DAVID W. HILL

David Hill is a partner in the Washington, D.C. office of the Intellectual Property law firm of Finnegan, Henderson, Farabow, Garrett & Dunner, LLP. He has been an attorney with that firm since 1977. He received his undergraduate education at the U.S. Military Academy (1969), an M.S. degree in Business Administration from Boston University (1974), and both a J.D. degree and an LL.M. degree with Highest Honors in Patent & Trade Regulation Law from George Washington University (1977, 1981). He was a Technical Advisor at the U.S. Court of Customs and Patent Appeals (C.C.P.A.) from 1976-77.

Mr. Hill is the author and coauthor of numerous publications in the intellectual property field, including the chapter on Licensing Activities in " A Practical Guide to Foreign Investment in the United States," BNA International Inc., 1979, 1982, 1988, and "Chinese patent law: recent changes align China more closely with modern international practice," Geo. Wash. J. Int'l L. & Econ. 359, 1993/1994.

From 1986 to 1989, Mr. Hill was resident in Tokyo, Japan, where he managed his firm's Tokyo Office, and was licensed as a Gaikokuho Jimu Bengoshi (Foreign Lawyer). He is a member of the District of Columbia Bar in which he has formerly served as a member and as Co-Chairman of the Steering Committee of the Intellectual Property Law Section. He is a member and past Chairman of the U.S. Bar/Japanese Patent Office Liaison Council. He is also a member and past Chairman of several Committees of the American Intellectual Property Law Association (AIPLA), and presently serves as Vice-Chair of the International & Foreign Law Committee. He is a member and past Co-Chairman of the AIPLA Japan Practice Committee. Mr. Hill is a member of INTA, and has been a Committee Chairman in the Federal Bar Association, and the American Chamber of Commerce in Japan. He currently serves as Chairman of the Nominating Committee for the Brand Names Education Foundation Board of Governors. He has been a frequent speaker in the U.S. and other countries on various aspects of Intellectual Property practice, has been a lecturer for the Patent Resources Group, and has served as a Mediator and as an Arbitrator for the American Arbitration Association.

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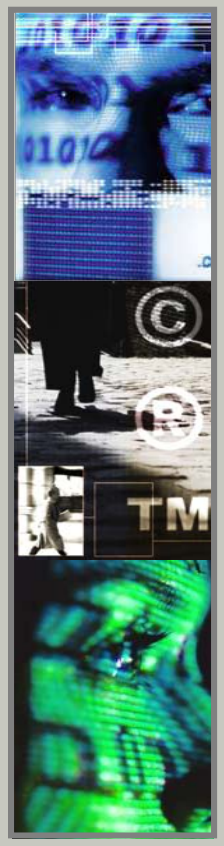


Licensing in Asia

Franklin Pierce Law Center
Advanced Licensing Institute 2005

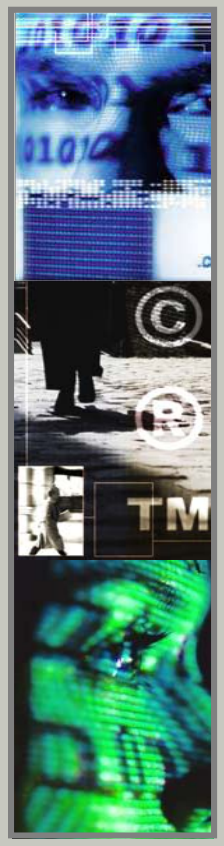
David W. Hill

Chinese Laws and Regulations That Affect Technology Transfer



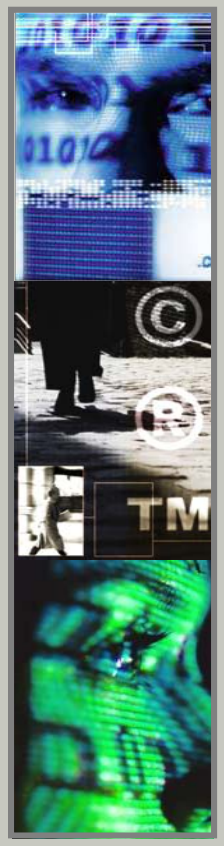
- As a result of China's entry to the WTO, it modified the existing laws and regulations to ease restrictions on foreign technology transfers
- Uniformed Contract Law (1999)
  - Replaced the old Economic Contract Law, Foreign Economic Contract Law and Technology Contract Law
- The Regulations on Administration of Technology Import and Export (2002)

Major Changes in the Uniform Contract Law That Affect Technology Licensing



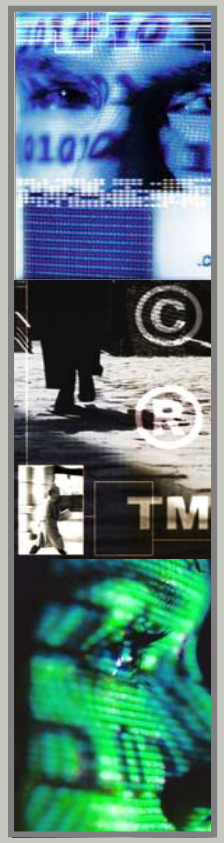
- Fault Liability Provision – allows a party to collect compensation for damages caused by the other party
- Validity-Pending Contract Rule – allows a license be ratified by the principal, if a contract was entered by a person lacking proper authority
- A license can be modified or rescinded if it was
  - Made under substantial misunderstanding
  - Unfair to one party
  - Made by deceit or coercion
- Anticipatory Breach of Contract provision
- Statue of Limitation – extended to two years

MOFCOM and the Regulations Governing Foreign-Related Technology Licenses



- MOFCOM (Ministry of Commerce) was established in 2003 to replace the MOFTEC and the SETC
  - Regulating authority of technology import and export
  - Approves and registers technology licenses
- *The Regulations on Administration of Technology Import and Export* (2002)
  - applies to all cross-border transfers of technology, including the assignment and licensing of patents, technological know-how and technical services
  - Divides technologies to be imported/exported into three categories: permitted, restricted and prohibited
  - MOFCOM periodically updates the list of technologies in each category

Government Approvals and Registrations



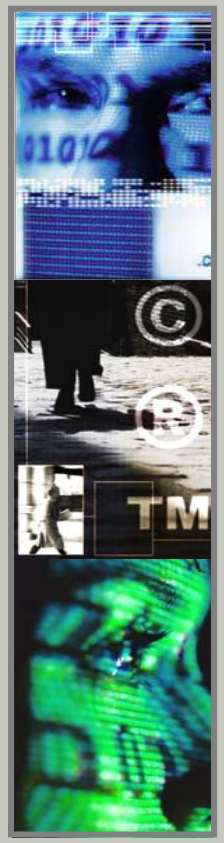
Approval:

- Importing/exporting of a restricted technology needs MOFCOM approval
  - MOFCOM considers the contract's affect on Chinese foreign trade policy and public interest
- After MOFCOM's preliminary approval, parties submit signed agreement for final approval

Registration:

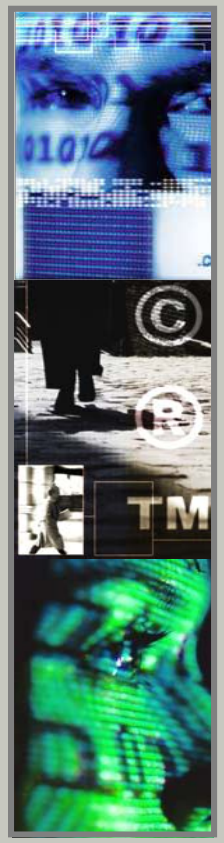
- All technology import and export agreements must be registered with MOFCOM
- MOFCOM reviews the contract terms prior to granting registration
  - A contract containing unreasonable restrictions and anti-competitive terms is not allowed
- Patent licensing agreements involving Chinese patents must also be recorded with the State Intellectual Property Office (SIPO) within three months after their effective date

Licensing Issues Under the Regulations



- The new regulations allow the parties to determine the duration of the license, except
  - Patent licenses cannot exceed the patent term
- Royalties
  - Parties are free to decide the royalty structure and amount
  - Illegal to make royalty payments after the expiration or invalidation of a patent, copyright or trademark
- No grant-back
  - Ownership of improvements in technology belongs to the improving party (this provision may change soon to allow free negotiation by the parties)

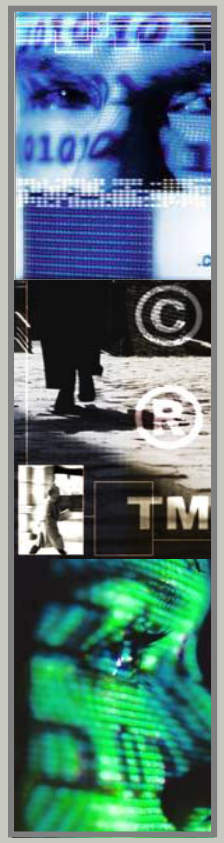
Licensing Issues Under the Regulations



- Warranty and indemnification
  - Parties may freely negotiate warranty clauses
  - Mandatory indemnification clause – requires the assignor or licensor to warrant that it is the "*lawful holder*", or "*authorized*" assignor or licensor of the technology and that the technology is "*complete, error-free, valid, and capable of accomplishing contracted technical objectives*."

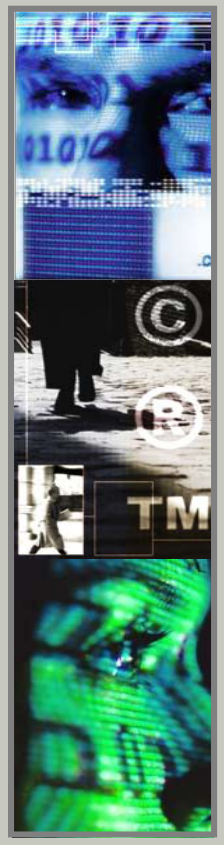
- Taxation
  - Income received by a foreign licensor or transferor is subject to a 10% flat income tax
  - Foreign licensors are exempt from business tax for income received from technology transfer, technology developments, and technical consulting services

Technology Transfer Laws of Japan



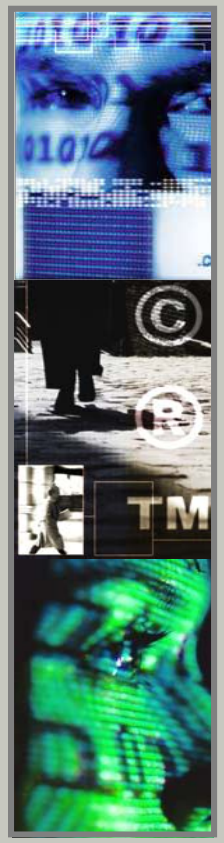
- Two types of technology licenses
  - Legal licenses – stipulated by the Japanese Patent Law
    - Nonexclusive license to an employer
    - Prior user's right
    - Compulsory license
  - Contractual licenses – ordinary contracts that result from private negotiations
    - Courts generally do not impose implied duties
    - Parties should make all obligations and rights explicit

Registration Requirement



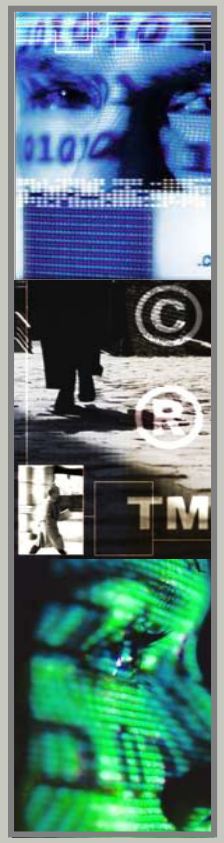
- An exclusive license must be registered with the JPO
  - Only the licensee to a registered exclusive license can enforce the patent right against third parties
- Licensor may always sue for injunctive relief; but may not sue for lost profits if the exclusive license was registered
- If the license is nonexclusive, the licensor may sue for lost profits suffered by the licensor and the licensee(s)

Tax Consequences



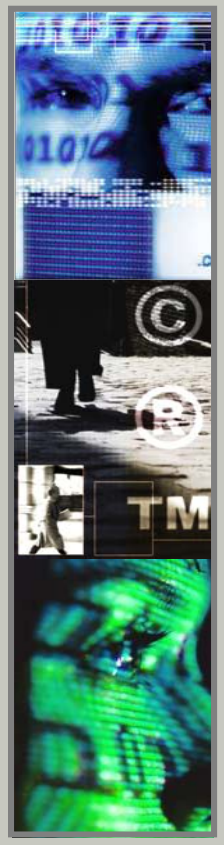
- Payments for the use of intellectual property rights are taxable income (at a flat rate of 20%)
  - May be reduced to 10% if the licensor resides in a country with which Japan has a double taxation treaty
- But only payments for the use of a Japanese intellectual property right are taxable
  - Licensing payments for using a foreign patent in Japan are non-taxable
  - Only need to pay taxes on payments for the use of the IP right, not other payments in the contract

The Japanese Anti-Monopoly Act



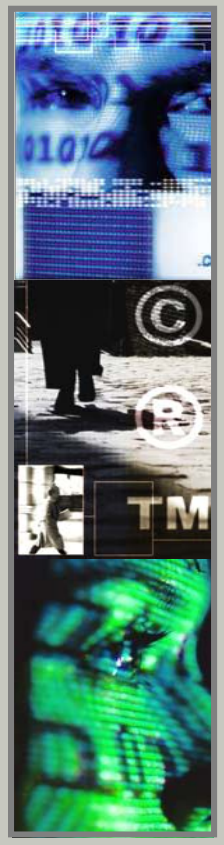
- A technology transfer agreement must not contain provisions that unreasonably restrain trade or constitute unfair trade practice
- An international license agreement lasting more than one year must be reported to the JPFTC
- The Guidelines for the Regulation of Unfair Trade Practices specifically address the treatment of patent and know-how licensing agreements under the Antimonopoly Act
  - Outlines the types of restrictions that violate the Act
  - Examples of illegal terms:
    - Requiring a licensee to pay royalties after patent expiration
    - Requiring a licensee to license a patent unnecessary for the technology involved
    - Requiring a licensee to assign rights to improvement inventions without compensation
    - Imposing restrictions on the licensee's research capacity

The Foreign Exchange and Foreign Trade Act



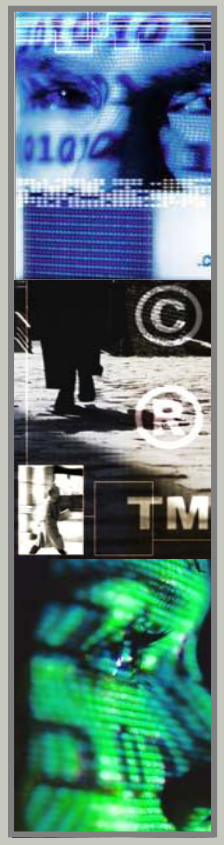
- Governs all foreign transactions in Japan
- Requires parties to a foreign technology license agreement to give prior notice to the Ministry of Finance for certain sensitive technologies
- Requires the parties to these agreements to submit a report three months before the transaction if
  - The amount of payment > 100 million yen
  - The transaction involves cross-licensing, or
  - The recipient of sensitive technology provides it to its subsidiaries
- Contracts become effective only after the Ministry of Finance approves the technology transfer agreement

Technology Transfer Laws of South Korea



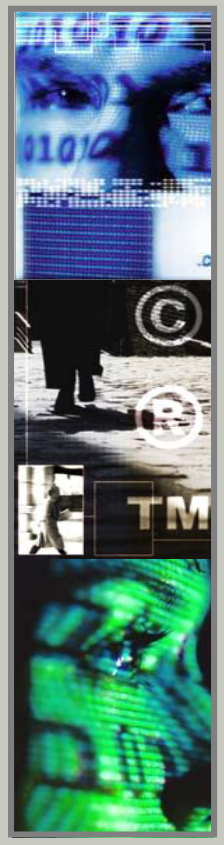
- Foreign Investment Promotion Act (FIPA) regulates all foreign investment in South Korea
- The Ministry of Finance and Economy and the Ministry of Trade, Industry, and Energy jointly oversee the FIPA
- FIPA requires agreements transferring technologies be reported to the ministries if the duration of the agreement is one year or more, and if
  - The license agreement involves the transfer of advanced technology identified by the Ministry of Commerce, Industry and Energy
  - The licensor wishes to take advantage of certain tax exemptions
  - The licensed technology is an aerospace technology listed in the Aerospace Industry Development Promotion Act
  - The licensed technology is a defense technology listed in the Special Measures for the Defense Industry

Registration Requirements



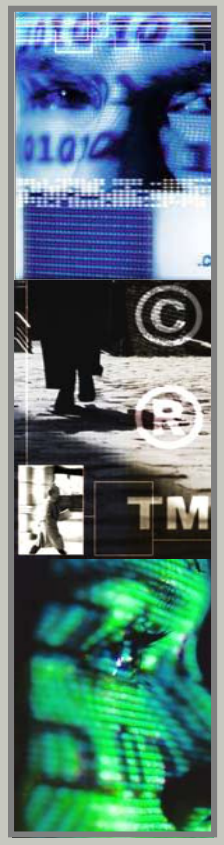
- A nonexclusive license agreement is legally binding upon signing
- An exclusive license must be registered with the Korean Intellectual Property Office (KIPO)
  - An unregistered exclusive license would be considered a nonexclusive license
  - Only the licensee to an exclusive license can enforce the intellectual property right

The Monopoly Regulation and Fair Trade Act



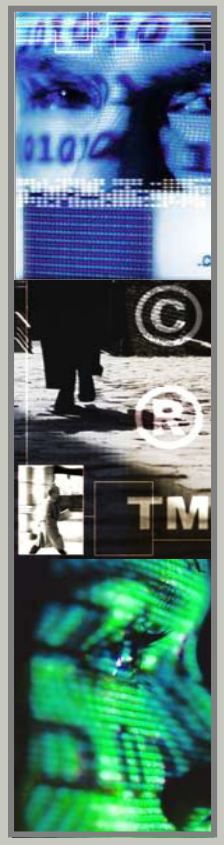
- Prohibits Korean businesses from entering into international agreements containing provisions that constitute anti-competitive practices
- A party to a license agreement may request the Fair Trade Commission (FTC) to review the agreement
- Request must be filed within sixty days after the execution of the agreement
- If the FTC finds violation, it may order the parties to modify or cancel the agreement

General Tips for Negotiations in Asia



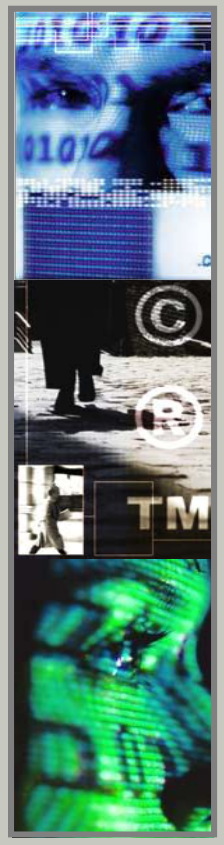
- Be Well Organized and Prepared
  - Develop a clear strategy before negotiation
  - Assemble a team, including a high-level decision maker and an experienced technical person
- Be patient
  - Understand the bureaucratic chain of command
  - Takes time because Asians generally prefer personal relationships (“Guan Xi”)
- Know How to Communicate
  - Sometimes Asians prefer indirect communication

Chinese Negotiation Style



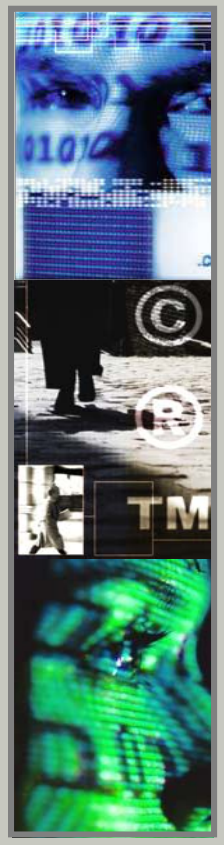
- Three stages of negotiation process
  - Pre-negotiation stage
    - Assess the trustworthiness of their foreign counterpart and to learn about the technology
    - Government lobbying
  - Formal negotiation
    - Anticipate low-price offers and intense competition
  - Post-negotiation
    - Negotiations are ongoing - extending beyond the signing of a contract

Japanese Negotiation Style

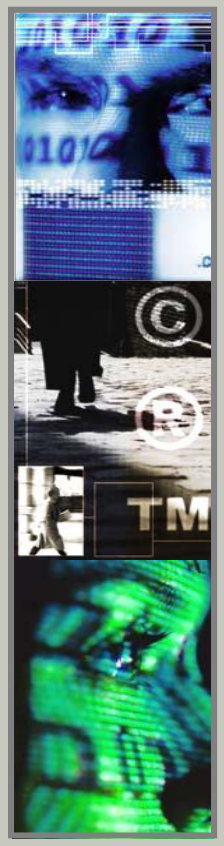


- Generally should start with an introduction from an “introducer” or a go-between
- Develop a personal relationship of mutual trust and respect
- Multiple levels of executives involved in a business negotiation

South Korean Negotiation Style



- Begin negotiation with a series of informal meetings to get to know the other party on a personal level
- Expect ongoing concessions even after agreements are reached
- Prefer to prolong the process rather than breaking off negotiations ("keul she" – "We will think about it")
- Use last-minute concessions as a negotiation tactic



Thank You !