

# Intellectual Property Transactions in China: Overview

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A guide to intellectual property transactions law in China. The Q&A gives an overview of IP assignment and licensing, research and development collaborations, IP and M&A transactions, lending and taking security over IPRs, settlement agreements, employees and IP, competition law, tax, and non-tariff trade barriers.

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## IP Assignment

### Assignment Basis and Formalities

1. On what basis can the main IPRs be assigned? What formalities apply?

## Patents

**Basis for patent assignment.** Applicants for or owners of a patent can transfer or assign their patent rights in whole or part for priority applications, pending applications, or granted patents to any assignee under the Patent Law.

**Formalities for patent assignment.** A patent assignment must be in writing and executed by both the assignor and assignee under the Patent Law.

A patent assignment must be registered with the *China National Intellectual Property Administration (CNIPA)* to be effective in China.

There is no requirement to register a patent assignment within a specific timeframe. However, it is recommended to register a patent assignment as soon as possible because the assignment will take effect as of the date of registration, that is, the date that CNIPA confirms the registration. If a lawsuit or any infringement incurs, there may be disadvantages of not registering.

## Utility Models

See above, *Patents*.

## Trade Marks

**Basis for trade mark assignment.** A registered trade mark can only be assigned in whole.

A trade mark can only be assigned for all the goods/services for which it is registered, to avoid the same or similar marks being held by different owners and confusion among consumers.

It is also not possible to assign a trade mark for a specific territory in China.

The Trade Mark Law applies.

Goodwill is generally not assigned with a registered trade mark.

**Formalities for trade mark assignment.** A trade mark assignment must be in writing and signed by both parties. The Trade Mark Law applies.

A trade mark assignment must be recorded with the CNIPA according to the relevant provisions of the Trade Mark Law.

Registration does not have to occur in a specific timeframe but it is advisable to proceed before the CNIPA as soon as possible. Under the Trade Mark Law, without registration, an assignment of a registered trade mark is invalid, that is, the assignee cannot obtain the assigned registered trade mark through the assignment.

## Copyright

**Basis for copyright assignment.** Under the Copyright Law, copyright consists of personal and property rights. Personal rights are moral rights that cannot be assigned, inherited, or waived. Property rights can be assigned in whole or part based on an agreement between the assignor and assignee.

**Formalities for copyright assignment.** A copyright assignment must be in writing, signed by both parties (Article 27, Copyright Law).

Copyright registration is available but not compulsory in China. A copyright assignment should be registered with the [Copyright Protection Centre of China \(CPCC\)](#) or competent copyright authorities, to protect both parties' interests. Notarisation and legalisation of an agreement are not necessary.

Registration can benefit the copyright owner as it provides prima facie evidence of the copyright owner and any licensee's rights and interests.

## Design Rights

See above, [Patents](#).

## Trade Secrets and Confidential Information

**Basis for assignment.** Trade secrets are mainly governed by the Anti-Unfair Competition Law in China, as there is no separate trade secret law.

A trade secret can be assigned in whole and the law does not prohibit the transfer of only part of trade secrets.

**Formalities for assignment.** An assignment of trade secrets does not require a written agreement but it is recommended to be in writing with appropriate provisions to maintain confidentiality.

## Domain Names

Domain names registered with the *China Internet Network Information Centre (CNNIC)* can be assigned.

Different sponsoring registrars have different requirements. Some only require the new registrant's business licence and contact information. Other sponsoring registrars may require an assignment agreement (in the required format) to be stamped by both the assignor and the assignee.

## Main Terms for Assignments

2. What main terms should be included in an assignment of IPRs?

The main terms included in an assignment of IPRs include:

- Specific terms on the scope of the assignment, such as whether the assignment is valid worldwide or only for certain jurisdictions.
- Warranties by the assignor that the IPR is valid and capable of being assigned, and that the assignor is the owner of the IPR and is authorised/can assign the IPR.
- Specific warranties to address a jointly or co-owned IPR.
- Obligations of the assignor to do all things necessary to effect the assignment.
- Indemnities from the assignor in case of any breach of warranties or obligations in the assignment.
- The consideration (fee) for the assignment of the IPR from the assignor to the assignee.

A copyright assignment is limited to the property rights derived from the copyright. Under the Copyright Law, a copyright assignment agreement must include:

- The name of the work.
- The transferred right and territorial scope where the right is to be exploited.
- The transfer price.
- The date and method of delivery of the transfer price.
- Clauses on liability for breach.

However, if a party is a foreign person or foreign company, the assignment should also include clauses such as:

- Choice of law and jurisdiction.
- Choice of dispute resolution through the courts or arbitration.
- Language preference.

## IP Licensing

### Scope and Formalities for IP Licensing

3. On what basis can the main IPRs be licensed? What formalities apply?

#### Patents

**Scope of a patent licence.** A patent can be licensed on an exclusive, sole, and non-exclusive basis. An exclusive licence means the patentee is providing a licence to the licensee alone, and no-one else including the patentee can exercise the patent right.

A sole licence means that only the licensee can exercise the rights, except that the owner can also exercise the rights.

A non-exclusive licence means that the licensee is one of many, including the owner, who can exercise the rights granted in the licence.

Patents can be licensed in whole, with jurisdictional restrictions and time limits.

Patent licences are governed by the Civil Code and the Patent Law.

**Formalities for a patent licence.** In theory, a patent licence can be concluded in unwritten form but to be registered with the CNIPA it must be in writing.

Registration with the CNIPA is not necessarily required. However, a registered patent licence has legal effect against bona fide third parties, under the Civil Code and the Patent Law.

A patent licence should be registered with the CNIPA within three months from the effective date of the licence (Article 14, Implementing Regulations of the Patent Law and Measures for Recording Patent Licence Contracts (CNIPA Order No. 62)). However, no consequence or punishment for not fulfilling this requirement has been explicitly regulated. In practice, generally, the reasons to record are:

- The licence cannot be enforced against bona fide third parties if it is not registered with the CNIPA. For information disclosure purposes and to avoid this risk, the CNIPA will publish the licensing status of the concerned patent in the Patent Gazette after recordal is made. On request, the CNIPA can issue a certified copy of the Patent Registry,

indicating the licensing status of the relevant patent. The licensee can request such a copy when it requests the licensor to record the licence.

- The royalty can be taken as a reference for damages for patent infringement if the licence is recorded with the CNIPA.
- Patent licence recordal is a procedural requirement for an exclusive licensee to request an injunction before litigation for patent infringement.

## Utility Models

See above, [Patents](#).

## Trade Marks

**Scope of a trade mark licence.** A trade mark can be licensed on an exclusive, sole, or non-exclusive basis. A trade mark can be licensed in whole or part with time limits. A trade mark cannot be licensed with jurisdictional restrictions.

Trade marks are generally licensed without goodwill.

The Trade Mark Law applies.

**Formalities for a trade mark licence.** A trade mark licence must be in writing, signed by both parties. The Trade Mark Law applies.

Registration of a trade mark licence is optional with the CNIPA. Registration does not have to occur in a specific timeframe. However, an unregistered licence cannot be used as a defence against a third party acting in good faith.

## Copyright

**Scope of a copyright licence.** A copyright property right can be licensed through a sole licence or a non-exclusive licence. Normally, the copyright owner can exploit the work even if the copyright has been licensed. The term of licences must not exceed the validity term of the copyright itself.

Copyright can be licensed in whole or part, with jurisdictional restrictions and time limits.

Moral rights cannot be licensed and a moral right waiver and/or consent clause in a licence is likely to be found invalid if the agreement is judicially examined. The licence term should not exceed the validity term of the copyright itself. Personal moral rights cannot be licensed.

The Copyright Law applies.

**Formalities for a copyright licence.** A copyright licence does not have to be in writing but it is recommended to have a copyright licence in writing, signed by the parties, and register it with the CPCC or competent copyright authorities. A written licence and its registration protects the parties' interests and effectively reduces the risk of disputes caused by misunderstandings.

## Design Rights

See above, [Patents](#).

## Trade Secrets and Confidential Information

**Scope of a licence.** Trade secrets can be licensed on an exclusive, sole, and non-exclusive basis.

Trade secrets can be licensed in whole or part, with jurisdictional restrictions.

These kinds of licence are governed by the Civil Code and the Anti-Unfair Competition Law.

**Formalities for a licence.** In theory, a trade secret licence can be concluded in unwritten form and both parties must maintain confidentiality as an implied duty. However, a licence in writing signed by both parties with appropriate provisions to maintain confidentiality is highly recommended.

## Main Terms for Licences

4. What main terms should be included in an IP licence?

The following main terms should be included in an IP licence generally:

- Preamble and parties' identification.
- IPR being licensed.
- Grant of the licence by the licensor to the licensee.
- The licence scope (exclusive, sole, or non-exclusive), territory, duration, restrictions and limitations (such as rights or prohibitions on sub-licensing).
- Provisions for the licensing fee.
- Warranties from the licensor such as that the:
  - licensor owns the IPR and is authorised/can enter into the licence;
  - IPR can be licensed without any encumbrance; and
  - licensed IPR does not infringe any third-party IP.
- Indemnities from the licensor and licensee relating to the obligations and warranties.
- Confidentiality obligations relating to the IPR being licensed.
- Events that are a breach of the licence and termination of the licence.

- Consequences in the event of termination of the licence, such as an obligation to cease use of the IPR and return all corresponding material relating to the IPR.

The following terms must be included in a copyright licence:

- A specific right to exploit the work stipulated by the licence.
- Whether the licence is exclusive or non-exclusive.
- The territorial scope and term of the licence.
- The licence fee and method of its payment.
- Liability for breach clauses.

In addition, if an IP licence involves foreign elements and one party is a foreign person or foreign company, the licence must include clauses such as:

- Choice of law and jurisdiction.
- Choice of dispute resolution through the courts or arbitration.
- Language preference.

## Research and Development Collaborations

### Improvements and Derivatives

#### 5. How should research and development collaborations address improvements and derivatives?

No specific provisions in China govern the patent/design rights subsisting in improvements. Generally, the IPRs belong to the entity or individual that creates the improvements if there is no contract stipulating ownership. However, as IPRs are civil rights, the autonomy of will doctrine is still the first principle in addressing this issue. Therefore, the agreement's terms on IPR ownership and definitions of improvements are valid unless they are manifestly unfair.

If the agreement assigns the rights to all improvements/derivatives (whoever developed them) to one party, the authors believe that the likelihood of such a contract itself triggering antitrust or unfair competition concerns is not high.

An assignment of improvements/derivatives to one party (the assignee), coupled with a non-exclusive licence back to the assignor, would be a good solution (so that both parties can continue to use the improvements/derivatives), if the other party wants to use the IPR.

## Joint Ownership of IP

### 6. How does joint ownership of IP arise?

There is no fixed form for an IP collaboration agreement. It can be created by contractual obligations between the parties, a legal partnership, or by registering a joint venture company in which the parties take defined ownership percentages and have dedicated directors managing certain aspects of the business.

In practice, joint patent rights are generally generated in one of the following circumstances:

- Two or more people jointly complete an invention, and the co-inventors become joint patentees.
- Two or more entities co-operate in research, jointly complete an invention, and become joint patentees.
- A person (or entity) who provides research funding and the inventor together become patentees.
- Two or more applicants file patent applications for the same invention-creation on the same day, and after negotiation two or more entities or individuals jointly apply for the patent and become co-owners of the patent right.
- After the death of a patentee, two or more people jointly inherit and become joint patentees.
- For inventions and creations made by an entity and one or more individuals under a technology development contract, after applying for a patent, the patent right is shared between the entity and the individual according to the agreement between the parties on ownership of technological achievements.

In summary, there are three main forms of joint patent rights, according to contract, negotiation, and a co-operative relationship. In addition, there are other forms of inheritance, transfer, and so on.

Under the Copyright Law, if a work is created jointly by two or more authors, copyright in the work is jointly enjoyed by those authors. Co-authorship cannot be claimed by anyone who has not participated in the creation of the work. Therefore, joint ownership of copyright cannot be created by agreement.

### 7. What key issues arise in terms of the parties' rights to exploit and enforce jointly owned IP? How should these issues be dealt with in the agreement between the parties?

## Exploiting and Enforcing Jointly Owned IP



**Patents.** Co-owners of a patent right can negotiate the manner of benefit distribution. If there is no agreement between them, any co-owner can implement the patent right and the benefits obtained belong to the implementing party (Article 8, Patent Law).

To license others to implement jointly owned patent technology, the consent of the joint patentee must be obtained, and the benefits obtained are shared by all the joint owners of the patent (Article 14, Patent Law).

If a co-owner wants to transfer their share of the patent right, they must obtain the consent of the other co-owners (Article 14, Patent Law).

Generally, if a co-owner of a patent right abandons their share of the jointly owned patent right, the share of the patent right held by the other co-owners automatically expands. This can be deduced from the rules of the Civil Code, but without direct reference in the Patent Law.

When a jointly owned patent right is infringed, a co-owner can file a lawsuit separately and seek legal protection. However, the court must notify the other co-owners and join them into the proceedings as co-claimants (Article 132, Civil Procedural Law). If a co-owner is unwilling to participate in the litigation, they are deemed to abandon their litigation rights but not the compensation for infringement they will receive.

**Copyright.** Co-authors jointly owning copyright need to negotiate to reach agreement on its exploitation. If there is no consensus, one party cannot unreasonably prevent the other from exploiting the copyright (except in relation to the copyright's transfer, exclusive licensing, or pledging as security). However, the proceeds must be reasonably allocated to all the co-authors (Article 14, Copyright Law).

If a jointly owned work can be separated into independent parts and exploited separately, each author should be entitled to independent copyright in the parts that each author creates. However, the exercise of that copyright must not infringe on the copyright in the jointly owned work as a whole (Article 14, Copyright Law).

## Joint Ownership Provisions in Collaboration Agreements

Key elements to consider in an IP collaboration agreement include:

- Proper definition of "background" IP (the rights each partner brings to the project) and "foreground" IP (rights arising due to work undertaken on the project), and the ownership and cross-licensing position for them.
- Who will pay for any patent, design, or trade mark applications, and who can make decisions to enforce them.
- Who will meet the costs of the project and direct decision making.
- Confidentiality obligations and non-compete restrictions.
- The position if the joint venture is terminated.

## IP Audit



8. What are the main steps in conducting an IP audit in your jurisdiction to determine the content of an IP portfolio?

## Patents

The main steps in a patent audit include:

- Searching patents and applications in the [CNIPA official database](#) or a commercial database.
- Checking the status of patents and applications, including:
  - the owner, to ensure the patents and applications are owned by the correct person;
  - the status of the rights and when annuity fees should be paid;
  - any encumbrances (such as security) applicable to the patents;
  - whether the patents have been licensed; and
  - any challenges to the patents.
- Evaluating other contracts and documents.

## Utility Models

See above, [Patents](#).

## Trade Marks

As China adopts the first-to-file principle to obtain trade mark rights, a business must verify the status of valid trade mark applications or registrations before the CNIPA to have an overall picture of its trade mark portfolio. In addition, a business must check trade marks that are in actual use but not yet filed or registered at the Trade Mark Office.

It is also important to check the:

- Cost of obtaining and maintaining trade mark registrations.
- Cost of advertising the products or services under the trade marks.
- Revenue from sales of the products or services.

Audit companies may provide auditing services for these items to value the trade mark portfolio.

## Copyright

Generally, a copyright audit starts with a questionnaire survey to the responsible persons in an entity to establish:

- The entity's publications and copyrights.
- Evidence of creation and publication of the copyrighted works and whether the copyrights have been registered.
- Whether there are works reaching the end of their protection period.
- Any procedures about when and how to use the copyright sign on published materials.
- Whether the business has plagiarised the works of others or translated or adapted the works of others without the copyright owner's permission.
- Whether a copyright licence or similar has been violated.

After the survey, auditors will:

- Catalogue the files in detail.
- Confirm the legal status of each work.
- Make proposals on, among other things, the entity's policies to obtain copyright, protect works, retain original creation records, and other IP-related procedures.

## Design Rights

See above, [Patents](#).

## Trade Secrets and Confidential Information

The main steps in an audit include:

- Identifying the company's trade secrets and confidential information.
- Checking the status of the trade secrets, including whether they have been released or are otherwise accessible to the public and whether confidentiality measures have been taken.
- Evaluating other contracts and documents, including any employment and confidentiality agreements entered into by employees or third parties to protect the confidentiality of information.

## IP Aspects of M&A

### IP Due Diligence



9. What IP-related due diligence is commonly carried out in both a share sale and an asset sale?

## Share Sale or Merger

Due diligence is always necessary in both a share sale and an asset sale. IP due diligence focuses on:

- Listing all the target company's IP and other intangible assets and checking corresponding evidentiary documents.
- Checking the registration and renewal of registration of the target company's IPRs.
- Confirming the status of all the target company's IP transfer or licence agreements.
- Checking the target company's technology transfer contracts, technology licensing contracts, technical co-operation and development contracts, commissioned development contracts, and technology import and export contracts, and any registration and approval requirements.
- Checking for existing or potential disputes involving IPRs owned by the target company or belonging to a third party but licensed to the target company.

## Asset Sale

See above, *Share Sale or Merger*.

## Warranties/Indemnities

10. What IP-related warranties are commonly given by the seller to the buyer in both a share sale or merger and an asset sale?

## Share Sale or Merger

In both a share and an asset sale, sellers commonly give warranties to the buyer for risks relating to:

- The target or seller's ownership of the relevant IP, such as where the IP may:
  - have expired or not been renewed;
  - belong to a target company's subsidiary companies, affiliates, and other third parties; or
  - be limited by, for example, ownership or licensing restrictions (the most common and typical legal risk).

- IP infringement. As IPRs are intangible, infringement risk may not be easy to discover. A potential infringement may only be found after a transaction has been concluded and a large sum of money invested.
- The value of the IP. The formalities, procedures, and costs of valuing the IPRs should be accepted by the buyer and conducted with the buyer's full participation.

## Asset Sale

See above, [Share Sale or Merger](#).

## Transfer of IPRs

11. How are the main IPRs transferred in both a share sale and an asset sale?

## Share Sale or Merger

A share sale involves a change in title to the company's shares instead of title to the company's IPRs. Therefore, there is usually no need to specifically transfer the IPRs.

In both a share sale and an asset sale, a transfer of IPRs does not occur automatically and is a separate legal process. It requires an assignment of the relevant IPR (see [Question 1](#)).

## Asset Sale

See above, [Share Sale or Merger](#).

## Lending and Security Interests

12. Can security be taken over IPRs?

Taking security interests over IPRs has gained importance in recent years. In 2021, the CNIPA promulgated the Measures on Patent Pledge Registration, and some banks have issued policies on this.

Granting security could promote patent pledge financing, providing a new direction and solution to finance and develop small and medium-sized enterprises.

Property rights derived from a patent/design can be pledged. If the debtor fails to repay the debt at the end of the pledge period, the creditor has priority to be repaid with the price of the transfer of the patent right. A patent pledge has the following characteristics:

- The subject matter of a patent pledge is the property right of the patent.
- During the pledge period, the pledgee cannot license or transfer the pledged right and can only possess and preserve the right.
- During the pledge period, the pledgor must bear all expenses to maintain the patent right, such as annual patent fees. However, if the pledgee thinks that the pledged right is beneficial to the pledgee, the pledgee can also pay the expenses and require the pledgor to compensate for these expenses.

Property rights derived from copyright, including rights to reproduce, distribute, lease, and so on, can be pledged. A debtor (or third party) transfers the copyright to a creditor as security for the creditor's rights. If the debtor defaults on the debt, the creditor can use, auction, or sell off the copyright to receive preferential payment before any insolvency process.

Generally, secured debt cannot exceed the value of pledged property. Therefore, valuing the copyright is important. The creditor cannot assign the pledged rights or permit others to use them without the debtor's consent, and the creditor is liable for any consequent loss to the debtor.

### 13. What are the main security interests taken over IPRs and how are they created and perfected?

The main security interests taken over the following IPRs is a pledge.

## Patents

A pledge over a patent must be in writing and registered with the CNIPA. The pledged right takes effect from the date of registration.

## Utility Models

See above, [Patents](#).

## Trade Marks

Under the Security Law, trade mark rights are transferable and so can be pledged. Under the regulations to implement the Trade Mark Law, a trade mark can only be assigned for all the goods/services for which it is registered (see [Question 1](#)). Therefore, a registered trade mark must be pledged for all the goods/services for which it is registered.

A pledge over a trade mark must be in writing and registered with the CNIPA to be valid and enforceable.

## Copyright

A pledge over a copyright property right must be in writing and registered with the CPCC (Article 28, Copyright Law).

The written pledge contract creates the pledge and registration makes the pledge valid and enforceable against third parties. Registration of the pledge contract is therefore effectively compulsory, even though registration of the copyright itself is available but not compulsory in China.

## Design Rights

See above, [Patents](#).

## Trade Secrets and Confidential Information

In China, there is no special trade secret law. Trade secrets are defined by a series of laws such as the Unfair Competition Law and the Criminal Law. Trade secrets are also different from state secrets.

Article 444 of the Civil Code provides for the establishment and transfer restrictions of pledges taken over property rights in IPRs. It stipulates that if the property right in IPRs, such as the exclusive right of a registered trade mark, patent right, copyright, and so on is pledged, the pledge right is established when registration of the pledge is completed. The Civil Code makes clear that trade secrets can be the object of a pledge of property rights in IPRs, but there are practical issues in how to register the pledge because there is no competent authority for trade secrets. The pledge agreement should be in writing.

Trade secrets are automatically generated when they are created, without registration. Registration is not required and is not carried out in most cases. Some types of trade secrets can be registered, such as through copyright or integrated circuit layout design registration.

## Settlement Agreements

14. What are the main considerations when entering an IP litigation settlement agreement?

As the Patent Law is a civil law, the autonomy of will doctrine is the first principle to reach a settlement agreement to solve patent/design disputes. Therefore, terms/clauses of the settlement that stipulate the amount of compensation, licence fee/royalties, share of legal costs, and so on depend on the agreement of both parties. However, some issues should be taken into consideration.

If the patents involved are recognised as standard essential patents, the patentee must follow the fair, reasonable, and non-discriminatory (FRAND) principle when reaching a settlement with the other party.

According to a recent judgement of the Ningbo Intermediate People's Court, if the patentee has a dominant position in the relevant market and the patents involved are recognised as essential patents in the relevant field, the patentee cannot refuse to licence the patent rights, otherwise the patentee may violate the Antitrust Law (see [Question 17](#)).

According to the Antitrust Law and relevant provisions, no-challenge clauses are invalid in China.

There are court mediation procedures during litigation in China and the judge presides over the mediation between the parties. If settlement is reached, each party can request the court to issue a mediation statement according to the settlement. A mediation statement issued by the court has the same enforcement effect as a judgment and the mediation statement is not published by the court.

## Employees and Consultant Agreements

### Employees

15. Who owns each of the main IPRs created by an employee in the course of employment?

### Ownership

**Patents and designs.** Under the Patent Law, an invention/creation made by an employee in execution of the employment tasks or mainly using the employer's material and technical means is a service invention/creation. The IPRs in a service invention/creation belong to the employer.

**Copyright.** If a work is created by an employee in the fulfilment of tasks assigned by the employer, the work is deemed to be a service work. The copyright in a service work is enjoyed by the author but the employer has a priority right to exploit the work in the scope of its business activities. For two years after completion of the work, the author cannot authorise any third party to exploit the work in the employer's field of activity without the employer's consent (Article 18, Copyright Law).

However, if a work is also created mainly with the employer's materials and technical resources and under its responsibility (as is normally the case for drawings of engineering or product designs, maps, computer software, and so on), the author only enjoys the right of authorship, while the employer has the other rights derived from the copyright (Article 18, Copyright Law). Therefore, to determine ownership of service work copyright, it is important for the author to show what materials and resources were exploited in creating the work.

### Compensation

**Patents and designs.** Under the Rules for the Implementation of the Patent Law, if there is no agreement between the employer and employee, the employer must, within three months of receiving a grant of a patent right due to a service invention/creation, give to the employee who invented or created it a sum of money as a reward. The reward for an invention patent must be at least RMB3,000 and for a utility model patent or a design patent must be at least RMB1,000.



On exploitation of the patented invention/creation, the employer must pay reasonable remuneration to the inventor or creator, based on the extent of the spreading and application and economic benefits produced by the patent/design patent right. This remuneration must be at least 2% of the annual profits from exploitation of an invention patent or utility model patent, or at least 0.2% for a design patent. Alternatively, the employer can award a lump sum to the employee as once and for all remuneration.

If the employer authorises another entity or individual to exploit the patent, it must pay at least 10% of the exploitation fee it receives to the employee as remuneration.

**Copyright.** The employer does not have to pay compensation to the employee for a service work. If the employer has other rights to exploit the copyright it may choose to reward the author at its discretion.

## Main Steps

**Patents and designs.** For the ownership of a service invention-creation, the employer is in a better position (see above, [Ownership](#)). However, a written contract with detailed provisions between the parties is still recommended.

**Copyright.** A written contract with detailed provisions between the parties is recommended to protect the employer's position (see above, [Ownership](#)).

## Consultants

16. Who owns each of the main IPRs created by an external consultant?

## Ownership

**Patents and designs.** The ownership of a work created by an external consultant should fall within the rules for a non-service invention/creation. Under the Patent Law, for a non-service invention/creation, where the entity and the inventor/creator have entered into a contract that includes the right to apply for and own a patent, this provision will apply. If there is no such contract, IPRs to the non-service invention/creation belong to the inventor/creator.

**Copyright.** Under the Copyright Law, for commissioned work, ownership of copyright should be agreed in a contract between the commissioning and the commissioned parties. If there is no such contract or explicit clause in the contract, copyright in such a work usually belongs to the commissioned party (Article 19, Copyright Law).

These rules should apply to ownership of a work created by an external consultant.

## Main Steps

**Patents and designs.** A written contract with detailed terms is recommended if a patent/design is created by an external consultant.

**Copyright.** To determine ownership of a commissioned work, the commissioned party should be in a better position (see above, *Ownership*). In any case, a written contract is always recommended for a work involving an external consultant.

## Key Issues in IP Transactions

### Competition Law

17. What are the most common national competition law issues that arise in the exploitation of the main IPRs?

An IPR licensing agreement will usually include certain typical restrictive clauses, such as:

- Grant-backs.
- Regional restrictions.
- Price limits.
- Tying arrangements.
- Competition restrictions.
- Efficacy challenge limitations.

The Anti-Monopoly Law prohibits monopolistic conduct by business operators that may have the effect of eliminating or restricting competition, including monopoly agreements (Articles 16 and 17, Anti-Monopoly Law). Monopoly agreements include agreements between business operators to:

- Fix or change the price of goods.
- Restrict the production quantity or sale volume of goods.
- Restrict the market for sales or purchases.
- Restrict the purchase of new technology or the development of new products.
- Jointly boycott transactions with a third party.
- Fix the price of goods for resale to a third party.
- Restrict the minimum price of goods for resale to a third party.

Similarly, the Unfair Competition Law prohibits a business from disrupting market competition and causing damage to the lawful rights of other businesses (Article 2, Anti-Unfair Competition Law).

To avoid an IPR licence breaching these provisions, the relevant clauses should be carefully drafted to ensure that the licensee does not accept appendant conditions that are not necessary to implement the contract, such as requirements:

- To buy technology, services, raw materials, equipment, or products that the licensee does not need.
- To accept personnel that the licensee does not need.
- Restricting the licensee from choosing freely from different suppliers.

18. What exclusions or exemptions are available for national competition law issues involving the exploitation of the main IPRs?

Article 20 of the Anti-Monopoly Law provides exemptions for agreements that:

- Are for one of the following purposes:
  - improving technology and developing new products;
  - improving product quality, reducing costs, enhancing efficiency, or unifying a product's specifications or standards;
  - improving the competitiveness of small and medium-sized businesses;
  - achieving public goals such as saving energy, protecting the environment, or offering disaster relief; or
  - relieving severe decreases in sales volume or excessive production during economic recessions.
- Do not substantially restrict competition in the relevant market.
- Enable consumers to share in the benefits of the agreement.

## Tax

19. What are the main taxes payable by a licensor on the licensing of the main IPRs?

The main tax relevant to the licensing of IPRs is enterprise income tax, as IPR licensing income forms part of taxable enterprise income. A resident enterprise must pay enterprise income tax at 25% on IPR licensing income it earns.

Under the Enterprise Income Tax Law, a non-resident enterprise with an office or establishment in China must pay enterprise income tax on income earned in China (including from the licensing of IPRs) and on income it earns outside China but with an actual connection with the office or establishment in China. The tax rate is 25%.

A non-resident enterprise with no office or establishment in China, or with an office or establishment in China that does not directly generate income, must pay enterprise income tax on income earned from China only, at a reduced rate of 10%.

Where a non-resident enterprise is resident in a jurisdiction with which China has a relevant tax treaty and the tax rate provided in the treaty is lower than 10% the treaty will apply, otherwise the domestic law will apply.

Value added tax (VAT) may also apply to the licensing of IPRs, at a rate of 6%.

Urban construction tax and education surtax may also apply to income from the licensing of IPRs. The typical rates depend on the case.

20. What are the main taxes payable by a seller on the sale or transfer of the main IPRs?

Under the Enterprise Income Tax Law and its implementing regulation, income from a sale or transfer of IPRs forms part of taxable enterprise income (see [Question 19](#)).

Value-added tax also applies at a rate of 6% to most IPR sale transactions.

Urban construction tax, education surtax, and stamp tax may also apply to income from a sale of IPRs. The typical rates depend on the case.

## Non-Tariff Trade Barriers

21. Are there any non-tariff trade barriers affecting IP development and licensing transactions?

When recording an invention or utility model patent assignment from a Chinese entity to a foreign entity, the CNIPA requires a technology export certificate issued by a local commercial authority under the Administrative Regulations on Technology Importation and Exportation enacted by the State Council. A technology export certificate is usually obtained by the Chinese entity from the local commercial authority.

Licensing or transferring patents from a Chinese entity to a foreign entity is regulated by the Ministry of Commerce (MOFCOM) under the above Regulations, which divides technology into the following categories:

- **Prohibited:** technology in this category cannot be imported or exported (including patent licensing and assignments).
- **Restricted:** technology in this category requires approval from MOFCOM before it can be exported or imported (including patent licensing and assignments).
- **Freely importable/exportable:** a patent licence or patent assignment of technology in this category must be recorded at MOFCOM.

## Contributor Profiles

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**Areas of practice.** Intellectual property.

**Recent transactions.** Acted as an agent for a Japanese company to win a retrial case of trade mark litigation before the Supreme People's court, which was included in the Annual Report of Intellectual Property Cases (2020).

**Languages.** English, Chinese

**Professional associations/memberships.** INTA; AIPPI; LES.

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- Representing leading chemical corporations worldwide, with nearly 2,000 patent cases handled before the CNIPA.
- Providing legal opinions for major corporations, relating to patent infringement, patent validity, and granting.
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**Areas of practice.** Master's degree in polymer science and studied IP law at the Cardozo School of Law; trained in US and German law firms in patent law and practice; more than 1,000 patent filings and prosecuting cases in various technical fields, particularly polymers and chemical engineering.

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**Professional qualifications.** Senior trade mark attorney and qualified lawyer; LLB in international law, Wuhan University, 1989; LLM in IP law from UNH School of Law, US, 2003

**Areas of practice.** Trade mark law; copyright law; anti-unfair competition law; trade names; domain names; advertising law; customs protection; anti-monopoly law; licensing; trade dress.

**Languages.** Chinese, English

**Professional associations/memberships.** AIPPI.

**Publications.** Many articles in periodicals and newspapers; co-author of Practice of IP Lawyers, 2006.

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