

ALLEN & OVERY

Amendment to the Technology Transfer Regulations in China

On March 2, 2019, Premier Li Keqiang signed a State Council decree No.709 to amend a total of 49 regulations, including the *Technology Import and Export Regulations* (TIER) and the *Regulations for the Implementation of the Law of the People's Republic of China on Chinese-Foreign Equity Joint Ventures* (JV Regulations). The amendment was published on March 18, 2019 and took effect immediately.

The amendments to TIER and the JV Regulations revoked certain provisions that were biased against the foreign transferor in technology import situations, and reinstated for those foreign parties the general rules under the *Contract Law of the People's Republic of China* (PRC Contract Law). Such legislative efforts are likely meant to show China's willingness to address US concerns regarding forced technology transfer in the ongoing trade war and to meet the national treatment obligations under TRIPS.

Third party infringement claims

TIER applies to the transfer of foreign technology into China,¹ among other things, and it includes several mandatory provisions on technology import contracts. Among those, the latest amendment deleted Article 24.3² which mandated the foreign technology transferor to indemnify the Chinese transferee for third party infringement claims. This leaves the general provisions of the Contract Law to govern both technology import and other technology transfers alike, under which the parties are free to negotiate the allocation of infringement liabilities to third parties. Although the amendment does not address contracts that were entered into under the old TIER, it does restore leverage to the foreign licensor in its further negotiation with the Chinese domestic licensee.

Ownership of improvements

The amendment also deleted Article 27³ of TIER which effectively required domestic ownership of domestic improvements to foreign technology. It further deleted Article 29,⁴ which prohibited the foreign licensor from abusing its intellectual property in various ways, such as restricting the licensee from making improvements to the technology. Those provisions precluded, for example, the foreign licensor's automatic ownership of any improvements by the Chinese licensee, and other straightforward approaches for the foreign technology transferor to consolidate its control of improvements to its technology.

¹ Art. 2 of TIER defines technology import and export as "the act of transferring technology from outside the territory of ... China to inside the territory of ... China or from inside the territory of ... China to outside the territory of ... China."

² Art. 24.3 of TIER: "Where the receiving party to a technology import contract infringes another person's lawful rights and interests by using the technology supplied by the supplying party, the supplying party shall bear the liability therefore."

³ Art. 27 of TIER: "Within the term of validity of a technology import contract, an achievement made in improving the technology concerned belongs to the party making the improvement."

⁴ Art. 29 of TIER: "The following restrictive clauses must not be contained within a technology import contract:

- (1) clauses requiring that the transferee must accept incidental provisions that are not essential to the importing of the technology, including the purchase of unnecessary technology, raw materials, products, equipment or services;
- (2) clauses that require the transferee pay fees for the usage of or bear related obligations for technology where the patent rights have expired or have been declared invalid;
- (3) clauses that restrict the transferee from improving the technology provided by the transferor or that restrict the transferee from using the improved technology;
- (4) clauses that restrict the a transferee from obtaining from other sources the technology similar to or that competes with the technology provided by the transferor;
- (5) clauses that unreasonably restrict the channels or sources that the transferee may procure raw materials, parts, products or equipment from;
- (6) clauses that unreasonably restrict the quantity, type or sale price of the transferee's products; and
- (7) clauses that unreasonably restrict the transferee's export channels for products that are produced using the imported technology."

However, following the revocation of those two TIER provisions, parties to a technology import transaction are still not free to negotiate the ownership of improvements, as the matter is still subject to Article 329 of the Contract Law and its interpretation by the Supreme People's Court.⁵ Now, all technology transferors under PRC law, whether foreign or Chinese, are likewise required to make reciprocal arrangements on ownership of improvements and are likewise prohibited from imposing anticompetitive conditions on technology transfer.

Term of the JV technology transfer contracts and JV's right of continued use

Where a foreign JV partner transfers technology to its JV in China, Article 43 of the JV Regulations mandates a number of technology contract terms in favor of the joint venture and at the expense of the foreign party. The latest amendment revokes Article 43.2(3) and (4) which respectively capped the term of any technology contract with the Chinese joint venture at ten years, and provided a statutory right for the Chinese joint venture to continue its use of the technology after the technology contract expires or terminates. Such provisions in the prior JV Regulations obviously are in contradiction with the principle of autonomy of will under the PRC Contract Law, which applies to both foreign and domestic entities.

Key Contacts



David Shen
Partner, Shanghai
Tel +86 21 2036 7138
david.shen@allenoverly.com



Victor Ho
Partner, Beijing
Tel +86 10 6535 4381
victor.ho@allenoverly.com



Jack Wang
Partner, Shanghai
Tel +86 21 2036 7009
jack.wang@allenoverly.com



Dylan Ding
Associate, Beijing
Tel +86 10 6535 4378
dylan.ding@allenoverly.com



Cynthia Shen
China Associate, Shanghai
Tel +86 21 2036 7132
cynthia.shen@allenoverly.com

⁵ *Interpretation of the Supreme People's Court concerning Some Issues on Application of Law for the Trial of Cases on Disputes over Technology Contracts*, Art. 10.