally speaking, in China, the registration of IP licensing is voluntary, and a license contract will come into force

3. The Patent Law does not specifically provide a requirement for written patent license contracts. However, it is a general understanding that Chinese law does not allow any implied license to technical IP and that consequently, in so far as there is no express, written license between the parties, there is no license whatsoever under Chinese law for all intents and purposes.

as soon as it is properly signed or executed. The purpose of the registration is to prevent a subsequent conflicting licence granted to a bona fide third party from being valid. For a registered license contract, due to the registration and the public announcement of the registered licensing, the protection of the licensee is strengthened, avoiding a possibility that a subsequent conflicting licence may be valid.

Trademark License Contract: Paragraph 3 of Article 43 of the Trademark Law stipulates that where a person licenses another person to use his/her registered trademark, the licensor may submit the license for the use of his/her trademark to the Trademark Office for recordal, in which case the Trademark Office shall publish the key information of the licence. This article also states that the trademark license cannot be used to attack the validity of a subsequent, conflicting licence granted to a bona fide third party unless it has been recorded. If the trademark license contract is not registered, the effect of the license contract will not otherwise be affected. At the time of filing, which can be at any time during the period of the contract, the licensor must file particulars of the licence with the Trademark Office. Those particulars set out details of: the licensed trademark, licensor, licensee, license period, licensed scope of goods or services, etc. of the license contract. Once the trademark license contract is recorded, the stated particulars of the trademark license shall be announced by the Trademark Office.

Patent License Contract: Paragraph 2 of Article 14 of the Patent Regulations stipulates that a patent ***licensing contract*** concluded between the licensor and licensee shall be registered with the patent administration department of the State Council within three (3) months from the date when the contract takes effect. The licensor could be all the patentees, or part of the patentees, or authorized obligee. Although this article uses the expression "shall", the registration is not mandatory and the act of registration only serves to prevent a conflicting licence granted to a bona fide third party from being valid to the extent there is a conflict. Registration is not a requirement for the effectiveness of a licensing contract. The licensing contract (*i.e.*, all kinds of licensing) will become effective once it is properly signed. When filing, it is necessary to submit the following materials to the State Intellectual Property Office: (i) a request form signed by the licensor and licensee; (ii) a copy of the patent license, which could be a short form showing the title of each patent, patent (application) number, license type, patent license scope, contract effective date, contract termination date, royalty, and payment method; (iii) other documents such as the power of attorney, and the business license of each party. The patent license will then be registered in the Patent Register and advertised in the Patent Gazette.

Additional benefits of registering a patent license contract include:

(i) The certificate of registration of the patent license, issued by the State Intellectual Property Office is required for handling foreign exchange, customs, intellectual property rights filing, and other related procedures.

(ii) The nature, scope, duration, amount of licensing fees, etc. of the registered patent license contract can be used as a reference for a people's court and a department in charge of patent affairs to mediate or determine the amount of compensation for infringement disputes.

(iii) Due to the public availability of the information provided in the course of registration, the public may analyze, evaluate, and appreciate the patent value, and this could sometimes assist in the promotion and application of the patented technology.

Copyright License Contract: *Article 25* of the Copyright Regulations stipulates that exclusive copyright licensing contracts with copyright owners may be registered with the Copyright Administration. Although the law does not clearly mention a sub-licensee, it can also be registered theoretically. Registration is not mandatory. It is only possible to register after the exclusive license contract is concluded. For registration, the following should be submitted to the Copyright Administration: (i) an application form for registration; (ii) the identity certificate of the applicant such as the business license; (iii) a copy of the copyright license; and (iv) samples of the works which are the subject of the contract.

3. Are there any laws which relate to the basic grant (i.e., which limit the prohibited acts such as manufacture and sale) or which affect the grant of licences within fields of use?

For technology license contracts, Chinese law requires any technology licensor, and more specifically any foreign party to a technology import contract, to warrant that: (i) it is in lawful possession of the rights to the technology offered for license (that is, clear title); and (ii) the technology is complete, error-free, effective, and capable of reaching the agreed upon technical benchmarks (*Articles 862 and 870, the Civil Code and Articles 23-24,* TIER).

Further, violating antitrust rules may render a license contract invalid for "illegally monopolizing technology." See the Civil Code, *Article 850*[4]. This rule applies broadly to all technology contracts in China. The Supreme People's Court (the "SPC") has interpreted the phrase

4. Technology contracts that illegally monopolize technology or infringe the technical achievements of others are invalid (*Article 850*).

"illegally monopolizing technology" to mean any of the following:

(i) Limitations on the development of improvements to the technology, and unfair cross-license conditions on the improved technology, such as: grant-back of improved technology without compensation; non-reciprocal transfer of improved technology; or sole or joint ownership of improved technology without compensation.

(ii) Tie-outs, that is, limitations on the use of similar or competing technology from a third party.

(iii) Limitations on a licensee's reasonable exploitation of the licensed technology to meet market demand, including unreasonable restriction on quantity, type, price, sales channels, and export of licensed products.

(iv) Tie-ins and package licensing, that is, requirements to purchase additional technology, goods, or services that are unnecessary for the practice of the technology.

(v) Unreasonable restrictions on the sourcing of raw materials, parts, equipment and so on.

(vi) Prohibitions or restrictions on a licensee's ability to challenge the validity of the licensed IP.

See, Article 10, Interpretation of the SPC Regarding Issues Relating to the Application of Law to the Adjudication of Technology Contract Dispute Cases (effective January 1, 2021, the "SPC Interpretation"). For the limitations and restrictions listed above, a Chinese court may find any of them sufficient for invalidating a technology license contract. If a contract is invalid, it will not affect the validity of the dispute settlement clause of the contract.

Further, there is a risk if a technology licensor wishes to have provisions to retain control of the technology by utilizing the following clauses (considering the SPC Interpretation and some revoked articles of the earlier TIER):

(i) Whereby ownership of any improvement made by the licensee vests automatically in the licensor;

(ii) Whereby any improvement made by the licensee is assigned or licensed to the licensor for no additional consideration;

(iii) That set a strict territorial scope and unreasonably prohibit the licensee from exporting the products to other territories, for example exporting to countries where no patents exist covering the product;

(iv) Licensing contract bundling the technology with other technology;

(v) Whereby the licensee acknowledges the validity of, and the licensor's right, interest and title to, the licensed IP; or

(vi) That prohibit any challenge to the validity, or the licensor' s ownership, of the licensed IP rights.

There is a risk that the above clauses would be found to illegally monopolize technology under the SPC Interpretation, and therefore invalidate the contract under Article 850 of the Civil Code. In particular, the risk would be higher if the restrictive clause is not required for the ultimate purpose of the parties to conclude the contract.

There is no law which limits the number of licensees e.g., the number of distributors who may import and sell licensed products.

4. Are there any rules which apply to the exhaustion of intellectual property and how does that affect territorial licensing?

Patents: Paragraph 1 of *Article 75* of the Patent Law stipulates that, where a patented product or product obtained directly pursuant to the patented method is sold by the patentee or an organisation or individual licensed by the patentee to use, offer for sale, sell and import such products, further use or sale of the same product shall not be deemed as infringement of the patent right.

This provision is a provision on exhaustion of patent rights. It holds that if the patentee or licensee sells its patented products or products obtained directly by patented methods outside China, whether or not the patentee has patent rights in the country or region where the place of sale is located, and whether or not the patentee or licensee attaches restrictive conditions when selling, the import of the patented product does not infringe the patent right in China.

The law does not clearly stipulate the distinction between repair and remake. In practice, factors such as the balance of interests between the patentees and consumers and trade habits, are usually considered.

Trademarks and Copyrights:

The Trademark Law and the Copyright Law do not provide for exhaustion of trademark rights and copyrights.

Although China's Trademark Law does not explicitly stipulate the exhaustion of trademark rights, from the perspective of judicial practice, the exhaustion of trademark rights has become an important defense in trademark infringement litigation. In a trademark infringement dispute, if the accused infringer can prove that (i) the goods he/she sells are from the trademark owner or a legitimate licensee, no matter the products are produced in China or outside China, (ii) his/her commercial publicity and marketing methods conform to the basic rules of general practice on the relevant market, (iii) the commercial publicity and marketing methods do not exceed the reasonable scope, (iv) the seller is acting on good faith, (v) there is no negative impact on the

goodwill of the registered trademark, and (iv) it does not cause confusion among the relevant public about the source of the goods, the relevant acts of the accused infringer shall not be deemed as an infringement of trademark rights. The situation for copyright is similar to that for trademarks.

The Trademark Law and the Copyright Law do not provide for parallel import regarding trademark rights and copyright. In practice, a Chinese court has not established parallel import as trademark infringement in most cases. The situation of copyright is likewise.

Overall: Note that the language of trademark and copyright laws makes no distinction between restricted sales and unrestricted sales. It is thus unclear whether international exhaustion can be precluded by contractual restrictions on the product sold. Thus, a license contract should be drafted to take account of international exhaustion, contractual restrictions, and antitrust.

5. Are there laws which either prevent or impose termination of rights granted, including rights under sub-licences?

Chinese laws do not impose any conditions on, or otherwise limit, the right to terminate, or the right to require any form of compensation upon termination. These issues are addressed in a contract. In the event of termination or expiration of a license contract, a sub-license will also terminate or expire, which is so even in the absence of any contractual clause as a sub-license exists based on an effective head license.

Further, according to the Patent Law, a patent license contract is terminated on the expiry or invalidity of the patent for which the licence is granted. While the licensee may stop paying royalties immediately, the royalties already paid will not be returned.

However, a license contract for a trademark continues to remain in effect despite any expiry or invalidity, as the value of an unregistered mark is recognized under Trademark Law and Anti-Unfair Competition Law.

For technology license contracts, any violation of Chinese legal provisions on technology license contracts or regulatory provisions on technology import/export contracts could render a contract invalid (*Article 153* [5] *or 850,* the Civil Code). Once a contract (or any part of it) is invalidated, it is deemed void ab initio (*Article 155,* [6] the Civil Code). Specifically, upon invalidation, the parties are discharged from performing the contract. If any performance is already under way, it should cease. If a contract has been fully performed, a Chinese court would try to

5. Any civil juristic act that violates mandatory provisions of laws or administrative regulations is invalid (*Article 153*).

6. Any invalid or revoked civil juristic act has no legal binding force from the beginning (*Article 155*).

restore the parties to their pre-contract state (that is, as if the contract had never been entered into). The party at fault for rendering the contract invalid is liable for damages caused to the other faultless party.[7]

6. Are there laws which limit the amount of any payments or the period during which those payments are to be made?

There is no specific law in China governing payments in IP licenses, as this issue is covered by a license contract between the parties. However, the parties involved in an international licensing relationship need to comply with tax and foreign exchange provisions, as well as relevant recordals with the government authorities in accordance with IP regulations.

7. Are there any exchange control laws and, if so, are they in any way related to the topic in questions 4 and 6?

For an international license contract, a recordal of the contract with the Chinese government is needed to facilitate foreign monetary payment relating to the contract. Due to foreign exchange controls in China and in view of the Foreign Trade Law, the State Administration of Foreign Exchange ("SAFE")'s approval or record-filing is required for a range of transactions involving inbound and outbound foreign monetary payments. Moreover, a remittance of certain foreign currency [8] overseas needs to be registered with the tax office, as required by the SAFE's rules.

Accordingly, a license contract should take into consideration the amount and frequency of payments in view of SAFE's rules.

8. Are there rules relating to the licensing of IP rights and confidential information outside the jurisdiction of the licensor?

For technology license contracts, the import and export of civilian technologies (licensing IP rights and confidential

7. However, even upon invalidation, there are special rules for technology contracts that favour transferees (*Articles 11-12*, the SPC Interpretation):

"Upon invalidation or cancellation of a technical contract, where both parties are unable to renegotiate and agree on ownership of, and sharing of benefits from, a new technical achievement completed in the performance of the contract or subsequent improvement of others' technical achievement, the people's court may rule that the party which completed the technical achievement should take ownership.

Following the invalidation of a technology contract in accordance with Article 850 of the Civil Code for infringement of a third party's technical trade secret, unless the laws and administrative regulations provide otherwise, the party that acquired the technical trade secret in good faith may continue to use such technical trade secret within its scope of use at the time of its acquisition, provided that it pays reasonable royalties and maintains its confidentiality obligation to the right-holder."

8. The foreign currency limit varies from time to time.

information) is regulated by the Foreign Trade Law and TIER. TIER takes a catalogue management approach to technologies, that is, they are categorized into prohibited technology, restricted technology, and unrestricted technology based on the sensitivity of concerned technologies. The Ministry of Commerce ("MOFCOM") maintains a catalogue of prohibited and restricted technology categories, that is, *the Catalogue of Technology Prohibited or Restricted from Import* (the "MOFCOM Catalogue"). Any technology not listed on the MOFCOM Catalogue is deemed unrestricted under TIER *(Article 5)*. The import of any prohibited technology is, as the name suggests, prohibited *(Article 9, TIER)*. For the importation of restricted technology and unrestricted technology, different procedures apply.

Unrestricted technology: There is only a registration procedure for a technology import licence, and that registration is not a pre-requisite for the contract to take effect (*Article 3*, the Measures for the Registration and Administration of Technology Import and Export Contracts (2009, the "Contract Measures").

Restricted technology: Technology listed in the MOFCOM Catalogue is subject to MOFCOM's prior approval, without which no contract for the importation of restricted technology is effective (Articles 11-16, TIER). The application process for the importation of restricted technology also has two steps. The first step is supposed to take place before the parties sign any technology contract. If successful, the Chinese importer is allowed three years to negotiate and sign a technology import contract. In the second step, the signed contract is reviewed by MOFCOM, and comes into effect only if MOFCOM grants final approval. Alternatively, for technology import, the parties can execute the contract first, and initiate both steps of the application at the same time. *See at Id.* and the Measures for the Administration of Technology Prohibited or Restricted from Import (2019, the "Administration Measures"). However, for technology export, without MOFCOM's approval, no substantive negotiation may be carried out with foreign entities, nor any commitments made pertaining to the exportation of technology. See the Administrative Measures.

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