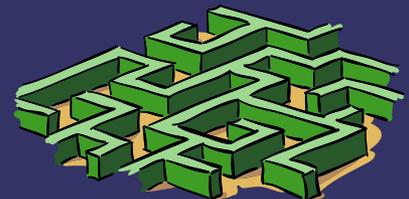


Technology transfers to China

Philippe GIRARD-FOLEY
Special Counsel

Wan Hui Da

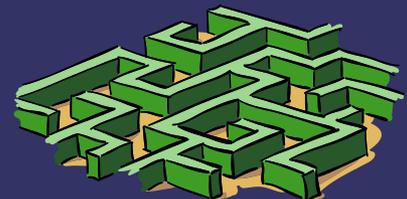


Definition

A Chinese perspective

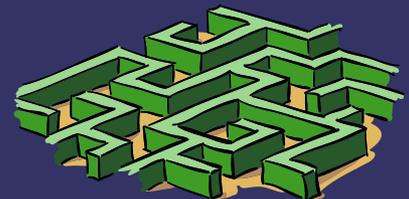
The definition of « technology transfer » tends to be very broad and includes:

- The transfer of technology that is protected by IP rights e.g. Patents
- The transfer of technology that is not covered by IP rights such as know how



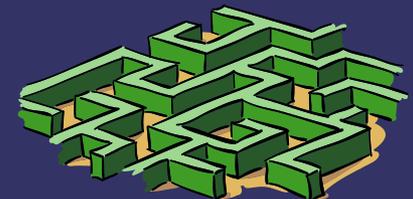
Legal framework

- The most relevant statute is the Contract Law of the PRC
- Article 329 stipulates that a technology transfer contract that illegally monopolises technology, impedes technological progress or infringes the technology of third parties is automatically null and void



Legal framework

- What constitutes an « illegal monopoly » of technology is not defined
- The second most important text is the «Technology Import and Export Provisions » which bans some provisions in technology transfer contracts.
- Requiring a transferee to accept restrictions that are not necessary to import the technology is deemed illegal



The Technology Provisions

- It is not permitted to impose on a transferee the purchase of unnecessary technology, raw material, equipment or service
- It is not permitted to receive royalties for a technology covered by a patent that has either expired or has been invalidated
- It is not permitted to restrict the improvement or use of the technology by the transferee



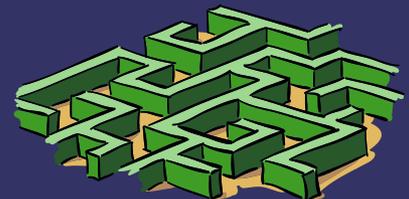
The Technology Provisions

- The transferee's right to obtain similar or competing technology from an alternative source can't be restricted
- The choice of sources of raw material, equipment, parts or products cannot be restricted unreasonably
- The volume of production and the level of prices cannot be restricted unreasonably
- The export of the products obtained by using the transferred technology cannot be unreasonably restricted



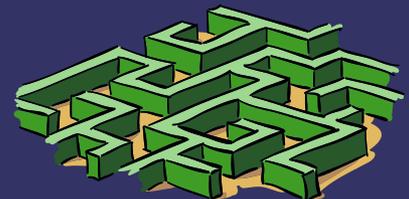
Registration of contracts

- Registration of contracts with the local branch of MOFCOM is mandatory for the payment of fees to the foreign transferor
- MOFCOM reviews the content of the contracts in accordance with the Technology Provisions
- The contract is denied approval if it contains any clause contrary to the Technology Provisions



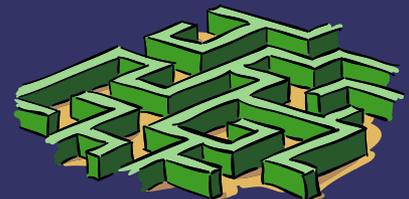
The Supreme Court Opinion

The Supreme Court Opinion on the Application of
the Law in the Adjudication of Technology
Contract Disputes



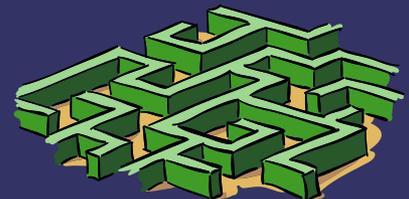
The Opinion

- The Opinion covers patent rights, the right to apply for a patent, and licensing
- It applies to international and domestic transfers of technology
- The Opinion prohibits contractual conditions expressly defined



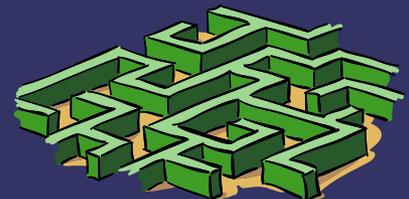
The Opinion

- Preventing a counterparty from conducting research and development on the basis of the transferred technology
- Imposing non-reciprocal conditions with respect to the exchange of improvements such as improvements solely to the benefit of the transferor or enjoying the right to the improvements without compensation



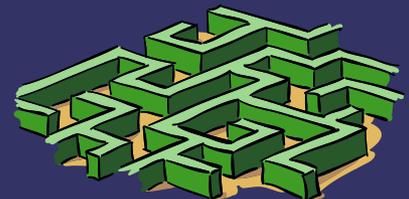
The Opinion

- Preventing the other party (Chinese) from acquiring technology similar to or in competition with the one transferred
- Preventing the other party from using the technology in a way reasonably matching the conditions of the market in terms of volume, price, channels of distribution, export...



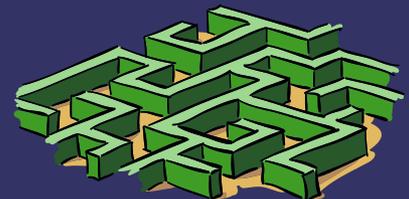
The Opinion

- Imposing conditions that are unnecessary to use the technology such as the purchase of materials, equipment or services or the hiring of personnel
- Unreasonably restricting the transferee's access to raw materials, parts, products or equipment
- Prohibiting the transferee's right to challenge the validity of the IP rights protecting the technology



Sanctions

- According to article 329 of the Contract Law and Article 10 of the Opinion, the sanction should be the cancellation of the whole contract
- However, the Chief of the Intellectual Property section of the Supreme Court has recommended the cancellation of the infringing clauses only



Solutions

- It is possible to designate a foreign law as the governing law of the contract
- However contracts that are contrary to PRC law cannot be enforced against a Chinese party in China...
- The best solution is therefore to consider the Joint Venture route

