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[China Law & Practice](#) / Technology transfers into China

Technology transfers into China

Protecting your IP and being aware of relevant regulations in China are essential when considering technology transfers to PRC partners. Three specialists discuss how to best guard your IP assets and structure a fair deal.

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 Keywords (click to search): [\[technology transfer\]](#) [\[Mayer Brown JSM\]](#) [\[Fangda\]](#) [\[Kroll\]](#) [\[China question\]](#)

I work for a multinational company (MNC) that is expanding its China operations. I am thinking of entering into a technology transfer deal with a Chinese partner. I am hazy on regulations governing this and am concerned about sufficient legal protection of my IP rights.

What is the best way to structure technology transfer deals and what IP issues do I need to watch out for?

The domestic perspective

When drafting a technology assignment agreement, except for checking whether the terms and provisions are compliant with and enforceable under PRC law and regulation, the following issues are worth paying attention to:

1. It is vital to check whether the IP rights contained in the relevant technology are protectable under PRC law. Without the limitation of confirming, this includes:

- If the relevant technology is patentable, whether any patent application has been filed
- If the relevant technology has been granted patent right(s), what the remainder of the patent period is and whether there are any pledges, infringement claims, third party interests, or other legal encumbrances imposed on the patent right
- If the relevant technology is not intended to be applied for patent protection, whether it can be qualified as or has been protected as a trade secret as stipulated under Article 10 of the [PRC Anti-unfair Competition Law](#) ([中华人民共和国反不正当竞争法](#))
- If certain logos are related to the relevant technology, whether such logos have been granted trademark rights and validly protected as registered trademarks

2. It is additionally important to check whether transferring the relevant technology may constitute the abuse of IP rights to expel or restrain competition, or impedes science and technologies development as prohibited under Article 55 of the [PRC Anti-monopoly Law](#) ([中华人民共和国反垄断法](#)) and Article 329 of [PRC Contract Law](#) ([中华人民共和国合同法](#)). Ever since the implementation of the PRC Anti-monopoly Law in 2008 much attention has been paid to IP rights monopolies. So MNCs must be aware of the risks of being sued for conducting IP rights-related monopolistic acts when entering into a technology licence deal in China.

Finally, it is necessary to elaborate the liabilities of the cooperating parties in going through the necessary procedures for transferring the relevant technology and related IP. Under PRC law, when transferring IP rights, it may be necessary to submit documents issued by the transferor and/or the transferee. This ensures that both parties will work with each other in good faith to make sure the relevant transfer procedures can be completed in due course.



Dixon Zhang, Partner
 Claudia Yun, Associate
 Fangda Partners

The international perspective

Decide on a structure. If the MNC and the Chinese partner wish to form a contractual joint venture (CJV), the contract can include terms about the transfer of technology as a contribution into the CJV. Alternatively, the MNC and the Chinese entity (or CJV) can enter into a technology licensing arrangement. The MNC should check if local policies or regulations may have land or tax concessions to attract foreign investment and technology.

Identify nature of the technology? Different regulations and measures apply depending on whether the technology may be freely transferable, restricted or prohibited and whether it is for export or import. If the technology is restricted, approval from the Ministry of Commerce, and Ministry of Science and Technology will be required.

Agree on key terms. The parties will have to agree on the valuation of the technology as a contribution to the CJV or the licence fee, remittance of fees (note there is foreign exchange control), delivery, implementation and development of the technology and related warranties, provision of support and training, scope of use, confidentiality; ownership and right to use improvements, duty of enforcement of rights, accounting and audit, and any other important terms.

Choose governing law and mandatory warranties. Chinese law requires the applicable law of a Sino-foreign CJV to be PRC law. The [PRC Contract Law](#) requires a transferor/licensor of technology to give mandatory warranties such as ownership and completeness, effectiveness, practical applicability of the technology and non-infringement. If such warranties are absent or incomplete, the contract may be unenforceable. If the parties are mere licensor licensees and not CJV partners, they can choose whether to use foreign law (and presumably foreign courts as well), or PRC law and courts.

Before deciding, the MNC should carefully consider the issue of enforceability. If there is no reciprocal enforcement of judgment between the foreign court and PRC court, and the PRC partner does not have assets in the Foreign jurisdiction to satisfy a judgment, the MNC should consider the practicality of using PRC law and court, or stipulating arbitration for dispute resolution noting that China is a member of the New York Convention of Recognition and Enforcement of Foreign Arbitral Awards.

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Kenny Wong
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The specialist perspective

The best way to protect IP during a technology transfer deal in China is to first take a moment to think like the person who will be stealing or losing your IP. What is the modus operandi of the theft? How do they steal IP yet seldom face any repercussions? How many resources do they have to protect your IP?

An IP thief has numerous opportunities and means to steal technology. Even before a transfer agreement is signed, a clever business partner can insist on visiting your laboratories and manufacturing plants on spying expeditions disguised as friendly "get to know one another" field trips. Once the technology is transferred, the partner can conduct their own "technology transfer" to other Chinese factories. The partner could also establish his own new factory and using your technology sell at a low price to gain market share at your expense. The IP thief would be aware that a whistleblower could reveal these activities; but the IP thief would also be aware that many factory staff would never question the boss.

Some IP thieves may have a slightly different approach. They may invest in R&D of a product similar to yours, even while negotiating a technology transfer agreement. They can later claim to have developed this technology on their own, pointing to certain Chinese characteristics which differentiate it from your original. In some cases the IP thief will gather the specs on all the machinery introduced to them, and then identify Chinese suppliers capable of making similar machines. They can thereby keep a low profile and avoid buying machinery from overseas manufacturers that may report back to you about being approached.

Even if your Chinese business partner is honest, the question remains do they have the capability to effectively protect your IP? Your business partner will want to show you his "best face" and conceal any inadequacies at the factory including past incidents of theft. A Chinese factory boss will have to deal with controlling his various department managers. In a large operation these managers will have significant authority over their staff who may become accomplices in taking IP. A growing trend among multi-nationals is to engage a third party expert to conduct an IP security audit of their partner's facility prior to concluding the transaction.



Nick Blank
Associate managing director
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