



China issues new rules tightening up of overseas transfers of intellectual property rights (IPR)



Overview

On 29 March 2018, the Chinese State Council released the *External Transfer of Intellectual Property Rights Measures (for trial implementation)* (the IPR Overseas Transfer Measures) providing for further governmental scrutiny of overseas transfers of IPR from the People's Republic of China (PRC or China), with a focus on the impact of such transfers on national security and/or the impact on the development capabilities for certain key industries in China. More specifically, the IPR Overseas Transfer Measures set forth procedures for various governmental departments, including those in charge of Intellectual Property (IP), technology, agriculture, and forestry to become involved in reviews of such transfers conducted by the Ministry of Commerce (MOFCOM).

The IPR Overseas Transfer Measures became effective from the date on which they were "printed and issued", which we presume to be 29 March 2008 (not 18 March 2018 the date on which the IPR Overseas Transfer Measures were passed). As is customary in China, there is no indication as to the length of the "trial implementation" period.

Though many of the details on how the IPR Overseas Transfer Measures will be implemented remain to be worked out, the message is clear that there will be a stepping up in the enforcement of Chinese technology export regulations, potentially affecting multinationals that engage in research and development (R&D) activities in China or who are parties to IPR licensing transactions that may result in improvements being made by their Chinese licensees which they wish to have exported to the overseas contracting party. This newsflash summarizes the key take-aways from the IPR Overseas Transfer Measures.

Scope of the IPR Overseas Transfer Measures

The IPR Overseas Transfer Measures apply to the review of any external transfer of IPR, which is defined to include patent rights, proprietary rights related to integrated circuit design, computer software copyrights, rights to new plant varieties and so forth, either by way of technology export or as a result of the acquisition of Chinese domestic capital enterprises (Dom Co) by foreign investors with the language being open-ended enough to allow it to be interpreted as encompassing other forms of transaction resulting in an overseas transfer of IPR. The IPR Overseas Transfer Measures further note that an external transfer may refer to the transfer of IPR by a Chinese entity or individual to a foreign company, individual or other form of entity

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including by way of changes to the IPR owner, changes in the actual controller of the IPR, and exclusive licenses to use the IPR (the latter may kick in contractually in practice when a Chinese counterpart makes 'improvements').

Evaluation standard

The IPR Overseas Transfer Measures stipulate that the subject matter of the review is both the impact of the external IPR transfer on (a) China's national security and (b) development capabilities of technological innovation in certain key sectors in China. None of these expressions is further elaborated on in the IPR Overseas Transfer Measures.

Review mechanisms

a) Involving exported technologies

For technology exports, the IPR Overseas Transfer Measures note that that any technologies that fall under the "restricted" category in the MOFCOM *Restricted and Prohibited Technologies for Export Catalogue* (Restricted Export Technology Catalogue) will be subject to review.

For the export of patent rights and rights related to integrated circuit designs, the competent local administrative departments in charge of IP will be consulted by the local MOFCOM office conducting the review for a written opinion, which should be relied upon by the MOFCOM office in issuing its decision and provided to the national IP administration for record filing.

In the case of overseas transfers of copyright software, the competent local MOFCOM office and department in charge of science and technology will jointly conduct the review. Where computer software copyright to be transferred overseas has already been registered with an appropriate software registration authority, the local MOFCOM office shall notify such software registration authority of the results of the examination in a timely manner. The software registration authority must not carry out change of ownership procedures for the computer software copyright in question in the event it is found to be non-transferable.

Where the IPR to new plant varieties is transferred overseas, the competent agricultural and forestry departments shall carry out the review, with emphasis on the impact of the proposed transfer on China's agricultural security, and in particular food security and seed industry safety.

b) Involving acquisitions by foreign inventors

The IPR Overseas Transfer Measures note that when conducting a security review in relation to mergers and acquisitions of Dom Cos by foreign investors, the relevant agency responsible for foreign investment security (i.e. MOFCOM) must, based on the categories of IPR to be transferred, transfer the relevant materials to the competent departments in charge of that type of IPR for their comments.

Similar to the above scheme, where patent rights and exclusive rights for layout designs of integrated circuits are involved, the competent department for intellectual property under the State Council will have responsibility; if computer software copyright is involved, the competent national department for copyrights will have responsibility; if new plant variety rights are involved, the competent departments for agriculture and forestry shall be responsible. The relevant competent departments shall then promptly review and issue written opinions to the relevant foreign investment security agency, which will make a decision based on relevant provisions and the written opinions.

Supplemental rules to be issued

The IPR Overseas Transfer Measures call for the relevant governmental

departments to formulate detailed rules on the review procedures and timeline, the required application documents, and the division of responsibilities as between the various departments.

Conclusion

The IPR Overseas Transfer Measures cannot be divorced from the wider, somewhat tense political and trade-related climate which forms the backdrop to China tightening up the procedures on technology exports. In a sense, nothing has changed, as the *Technology Import and Export Administrative Regulations* (the Technology Import and Export Regulations) issued by the State Council and effective 1 January 2002 have, since that date, imposed an approval requirement on the export of technology categories under the Restricted Export Technology Catalogue and a ban on prohibited category technologies being exported. However what has changed is the requirement to involve the relevant departments involved in a more formal, legally-defined manner. Presumably the idea being that they are more 'expert' in their fields and thus better able to assess the impact on national security and the development capabilities of sectors under their administration, neither of which concept is given any further shape or definition in the IPR Overseas Transfer Measures, but presumably remain somewhat malleable concepts that will evolve over time and with policy shifts. One concern is whether this lack of definition will lead to a risk-based, conservative approach for fear of making mistakes, particularly while the rules are in the 'running in period'.

It is noteworthy how the IPR Overseas Transfer Measures also link in the national security review process for certain acquisitions by foreign investors of Dom Cos (see our alert [here](#)) where IPR transfers will be considered as part of the national security review process, with the competent departments in charge being allocated responsibility for their sectors under administration, thus making IPR a prominent feature of the otherwise 'black box' process for national security review. This appears to be designed to ensure that when MOFCOM makes the final decision on national security review it has not overlooked this angle, and has inputs from those most able to judge the impact on national security. Perhaps the only piece of reassurance for foreign investors in this regard is the requirement that the staff of the competent agencies are required to maintain confidentiality with respect to trade secrets that they become exposed to as a result of their review.

What is very clear is that it is now going to become even harder for foreign investors to export the results of their R&D and other IPR-generating activities in China where they fall within "restricted" sectors (a well-advised foreign investor would presumably have started out with no expectation of overseas transfer in the case of a "prohibited" sector) and further delays can be expected as nowhere in the IPR Overseas Transfer Measures is there any mention of time limits for the review process, although presumably the overall process will be framed by, and will need to fit within, the process set out in the Technology Import and Export Regulations: the risk of the call for all of the competent authorities to produce their own detailed implementing rules is you end up with multiple inconsistent processes where it becomes a timing lottery, based on the category of IPR in question.

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