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Revisiting Intellectual Property Rights in Commercial Projects — from an Outbound Technology Transfer Perspective

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In the current complex geopolitical environment, Chinese science and technology enterprises are facing unprecedented challenges when going global. On one hand, China has to cope with concerns and restrictions imposed by various countries in terms of export control in multiple technology areas. On the other hand, there is an urgent demand for actively seeking technology export and rapidly converting long-accumulated technological advantages into economic value. In this context, how to rationally use and protect technological achievements and various intellectual property rights formed based on technological achievements in the process of outbound technology transfers and to deal with intellectual property risks have become issues that need to be paid attention to and urgently solved.

Thanks to years of rapid scientific and technological development and deepening globalization, Chinese technology enterprises have greatly enhanced their awareness of intellectual property rights and risk prevention. Most of these enterprises have established relatively sound risk early-warning systems and large-scale global patent layouts and some have experience in dealing with intellectual property disputes overseas. However, for a long time, in cross-border technology projects, Chinese enterprises have mostly sold products directly to overseas parties or introduced foreign technologies to domestic parties, while lacking experience in offshore deployment of technologies.

Whether a simple transfer or a licensing of technology to overseas parties or it is a transfer of technology and products overseas by establishing research and development centers or manufacturing centers overseas separately or jointly with a foreign party, the enterprise concerned will inevitably face issues such as technology transfer or licensing, joint/entrusted development, application/maintenance of intellectual property rights, handling of infringement risks, reasonable and proper implementation of the project, and intellectual property protection after the termination of the project. In this article, we attempt to seek an overall response through making a brief inventory of the specific intellectual property rights that may be involved during the project from the perspective of project implementation.

Organization of intellectual property

Technology offshore projects generally originate from the needs of enterprises to export and convert existing technologies. Therefore, accurately determining the scope of intellectual property rights of the

relevant technology and determining the way of output, pricing and protection on this basis is a prerequisite to ensure successful project implementation. The intellectual property involved in a project does not mean all the intellectual property of the enterprise concerned, even all the intellectual property in certain specialized technology areas of the enterprise. In order to carry out the project, it is necessary to sort out the existing intellectual property rights relating to the project from multiple dimensions, such as type, value, relevance, application scenario and ownership of the intellectual property, then determine the specific technology output methods, pricing and billing model and protection principles based on the results of such arrangement.

I. Assessing the value of intellectual property and its relevance to the project

First, determine the scope of relevant intellectual property rights. Specific products, overall technical solutions and key technical points that may be involved in the project should be broken down on the basis of the subject matter and technical purpose of the project, and the scope of intellectual property rights that may be used in the project should be defined by referring to the enterprise's existing intellectual property rights classification standards and achievements. These intellectual property rights can be divided into rights dedicated to the project and rights that can be used in multiple projects according to their degree of exclusive use in the project.

Second, determine the value of the intellectual property involved. A preliminary determination of value of intellectual property, especially patents, identified as possibly relevant to the project may be made by making detailed labels and general descriptions, and then make comprehensive assessment of their specific values from the commercial, technical, legal and other dimensions.

Finally, after the value of the relevant intellectual property rights and the degree of relevance to the project are preliminarily determined, appropriate arrangements can be made in terms of the manner of technology output, the necessity of subsequent improvements, the ownership, and the calculation of costs of related intellectual property rights in combination with the purpose of the project. For example, in technology licensing projects, it is common to use a license for specialized IP as the basis for variable fees and a license for shared IP as part of the base fee.

II. Clarifying the ownership of relevant existing intellectual property

Outbound technology transfers usually do not involve a single technology. Rather, such transfers involve a complete technical solution, which may involve a company's exclusive ownership of core intellectual property and basic intellectual property, intellectual property developed jointly or as commissioned by a third party, or the technology directly provided by a supplier. Therefore, in outbound technology transfer projects, especially in the projects in the automotive industry where the whole technology platform may be transferred, the ownership of the existing intellectual property rights must be clarified, and the intellectual property rights concerning third parties must be examined from the following perspectives during the outbound transfer:

First, determine the scope of third-party intellectual property that may be involved. Sort out the technical cooperation of third parties that may be related to the overseas project, clarify the ownership and use arrangements of the relevant intellectual property rights according to the corresponding

agreements and cooperation processes, search the specific intellectual property rights and determine their actual application when necessary, and assess whether there is an infringement risk against the third party and others in the use of relevant intellectual property rights in the overseas project.

Second, determine how to use such intellectual property in the overseas project based on the results of step one, above. If the third party's intellectual property needs to be used, a corresponding license should be obtained from the partner, and such circumstance, payment of fees and undertaking of responsibilities need to be expressly stipulated. In addition, we suggested that, based on necessity, alternative or circumvention plans can be considered and the intellectual property layout of relevant technologies can be supplemented to avoid hindering the subsequent progress of the project.

III. Categorize based on application scenario and type of IPR

It is also necessary to further categorize intellectual property rights based on the type and the specific application scenarios in the overseas project, and to determine the degree of protection of the IPR, necessity and difficulty of confidentiality, in order to arrange the strategy of the outbound transfer accordingly and to select the proper manner of the transfer, license or technical service. This categorization process considers the application, further research and development, protection, application and maintenance of the intellectual property rights after the outbound transfer, in addition to determining its value and relevance and clarifying the ownership of the intellectual property rights.

In terms of the types of intellectual property rights, the intellectual property rights that are transferred outbound include not only patented technologies such as authorized patents and patent applications, but also software copyrights, technical secrets and some non-patented technologies that may no longer meet the conditions for technical secrets. From the perspective of the specific application scenarios of the relevant intellectual property rights in the project, it may include not only the underlying algorithm of the relevant technology, the materials cited by the product, the specific structure and control, the manufacturing method of the product and other core technologies involved in production design, but also the supporting technologies for management and maintenance, such as processing technology, processing equipment, supporting software and quality control related technologies.

Layout of intellectual property rights

For overseas projects that carry out in-depth technical cooperation, in addition to the existing intellectual property rights, there will also be prospective intellectual property rights based on joint cooperative development or independent development by the partners, intellectual property rights arising from the supplementary layout of existing technologies, intellectual property rights related to technological achievements developed based on newly discovered problems in the process of project promotion, and defensive layout of intellectual property rights to deal with risks.

I. Basic strategy for IPR layouts

1. Further exploration based on existing technology

As the project progresses, the use of existing technologies may go beyond the scope of initial understanding, and the imperfections of the existing patent landscape will gradually be discovered.

For example, the patentable technical solution has not been fully explored, the original patent application scope cannot cover the relevant scope after the outbound transfer, and the technical solution that was originally to be protected by technical secrets needs to be patent protected as the project progresses. In this case, we can consider starting from the principle of actual protection, further supplement and explore the existing technology, refine the specific plan that can carry out the patent layout, and carry out the supplementary layout as soon as possible.

2. Layout of IPR based on project results

New technical solutions will be generated in the process of overseas implementation of a project, no matter whether a technology transfer/licensing or establishment of manufacturing or an R&D center established by multiple parties. These solutions may be based on the further research and development of the partners in the project, or they may be completed by the cooperation of both parties, or the party may form a new technical solution based on the understanding of the project that is not applicable to the overseas project. For these technical solutions, the relevant layout work can be carried out based on the agreed ownership between the two parties in the relevant agreement.

3. IPR layout based on patent analysis

To maximally ensure against the risk of intellectual property infringement and the lack of patent layout due to the technology going overseas, we recommended to analyze the patent layout and product and technical solutions of competitors and project partners in the relevant regions before the actual start of the project. Know yourself and the enemy by sorting out the characteristics of their core technology points and patent layout and starting to formulate the intellectual property layout accordingly. This ensures strong defenses to addresses disputes should they arise.

II. Factors to consider in the layout process

First, it is necessary to comprehensively consider the ownership agreement strategy that is in line with the party's own interests. In the process of technical cooperation, the intellectual property generated from the project is usually shared by both parties or the other party is exclusively licensed. Co-ownership is usually more conducive to the use of the technology, subsequent research and development, transfer and licensing, and rights protection, but it will increase the cost of technology mining, application, maintenance, etc. Especially in overseas projects, where the costs of IPR applications and maintenance are high, it may also be considered whether to allow the counterparty to hold the intellectual property and implement the project through license if the rights do not are not related to the future research and development direction of a party's core technology.

Second, we cannot ignore the issue of technology import and export in the process of transnational technology development. Whether it is China, the United States, Europe or other major technology export destinations, it is necessary to pay attention to the technical solutions that involve the joint research and development of foreign entities, the participation of foreign inventors in research and development, and the patent application of technical solutions generated in foreign countries to avoid giving rise to technology control issues. For example, it is necessary to comply with the confidentiality review of patent applications in the corresponding region, and the export of technology that has

obtained a license must comply with relevant regulations. In this regard, on the one hand, it is necessary for Chinese technology companies to continue to pay attention to whether the technology generated by overseas projects may trigger regulatory risks, and at the same time, it is necessary to clarify and regulate the personnel involved in R&D, the subject of R&D work and the place where it is completed.

III. Setting up overseas entities as intellectual property centers becomes optional

To avoid the risk of technology control caused by outbound technology transfers or overseas intellectual property layouts, it has gradually become an option for Chinese technology enterprises to consider setting up overseas entities as intellectual property centers or overseas R&D centers in Singapore and other places. Chinese technology enterprises can consider using this entity as an intellectual property center to hold the ownership of core technologies, which can disperse and avoid the technology control risks involved in overseas R&D and intellectual property layout activities, and also help to further transfer technology to entities in China and overseas partners or entities, so as to achieve a global layout of intellectual property rights and reasonable business planning.

The offense and defense of risk response

I. Responding to patent infringement risks with both offense and defense

As an effective means of predicting the risk of patent infringement, FTO analysis is almost a must, and technology companies usually have a wealth of relevant experience, so we will not further discuss it here. However, in practice, there are often some misunderstandings in FTO work, which leads to a significant reduction in the risk prevention effect. For overseas FTO work, first of all, it is necessary to accurately grasp the technical priorities that should be paid attention to, understand the important core technologies and carry out targeted retrieval and analysis on the basis of comprehensive decomposition and key screening of technologies, so as to avoid the inability to effectively respond to risks due to the large cost of blindly conducting large-scale FTO and the loss of clear goals. Second, after discovering risks, it is necessary to follow up on the countermeasures in a timely manner, and even if there is a situation where the risk of infringement is difficult to avoid and the target patent is difficult to invalidate, the impact of the significant infringement risk should be assessed, and the corresponding countermeasures should be actively considered.

In addition, to reduce the risk of patent infringement, it is not only necessary to take defensive measures passively, but also to consider stockpiling more patent weapons. Investing more resources in the layout of overseas intellectual property rights and having intellectual property advantages in self-owned technologies and related areas of cooperation projects can effectively play a deterrent role and reduce the risk of litigation.

II. Leakage of technical secrets and risk of infringement

Different from the protection of technical secrets in domestic projects, when facing trade secret issues in the process of going overseas, it is necessary not only to prevent the disclosure of one's own trade secrets, but also to avoid being involved in overseas trade secret infringement lawsuits due to

infringement of the trade secrets of the partner. On the premise of establishing a sound information management system and protection measures and systems, enterprises should accurately sort out the technical secrets related to the project, and manage their own trade secrets at different levels according to the importance of the technical secrets and the difficulty of confidentiality, and at the same time focus on strengthening the management and training of employees participating in overseas projects, supervise the entire process of employee onboarding, employment and separation, and prevent the risk of infringing on others' trade secrets overseas in combination with the relevant laws and regulations of the region where they are located.

Sound implementation of the project

The success of the overseas project depends not only on whether the two parties can reach an agreement and carry out cooperation, but also on whether the project can be implemented during the cooperation period; that is, whether the implementation of the project can meet expectations. This is often the hardest part to control but also the easiest to overlook at the beginning of a project. In practice, it is not uncommon for projects to fail due to disputes due to obstacles to implementation. In particular, cross-border dispute resolution is complex and time-consuming, and a dispute that requires the other party to perform reasonably usually means that the project has failed. Therefore, from the perspective that the project involves intellectual property rights, it is an important way to ensure the smooth completion of the project by designing reasonable performance standards in advance and strictly implementing them.

I. Specify the reasonable standard of delivery

As a technology exporter, the time, conditions, methods and scope of technology delivery should be clearly agreed upon and strictly implemented as agreed. The patented technology is usually delivered after the agreement takes effect, but for proprietary technology and technical services, it is usually necessary to consider whether it needs to be delivered in batches according to the progress of the project, and the other party pays the cost of the corresponding stages on this basis. As for the method and scope of delivery, reasonable restrictions can be made based on confidentiality and other considerations, for example, the delivery of software can be determined according to the actual situation of the project, whether the source code can be provided, or only the interface can be provided.

II. Limitations on technical support

The technology provider is obligated to provide the necessary technical support within a reasonable limit, but excessive technical support will cause a burden, especially for overseas cooperations, the cost of technical support is a consideration that cannot be ignored. In addition, the need to provide excessive technical support may also be caused by the partner's own insufficient R&D and production capacity, and the technical support in such cases should be reasonably limited.

First, it is necessary to clarify the results to be achieved by technical support and how to address circumstances where these results are not achieved, and to clarify the coordination mechanism to ensure that the specific plan and degree of support of technical support can be adjusted in a timely manner. Second, the extent of support should be set for technical services, and technical support should be limited to a specific duration, number of times and methods. Third, the exporter should

clarify the principle of bearing the cost and paying the cost of technical support, and should have the right to refuse or charge the corresponding fee for the request for free technical support beyond the extent necessary.

III. Preventing the cooperating party's delay in performance

Considering the complexity of outbound technology projects, the performance capability of the partner is affected by many factors, and there may even be cases where the technology recipient deliberately delays the performance of the contract after obtaining the technology. In this regard, the performance standards of both parties and the principles for dealing with the failure to perform should be specified. For example, the other party is required to meet the corresponding conditions for the implementation of the technology as scheduled, to ensure that the necessary administrative approvals and other formalities are obtained, etc., and to protect rights and interests by setting tiered rates, adjusting billing standards, and terminating the agreement in advance if the agreed output and sales targets cannot be achieved after reasonable delivery of technical guidance.

Intellectual property protection after termination of the project

After the termination of the project, the corresponding technology may have been mastered by the other party, and thus another issue the technology exporter must consider is how to effectively ensure the end of the project and prevent the other party from infringing or improperly using intellectual property rights.

First, from the perspective of preventing infringement, in addition to strictly requiring the other party to carry out the obligations of destroying and returning technical data and related equipment, semi-finished products, production lines, etc., reasonable confidentiality measures should also be taken to prevent the other party from obtaining technical secrets that are not disclosed to it during the project after the termination of the project. Second, make clear agreements on the use of technology in the process of selling, repurchasing and after-sales service of inventory goods at the time of project termination, and diligently undertake auditing after the project ends, so as to avoid the other party from improperly continuing to use its intellectual property rights through excessive inventory hoarding.

Summary

To sum up, in a technology overseas project, in addition to conducting due diligence on the intellectual property issues that the parties to the transaction are concerned about and agreeing through reasonable terms of the agreement, the actual intellectual property issues that may be faced during the implementation of the project should also be fully considered. Chinese technology enterprises should pay attention to intellectual property issues from the planning stage of the project to the end of the project, ensure that the technological achievements can be reasonably developed, protected and applied, and maximize the benefits while avoiding disputes and risks to the extent possible.

Important Announcement

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