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## **The Protection of Licensees Under Intellectual Property Licenses In China**

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In a global economy that is increasingly placing emphasis on advanced technology and the ability to produce innovative creations, the contribution of valuable intellectual property often determines a business' success. Therefore, because the growth of intellectual property relates to the quality of revenue, business sustainability, and business growth, intellectual property laws are essential to maintain and ensure the protection of intellectual property, especially the protection of licensees under an intellectual property agreement, who are often the most vulnerable.

In China, the Trademark Law, Patent Law, Copyright Law, Property Law, and Security Law, as well as their supplementary measures, all contribute to the regulation of licensing intellectual property, therefore illustrating China's wide reach in its legislation over the protection of intellectual property in order to encourage and nurture innovation. This article will focus on the protection of licensees of trademarks and patents that are registered in the Chinese Trademark Office ("CTO") and State Intellectual Property Office ("SIPO").

### *Trademark Law*

Under the Trademark Law of the People's Republic of China, Article 43 provides for the licensing of trademarks, by stating that a trademark registrant may, by signing a trademark licensing agreement, authorise other parties to use its registered trademark.

There are many safeguards and measures available regulating the protection of a trademark and its registered holder, however, the protection of a licensee in a trademark license agreement is also an important aspect of intellectual property protection. Therefore, there are several measures in place for the protection of licensees' interests. For example, Article 43 of the Trademark Law allows for the recordal of trademark license agreements in the CTO, and goes on to state that an unrecorded license can not be used against third parties – essentially, this means that licensees should insist on having their trademark license agreements recorded against the relevant trademark registrations, so that their interests are protected as against the assignees, licensees and other types of third parties.

Although Article 43 seems to suggest that a failure to record may result in the invalidity of a license agreement, under Article 19 of the Judicial Interpretation on the Application of Law to the Trial of Trademark Dispute Cases Issues, it has been provided that where a trademark license contract is not recorded, the validity of the contract is not affected, unless the parties have agreed otherwise. In the case Shanghai Youmou Electric



Technology Co., Ltd. v. Shanghai Zhuomouneng Technology Co., Ltd., the plaintiff was licensed by Beijing Kedashi Trading Co., Ltd. to use the POWERFENCE trademark in relation to electronic equipment, and it sued the defendant for trademark infringement, in its own name. The Shanghai Municipal No.1 Intermediate People's Court indicated in the final decision No. [2013] 6 issued by it on 22 March 2013 that the plaintiff have obtained the rights to use the mark and initiate legal proceedings against infringement of the mark, under the license agreement, even if the license agreement was not recorded with the CTO, since the defendant was not a bona fide third party in this case. Therefore, with the exception of third parties acting in good faith, licensees remain protected despite their failure to record their license agreement with the CTO – clearly though as discussed above licensees should seek recordal of licenses in order to protect their positions as much as possible.

Furthermore, under Article 47 of the Trademark Law, it states that in the event that a registered trademark is invalidated, the invalidation of a registered trademark shall be publicised by the CTO, and the exclusive right to use that trademark shall be deemed as not having existed from the very beginning of proceedings. However, a decision or ruling pertaining to the invalidation of a registered trademark shall not be applied retrospectively against prior rulings, nor made and enforced by, the administrative department of industry and commerce concerning trademark infringement cases, or contracts for the transfer of a trademark or for an already enacted licensed use of a trademark. Therefore, licensees remain protected under the Trademark Law in cases of invalidated registered trademarks, especially as it has been provided that any loss caused through the ill will of a trademark registrant to any other party will be compensated.

Finally, the enforcement of a trademark license agreement is a vital aspect in protecting the rights of a licensee. Firstly, under the Interpretation on Issues Regarding the Application of Law in Civil Cases Involving Trademark Disputes Issued by the Supreme People's Court, guidance has been given as to what types of license agreements it has identified and seeks to regulate:

- a. an exclusive license, under which the rights holder grants a license to a single licensee for use of the registered trademark for an agreed time period, within an agreed territory and in an agreed manner, and is prohibited from using the registered trademark itself;
- b. a sole license, under which the rights holder grants a license to a single licensee for use of the registered trademark for an agreed time period, within an agreed territory and in an agreed manner, and is permitted to use that registered trademark itself, but prohibited from licensing the mark to another party; and
- c. a non-exclusive license, under which the rights holder grants a license to any other party to use the registered trademark for an agreed time period, within an agreed territory and in an agreed manner, and is permitted to use and grant licenses to other parties to use the registered trademarks.



Secondly, the Interpretation provides for a licensee's ability to bring a civil suit to combat an infringement of the trademark, where it states lawsuits can be initiated in the following cases:

- a. an exclusive license allows an exclusive licensee to initiate a lawsuit without the licensor's prior approval;
- b. a sole license allows a sole licensee to initiate a lawsuit with the licensor jointly, or on its own; and
- c. a non-exclusive license allows a licensee to initiate a lawsuit pending the licensor's authorisation.

In the case *Shanghai Youmou Electric Technology Co., Ltd. v. Shanghai Zhuomouneng Technology Co., Ltd.* mentioned above, the Shanghai Municipal No.1 Intermediate People's Court also ruled that the plaintiff was entitled to file the action on its own, as a sole licensee, according to the Interpretation referred to above.

Therefore, the Trademark law and its supplementary regulations have provided for the protection of licensees in a trademark license agreement extensively, in order to ensure such intellectual property rights are catered for in China.

#### *Patent Law*

The Patent Law of the People's Republic of China provides for the licensing of patents under Article 12, where it states that any unit or individual that intends to exploit the patent of another unit or individual shall conclude a contract with the patentee for permitted exploitation and pay the royalties, and the permittee shall not have the right to allow any unit or individual not specified in the contract to exploit the said patent.

Like the Trademark Law, the Patent Law has measures in place for the protection of licensees under a license agreement. In Article 47, it states that any patent right that has been declared invalid shall be deemed to be non-existent from the beginning. The decision on declaring a patent right invalid shall have no retroactive effect on any written judgment or written mediation on patent infringement that has been made and enforced by the people's court, or on any decision concerning the handling of a dispute over the patent infringement that has been performed or compulsively executed, or on any contract for permitted exploitation of the patent or for transfer of patent rights that has been performed – prior to the invalidation declaration of the patent right. Furthermore, it also provides that compensation shall be made for the losses caused to another person *mala fides* by the patentee.

Moreover, the Measures for the Record Filing of Patent Licensing Contracts, which seeks to duly protect patent rights, regulate patent licensing and promote the application of patents, sets out new procedures for registration and recordation of patent licenses which



have had the effect of simplifying and improving the procedures for recording patent license contracts. In particular, the Measures removes the requirements of recording patent licensing contracts with the SIPO as a precondition for carrying out procedures for either remitting royalty fees out of China (which is now the same for trademark license royalty remittances) or recording the patent with the Customs Office, therefore licensees are protected regardless of the failure to record the patent licensing contract with SIPO, but recordal is recommended in order to protect the licensee's position as against third parties.

Finally, the enforcement of a patent license agreement may be initiated by a licensee. While an exclusive license gives the licensee the right to independently bring claims for infringement of the licensed patent without the patent owner's approval, non-exclusive licensees may only apply if the patent owner joins the proceedings. This is regulated for under Article 60 of the Patent Law, where it states that if a dispute arises as a result of exploitation of a patent without permission of the patentee, that is, the patent right of the patentee is infringed, the dispute shall be settled through consultation between the parties, but if the parties are not willing to consult or if consultation fails, the patentee of a licensee may take legal action before a people's court, and may also request the administration department for patent-related work to handle the dispute. Furthermore, under Article 66, if the patentee or the licensee has evidence to prove that another person is committing or is about to commit a patent infringement, which may cause irreparable harm to his lawful rights and interests, he may, before taking legal action, file an application to request that the people's court order to have such act ceased. Therefore, the Patent Law provides sufficient provisions to regulate the enforcement of a patent license agreement to protect the licensee in cases of patent infringement.

Therefore, it has been illustrated that the legislation dealing patent license contracts is comprehensive, as patents are significant in supporting business growth, therefore the protection of licensees in this area is especially wide-ranging.

#### *Property Law and Security Law*

Intellectual property represents a valuable part of assets a unit or an individual can own, therefore intellectual property rights are assets that can potentially be used as security. In China, such security-related matters are governed by the Security Law of the People's Republic of China and the Property Rights Law of the People's Republic of China. Additionally, this regime is regulated and administered by a range of government bodies, including the Ministry of Commerce, the State Administration for Industry and Commerce, and the housing and land administration authorities.

In China, intellectual property rights can only be secured by a "pledge". Under Article 223 of the Property Law, exclusive trademark rights, patent rights, copyright works or



other property rights in intellectual property that can be transferred, may be pledged. In addition to the provisions in the Property Law, the Security Law also provides in Article 75 that the capability of legally transferable exclusive use of trademarks, property rights contained in patent rights and copyrights, can be pledged.

Where these intellectual property rights are pledged, Article 227 states the pledger and the pledgee shall conclude a contract in writing, and the rights contained in the pledge shall become effective upon registration with the relevant administration department. For example, the Nanjing Gulou District Court held in the case of Jiangsu Jinmao v. Zhu Hongwei and Suzhou Anding, [2014] 551 that the pledge of three patents was deemed invalid due to the parties failing to jointly register the pledge with the Patent Office. Due to the necessity and significance of the registration procedures, some special rules, such as the Measures for Registration of a Pledge of Patent Rights/Copyrights, have been issued by the authorities in recent years, to clarify the main terms of a pledge agreement, registration procedures, and required documents.

Under the Measures for Registration of a Pledge of Patent Rights, a patent pledge agreement must include the following content related to pledge registration:

- a. the names and addresses of pledger and pledgee;
- b. the type and amount of the pledged debt;
- c. the deadline for the debtor performing its debt;
- d. the name of the patent right, patent number, application date and registration date;
- e. the scope covered by the pledge.

The pledger and pledgee may also refer to the following in the pledge agreement:

- a. the payment of annuities of the patent during the pledge;
- b. the license for exploitation of the patent during the pledge;
- c. the solutions on change of the patent ownership and invalidation of the patent;
- d. the delivery of the relevant technical data at realization of the pledge.

A copyright pledge agreement usually includes the following, as per the Measures for Registration of a Pledge of Copyright Works:

- a. the basic information of pledger and pledgee;
- b. the type and amount of the pledged debt;
- c. the deadline for the debtor performing its debt;
- d. the contents and protection term of the pledged copyright;
- e. the scope and term of the pledge.

Furthermore, if those property rights are pledged, the pledger may not transfer or permit the right to be used by another, unless otherwise agreed by the pledgee and the pledger. To demonstrate its enforcement capabilities, the Fuzhou High Court in the case Fuzhou Nashida, Jiuxing Henglong v. YE Jinxing, Fuzhou High Court [2007] 460 held void a



patent license agreement where a license of the pledged patents were granted as the patent owner failed to obtain consent from the pledge holder when granting the patent license to the licensee. Therefore, although strict, such measures are in place to ensure consent has been given from all parties to make such an agreement.

Furthermore, in addition to the above statutory requirements on security of intellectual property rights, when using an intellectual property as security for a transaction in China, there are many practical issues in relation to the enforcement and/or realisation of rights in intellectual property that has been pledged. For example, the Security Law and the Property Law both provide little guidance and/or remedies in respect of the following:

- a. when the validity of a pledged intellectual property has been challenged or when an intellectual property holder has failed to maintain the validity of a pledged intellectual property;
- b. when a pledged intellectual property has been infringed upon by a third party or when an intellectual property holder has failed to actively enforce its intellectual property rights against any possible infringers;
- c. when there is an ownership dispute concerning a pledged intellectual property; or
- d. when the value of a pledged intellectual property has been diminished.

Finally, the Chinese bankruptcy regulations do not explicitly provide for the effect of bankruptcy on intellectual property rights, therefore such rights are regarded as general assets for the purposes of liquidation in accordance with the relevant civil law and regulations. Thus, there are currently no laws providing for the effect of insolvency or bankruptcy on a license agreement for intellectual property rights, which means there is currently no special statutory protection for a licensee in such an event. Therefore, it is important for relevant parties to set out the details of the transaction or agreement, the rights and obligations of each party and the available remedies in connection with any problematic foreseeable circumstances; and in in most cases, the recordal of licenses and pledges would be highly recommended to protect the licensees' positions.

### *Conclusion*

The licensing of intellectual property rights is playing an increasing role in the business arena; therefore it is important for intellectual property rights holders, such as licensees, who are particularly vulnerable, to understand the regulations that are applicable to them and the mechanisms that can be used to strengthen their positions as against licensors and third parties. Clearly the recordal of well-worded licenses and the registration of well-worded pledges in the relevant intellectual property departments over relevant registered intellectual property, will be very helpful to licensees and is almost, always recommended.