

Operational Guide to Intellectual Property Licensing

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Chapter One General Rules

Article 1 (Aim) With a view to promoting effective application of the intellectual property, building intellectual property earning power and reducing economic and legal risks in the intellectual property licensing activities, this Guide has been formulated under the relevant state laws and regulations in the light of the practical situation in Shenzhen city.

Article 2 (Reference) This Guide has been made for the reference of citizens, corporate entities and other organisations, such as individual persons, enterprises, schools of higher learning and scientific research institutes, in their IP licensing activities.

Article 3 (Definition) Definition of the special terms used in the Guide are made as follows:

(1) The IP licensing shall refer to the activity in which the licensor licenses an intellectual property right to a licensee under a contract;

(2) The licensor shall refer to the holder of an intellectual property right who has the right to license said intellectual property right to a licensee under a contract;

(3) The licensee shall refer to a person or entity that negotiates with another party for, or has been granted, an IP license;

(4) Sublicensing shall refer to the activity in which the licensee licenses the pertinent intellectual property right to a third party in his or its own name under certain conditions; and

(5) Cross-licensing shall refer to the activity in which two or more intellectual property owners mutually license their respective intellectual property right to each other.

Article 4 (Classification) The licenses are generally classified as follows:

(1) Solely exclusive license, under which the licensee solely and exclusively uses the relevant licensed intellectual property right under the contract, and other party, including the intellectual property owner, is excluded from using said

intellectual property right;

(2) Exclusive license under which the licensor and licensee may use the relevant intellectual property right under the contract, and any third party is excluded from using said intellectual property right; and

(3) Non-exclusive license, under which the licensee may use the relevant intellectual property right under the contract, and the licensor may license said intellectual property right to a third party.

Article 5 (Applicable laws) Where the State laws set forth mandatory provisions in respect of patent compulsory license, patent exploitation licenses recordal, trademark licenses recordal and franchising contracts, the relevant provisions shall be applicable.

Chapter Two General Guide

Article 6 (Business interest principle) Where a license negotiation is underway, one that is going to accept a license shall be clearly aware of his or its own business interest, position, and purposes, so as to focus on the essential points in the course of licensing to maximise his or its benefits.

Article 7 (Confidentiality principle) Before communicating with another party on matters of licensing, a mutual confidential agreement in writing shall be concluded.

An enterprise or institute that is to license a patent or a piece of software shall pay special attention to examine the terms relating to the scope of confidential information, and obligations and terms for keeping it secret.

Article 8 (Qualification examination) Before negotiating with a licensor, a licensee shall verify the ownership of the relevant intellectual property right, examine the qualification and execution capability of the licensor, and assess the relevant intellectual property right.

Article 9 (Teaming up) For negotiation, one shall generally organise a team for the purpose.

In general, the negotiation team shall be made up of skilled artisans, intellectual property law practitioners, and

business decision makers.

Article 10 (Documents preparation) Before commencing negotiation, the team shall collect and read the documents relevant to the license, get to know clearly one's own strengths and weaknesses, and devise a way to make best use of his or its strengths while avoiding the weaknesses during the negotiation.

Article 11 (In writing) The intellectual property licensing shall proceed with the two parties concluding a contract in writing.

Article 12 (Providing the text of contract) In practice, the text of a licensing contract to be negotiated by the two parties shall be provided by the licensor. An intellectual property owner shall conscientiously improve his or its contract drafting ability and come up with a high-quality text of the contract.

The licensee relatively capable in the intellectual property law practice may first seek to use his or its own text of the contract to commence the negotiation with.

Article 13 (Working out strategy) After the two parties decide on the text of a licensing contract for negotiation, the negotiation team shall identify the points of disagreement between them as soon as possible, work out a strategy to address the disagreements, design and determine the optimum and the less optimum schemes, and the bottom lines.

Article 14 (Competition doctrine) When accepting a license, the licensee may consider adopting the strategy of competitive negotiation to put pressure on the licensor by deliberately referring to a competitor of the licensor in an effort to achieve his or its pre-set goal at less cost.

Article 15 (Record-keeping doctrine) Both parties shall properly keep all materials that tangibly embody the contents of a license, such as notes of meetings, letters, and digital communications, including telegrams, telexes, facsimiles, electronically exchanged data and emails.

For an important license, notes shall be taken of each negotiation held, and signed and confirmed by those present when it ends.

Article 16 (Planning negotiation procedure) In practice, the two parties usually hold the negotiation on technical matters, and then the negotiation on legal and business matters.

The licensee shall plan, in detail, the negotiation steps, reasons of response, and procedure of compromise according to the pre-set strategy.

Article 17 (Negotiation on technical matters) The negotiation on technical matters is the basis for decision on the

scope of license, regions of products marketing and royalties to be paid and for the possible achievement of the commercial goal of the present license.

In the negotiation on technical matters in relation to an important license, the licensee shall appoint those having a good knowledge of the intellectual property right and the technology involved.

Article 18 (Negotiation on IP matters) The text of a licensing contract shall focus on the aspects of the intellectual property right as follows:

- (1) the definition provisions;
- (2) the intellectual property right licensing provisions;
- (3) the confidentiality provisions;
- (4) the intellectual property right defect warrant provisions;
- (5) the intellectual property right ownership provisions;
- (6) the intellectual property right infringement liability provisions; and
- (7) the dispute resolution provisions.

Article 19 (Definition provisions) The definition provisions are usually put in the first article of a licensing contract for defining the special terms therein.

In general, the definition provisions shall focus on the licensed intellectual property right, products, and geographic regions.

The licensee may give his or its views on specific revision of the definitions relating to whether the relevant definitions can meet the needs for R&D, scope of marketing, and risk prevention.

Article 20 (Intellectual property right licensing provisions) The licensor specifies, in the intellectual property right licensing provisions, the rights and interest it or he licenses to the licensee.

In general, a non-solely-exclusive or non-exclusive ordinary licenses with a specific term and geographic region licensed by the licensor may serve the licensee's needs. In special situations, the licensee shall make corresponding claims.

In these provisions, the licensor may also enumerate the restricted acts, such as prohibiting removal or modification of the licensor's IPR signs, reverse engineering or separate sale of the involved intellectual property right, and the licensee may make his or its own judgement according to the practical circumstances.

Article 21 (Confidentiality provisions) Regarding an important license, the following confidentiality provisions may

be incorporated in the contract:

(1) the confidentiality agreement concluded between the two parties applies to the contract;

(2) matters relating to the discussion on and conclusion and execution of the contract between the parties, the contents of the contract and the presence of the contract shall all be taken as information to be strictly kept confidential;

(3) without written consent of the other party, any party shall not hold press conference, release reports on its own website, or declare that the other party is its own client; and

(4) any other matter of confidentiality that should be expressly agreed upon under the license.

Article 22 (Intellectual property right defect-free warrant provisions) The licensee shall require the licensor to warrant that the licensed intellectual property right, under the situation where the licensor knows or should know about it, does not infringe a third party's intellectual property right within a specific geographic region, otherwise, he or it should be held liable therefor.

To further specify the liabilities, the licensee shall also make more specific and detailed liability provisions.

Article 23 (Intellectual property right ownership provisions) The licensor usually makes it clear that his or its licensed intellectual property right is owned by the licensor and the rightholder, and the ownership will not change with the license.

Regarding some license of which the licensee needs to do technical modification or improvement, the licensee may try to obtain the ownership of the intellectual property right in this part of the technical solution.

Article 24 (Intellectual property right infringement liability provisions) According to royalties payment and the commercial practice, the licensee may require the licensor to bear the liability for any infringement due to any defect of the licensed intellectual property right.

Both parties shall negotiate on the presence and extent of the upper limit of the IP-related liability according to the commercial status and the practical situation.

The licensor would usually enumerate circumstances of exemptions, such as his or its exemption from liability for indirect injury or accidental losses.

Article 25 (Dispute resolution provisions) Both parties shall specify which country's law to apply to the license. In general, one should choose the country's law in his or its own favour. Choice of a third country's law is generally more acceptable. Where a third country's law is chosen, attention

shall be paid to whether the license and the law provisions are compatible and whether the law would be favourably applied and interpreted in lawsuit when a dispute arises.

Both parties shall also specify the jurisdiction over the contractual disputes. In case of a foreign-related dispute, the licensee may seek arbitration before the Hong Kong International Arbitration Centre or the Singapore International Arbitration Centre out of consideration of such matters as the fees, efficiency and language.

The arbitration award is final; where arbitration is chosen for dispute resolution, both parties shall specify the arbitration organisation in the contract.

Article 26 (Negotiation on commercial matter) A licensing contract shall contain the following issues of commerce that the negotiation should focus on:

(1) provisions on the delivery;

(2) provisions on the royalties and the payment thereof;

(3) provisions on sales report and prediction; and

(4) provisions on the IP-related auditing.

Article 27 (Provisions on the delivery) Both parties shall comprehensively and clearly agree on the time, subject matter, form and fees of the relevant IP delivery.

Article 28 (Provisions on the royalties and the payment thereof) In practice, most licensees are required to pay the royalties. In general, the royalties shall be paid in elevation up to the upper limit fixed. The licensee shall try to negotiate to lower the royalties as much as possible.

For an IP license involving a foreign party, the licensee is subject to the regulatory examination and approval by the foreign exchange authority and the taxation authority in China. Therefore, the contract shall allow sufficient time for payment to be made to avoid breach of the contract.

Article 29 (Provisions on sales report and prediction) In general, it is relatively fair to specify that the licensee is to provide the sales report on a quarterly basis.

Both parties shall negotiate the items the quarterly report should cover according to the practical situation. In practice, the licensee usually reports on matters of sales volume and royalties due.

The licensor sometimes requires the licensee to predict, in advance, the sales in the coming quarter for preparation and transportation of goods. The licensee shall make judgment according to the practical situation. If he or it agrees to do so, he or it shall make it clear that the prediction report has been made just for reference, and it is not legally binding.

Article 30 (Provisions on IP-related auditing) In practice, the licensee shall give his or its consent to the licensor to appoint an independent third-party accountant public to audit the licensee.

According to the practice, the auditing shall be conducted once a year only and the licensee be notified in writing 30 days in advance.

Both parties shall negotiate the way to deal with minor differences between them in the result of auditing and the sales report, obvious under-reporting and intentional failure to report according to the practical situation.

Article 31 (Taking effect of licensing contract) In practice, the two parties often agree that the licensing contract takes effect upon signature by their respective authorised representatives and affixation of their respective seals.

For an important contract, the authorised representatives of the two parties shall put their signatures on each page of the contract.

Article 32 (Concluding supplementary agreement) During execution of a licensing contract, if matters arise that were not considered or agreed upon by the two parties, they shall then conclude an agreement in writing as a valid supplement to the licensing contract.

Article 33 (Termination of contract) A licensing contract terminates at the expiry of the contract or upon arising of any other reason for it to terminate.

Upon termination of the contract, the licensee shall have the right as agreed to sell the products in stock incorporating the licensor's IP right.

Chapter Three Guide for patent right licensing

Article 34 (Mode of license) Factors, such as the nature and characteristics of a patent right, determine that the patent right is generally licensed in a way for the licensee to integrate the relevant technical solution in the products and market the products, and the licensor normally charges royalties from the licensee.

Article 35 (Definition provision) The licensee shall focus on the following points in his or its examination of the text of the patent right licensing contract:

(1) The standards. A basic patent right license would involve the definition mainly for specifying which standards are related to the licensed patent right. The licensee shall examine to find out whether the standards used in his or its products are included;

(2) The licensed patent right. That is the scope within which the licensor has licensed the patent right to the li-

cence, and it may be enlisted in the appendixes or specified as "the patent right complying with a certain standard";

(3) The licensed product. The relatively common definition is that the licensee has used the licensed patented products;

(4) The sales revenue. That is the revenue from the sales of the licensed products; and

(5) The net sales price. The sales revenue minus deductions, such as costs, serve as the basis for calculating the royalties on.

The five definitions are progressively related, with minor changes made in one definition resulting in varied scope of other definitions. Both parties should pay special attention thereto.

Article 36 (The user) The licensee shall determine the scope of users according to the practical situation. If necessary, it should be agreed that his or its own affiliates also have the right to use the licensed patent right.

Article 37 (The patent right licensing provision) The licensee shall make sure in the contract that he or it has the right to make, use, offer for sale, sell, import the products with the licensed patent right.

The licensee shall determine, according to his or its own channel of distribution whether it is necessary to obtain the right to sublicense.

Article 38 (The technical support provision) Since such factors as modification, improvement, transplant and imbedding of the technical solution are involved, the two parties shall agree on matters, such as the time of response, mode of support and fees for the technical support from the licensor.

Article 39 (The patent right defects warranty provision) The licensor usually would make it clear that he or it will not be responsible for any intellectual property right defect resulting from the licensee's own act of modification, use of the involved intellectual property with other technical solution, non-use or refusal to use the licensor's upgraded technology.

Article 40 (The patent right infringement liability provision) When the licensor is held liable for damages for infringement, the licensee shall also require he or it to improve or change the licensed intellectual property make it possible for the licensee to continue to use the relevant technical solution.

The licensee in a stronger position may also require that if the licensor is still unable to make it possible for the licensee to legitimately use the relevant technical solution by

virtue of the foregoing action, the licensor shall return all the royalties paid

Article 41 (The provision) It should be agreed in a licensing contract that the licensor indemnifies the licensee and his or its clients from liability arising from use of the licensed patent right before the conclusion of the contract.

Article 42 (Cross patent licensing) In a cross license, the two parties shall consider factors such as region of marketing or use in China, and negotiate the royalties on the basis thereof.

Chapter Four Guide for copyright licensing

Article 43 (Copyright licensing) Due to the variety of the form the copyright, there are licenses of software, literary works, musical works, pictures and photographs in practice.

Of these the software license is relative complex.

Article 44 (Definition) The common software licenses are general those as follows:

(1) Licensing for trial use, that is the activity in which the licensor licenses a licensee to use his or its software for a certain period of time for the purpose of testing the technical performance, as is often the case with the trial use of antivirus software;

(2) Voluntary Licensing for one's own use, that is the activity in which the licensor licenses a licensee his or its software for home or office use, and the licensor usually does not provide the source code, as is the case with the use of the WINDOWS operating system; and

(3) External distributional licensing, that is the activity in which the licensor licenses a licensee to use his or its software for marketing a licensed product incorporating the licensor's software.

Depending on whether the licensee modifies or improves the involved software, the distributional licenses are divided into integration distributional license (e.g. an end device provider properly modifies the source code of the software for technically compatible integration) and resale distributional license (e.g. a computer hardware provider is required to pre-install some authentic software when he or it distributes the products in China).

Article 45 (The license in brief) Licensing software for trial use and licensing software for one's own use are relatively simple. Besides what has been discussed in this Chapter, the software integration licensing may proceed with reference to the patent right license.

Article 46 (Check for acceptance and technical support) Check for acceptance is an important means to ensure

the quality of software. The licensee shall specify, in a licensing contract, the standards and method of the check for acceptance with regard to mature, non-generally used software.

The two parties shall agree on the mode, method, fees, time for response of the provision of the technical support from the licensor and the ways for dealing with failure in resolving technical problems.

Article 47 (Keeping source code in custody) In a software license involving source code provision, the two parties shall agree on how to keep the source code in custody. The licensee shall use the source code in a careful and fair manner, and meet the obligation to keep it confidential.

Article 48 (Licensing for trial use) In a license for trial use of software, the licensee shall pay attention to whether the term of the license and the mode of use can meet his or its needs (e.g. whether modification is allowable).

Article 49 (Licensing for one's own use) In a license for one's own use of software, the licensor usually provides a standard contract. The licensee may pay attention to the provisions such as those on mode of use (e.g. whether it is a unit license or floating license).

Article 50 (Licensing based on clicking) When granting a software license, an enterprise usually provides an e-version clicking license, depending on the practical situation, for the other party to choose or provide a paper-form license for his or its review.

Article 51 (Collective organisation) A proprietor of the copyright in a musical or literal work shall pay attention to keeping contact with a collective copyright organisation, and exercise his or its licensing right through it.

Chapter Five Guide for trademark right licensing

Article 55 (Mode of licensing) The content of a registered trademark has been registered with approval upon examination, which makes a licensee exercise the relevant right strictly within the agreed scope of the regulatory approval, and the licensee usually shall not modify the relevant trademark.

Article 53 (The contract provisions) A trademark right licensing contract shall cover the following:

- (1) The licensed trademark and its registration certificate number;
- (2) The scope of the licensed products;
- (3) The term of the license;
- (4) The mode of provision of the representation of the licensed trademark;

(5) The provisions on the licensor's supervision of the quality of the products in respect of which the licensee uses the registered trademark; and

(6) The provisions on placing the indication of the licensee's name and place of origin of the products on the products in respect of which the licensed trademark is used.

Article 54 (Provision of trademark) The licensor shall show the website from which the licensee can download the form of the trademark or indicate it in the appendix of the contract for the licensee to use it under the contract.

Article 55 (Warrant against defects in the trademark right) As the direct visibility of a trademark determines, the licensee shall require the licensor to warrant that the licensee's product on which the involved trademark is used does not infringe any third party's trademark right in the market of the target country.

Article 56 (The trademark right infringement liability provision). There are stringent measures adopted in North America and Europe for the Customs protection of the trademark right at their border. Regarding some special time-based products, the licensee shall require the licensor to warrant that the relevant products are not to be seized or detained for alleged trademark infringement. If corresponding mandatory measures are taken against the relevant prod-

ucts, the licensor shall be liable for paying to the licensee in compensation of all his or its damage caused thereby.

Article 57 (The product quality warrant provision) The licensee shall warrant the quality of the products in respect of which the licensee uses the registered trademark, and the licensor shall supervise the quality of these goods.

In OEM or ODM products, the licensor shall particularly take a series of measures to control the licensed products.

Article 58 (Compliance with the law of the country of distribution) The licensee shall comply with the mandatory legal requirements in connection with the trademark representation and indication of the country of the market. The licensee shall check sure that the contract is in compliance with the law provisions of the country of the market.

Chapter Six Supplementary Provisions

Article 59 (Licensing other intellectual property rights) Licenses in relation to the intellectual property rights in lay-out designs of integrated circuit and trade secrets shall proceed with reference to this Guide.

Article 60 (Use for reference) The Guide has been hereby made for the reference of the relevant individual and corporate persons according to the practice situation from the date of release thereof. ■