

Expectations and Strategies in Licensing Negotiations from the Viewpoint of Chinese Parties

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Expectations and Strategies in Licensing Negotiations from the Viewpoint of Chinese Parties

- **Doing business in China:**
 - Laws and Regulations
 - Chinese culture
 - Expectations of Chinese parties

Expectations and Strategies in Licensing Negotiations from the Viewpoint of Chinese Parties

Legal basis of licensing

- Contract Law
- Regulations on Administration of Technology Import and Export
- Judicial Interpretations of the Contract Law

Expectations and Strategies in Licensing Negotiations from the Viewpoint of Chinese Parties

Technology Transfer/Technology Import/Export contracts

1. Ordinary technology transfer contracts (between Chinese parties)
2. Technology import and export contracts

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Categories of technologies:

- Technology that can be imported and exported freely
- Technology that is restricted for import and export
- Technology that is forbidden to be imported and exported

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“Contracts for technology”

- “Technology transfer contracts” - a special kind of “contract for technology” under the Contract Law.
- “Contracts for technology” includes not only “technology transfer contracts”, but also “technology development contracts”, “technical consultation contracts” and “technical service contracts”.

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“Technology transfer”

- “Technology transfer” covers assignments and licensing of patents, pending patent applications, trade secrets and other non-patent technology.
- “Technology transfer” does not cover knowledge, experience, and information that are not part of a patent, a patent application or trade secret.

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Term of a contract for technology

- No stipulation in the laws and regulations on the term of a contract for technology.
- The parties are free to negotiate the term of a contract.
- In terms of a licensing agreement with respect to a patent, the term should not exceed the life of the patent.

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Technology transfer and technology import and export

- Technology transfer includes
 - transfer of patent right/patent applications
 - patent licensing
 - transfer of trade secrets
 - transfer of technology services, etc.
- Technology import or export: if one of the parties to the contract is located outside the territory of China.

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Restrictive clauses that are not allowed

- 1) Tie-in clause;
- 2) Payment for lapsed or invalidated patents;
- 3) Restriction on improvements of the licensed technology or the use of the improvement made by the licensees;
- 4) Restriction on licensee's sourcing similar or competing technology from others;

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Restrictive clauses that are not allowed

- 5) Unreasonable restriction on licensee's obtaining raw materials, parts and components from other sources;
- 6) Unreasonable restriction on quantity, type or price of the products; and
- 7) Unreasonable restriction on licensee's export channels of the products.

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Operative guarantee

The licensor (supplier) of a technology is obliged to guarantee that the technology is complete, effective, and capable of achieving the agreed-upon objectives.

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- **Ownership of improvements**

Any improvement to the licensed technology during the term of the licensing agreement should belong to the party who made the improvement.

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Infringement liabilities

- For a normal technology transfer contract between two domestic parties, the parties may negotiate on the infringement liability.
- In the case of a technology import, the supplier/licensor should guarantee that it is the legitimate owner of the technology and
- The supplier/licensor should be liable for infringement, if implementation of the patents or the use of the trade secrets licensed infringes others' legitimate rights.

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Confidentiality obligation

The recipient/licensee has the obligation to keep confidential the trade secrets provided by the supplier/licensor within the agreed-upon terms and conditions of the contract.

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Validity of contract clauses

A contract will be invalid if

- it seeks illegal monopoly over a technology;
- It obstructs progress of technology; or
- it infringes other's legal right.

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“Illegal monopoly” and “obstruction of progress of technology”:

- (1) Restriction on further development of the technology which is the subject of the contract;
- (2) Restriction on one party to obtain technology from other source;
- (3) Unreasonable restriction on licensee regarding the volume of the production, the models/types of the product, price and sales channels;

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Other stipulations on technology import and export

While setting up a foreign investment company, if the foreign party is to put a specific technology as a part of its investment, such technology is taken as imported technology and should be examined and recorded according to the government regulations.

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Other stipulations on technology import and export

For assignment of patents and/or patent applications from a Chinese individual or company to a foreign individual or company, government approval is required.

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Other stipulations on technology import and export

For imported technology, the receiving party owns the improvement it made on the technology and has the right to file patent application for such improvement.

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Governing law and dispute resolution

Basically, if a technical contract (licensing agreement) involves a foreign party, the parties may agree on the governing law. In the absence of such an agreement, the law of a country that has the closest connection with the contract will be the governing law.

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Governing law and dispute resolution

- The parties may choose to settle their dispute or resolve their dispute through mediation.
- The parties may also choose to resolve their dispute through arbitration and this is the most common way to settle disputes between a Chinese party and a foreign party.

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Governing Law and Dispute Resolution

- For a contract that involves a foreign party, the parties may choose an arbitration organ in China or abroad as the arbitration body.

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Issues frequently encountered:

- The technology is not mature, while the recipient's expectation on the performance of the technology is not well-founded.
- The recipient's designing and engineering capability is too low.
- The recipient is not able to meet its contractual obligation of keeping the trade secrets confidential.
- Cultural difference: comparatively less detailed planning

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Expectations/strategies from the Chinese parties

- Technology fully developed
- Good market for the product
- Non-infringement guaranty (sometimes worldwide)
- Lump sum payment / running royalty
- long-term warranty (after-sale service, spare parts)

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Expectations/strategies of the Chinese parties

- Recipients are becoming tougher
- “Kick-backs”, training abroad, etc.
- “Know-who (connections)” is getting less and less important

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Points of importance when negotiating with Chinese parties

- Try to understand and balance the cultural difference
- Follow the suits if it does not affect your key interests
- Be patient in case of bureaucracy

THANK YOU!