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Issues and resolutions in practice for multi-national IPR license agreement

Eric Su, HongFangLaw, has investigated disputes related to the multi-national trademark or other IPR license agreement, thus discovering – and outlining here – several universal legal issues among these agreements, which prevents them to be presented in Chinese courts of law.

The major and more obvious issue shall be the clause of application of law and jurisdiction (court venue). According to the multi-national large-scale intellectual property licensing agreements reviewed by the author, no matter if the case is based in the fashion industry, involved in physical objects, or in the high-tech industry involved with patent and know-how, the agreements usually suggest that the applicable law and the jurisdiction shall be in the territory of the licensors (out of China). The author herein does not agree with such provision. Such provision can potentially make the clients happy, but it does not really stand for the licensor's interest. For example, let us take a case where there was a license agreement between a UK patent owner and a Chinese licensee. The agreement provided that "the validity, construction and performance of this Agreement shall be governed by the English and Welsh law and shall be subject to the exclusive jurisdiction of the English and Welsh courts to which the parties hereby submit." The author understood that such provision was based on the licensor trust and familiarity of its domestic law and legal procedure, and the UK Party should be happy to accept such provision and that the lawyer's job was, in theory, well done. The author would like to suggest to the lawyer that, someday if the licensor wants to terminate the agreement in advance, but would be rejected by the

licensee, what could happen? If the licensor launched a lawsuit with the Welsh Court and obtain a favorable Court Decision? Then would the licensor go to China in person to execute the Decision? Alternatively, would he ask the competent authorities (like Trademark Office or Patent Office) to cancel the licensing record? But, is there any Judicial Assistance Treaty between UK and China that the Chinese court shall admit and execute the UK Court's Decision? If the answer is no, then what is the significance of such provision of law and jurisdiction? To say the least, if the licensor gives up the action in UK and files the lawsuit with the Chinese court to terminate the Agreement, this would end up even worse.

It can be suggested that the licensee would file the objection against the court jurisdiction because the Agreement has already appointed the court venue, and the Chinese court of course shall reject to accept the case. Without the effective court judgment, the licensing record with the IP authority shall not be cancelled, and the licensee will be "legally allowed" to keep using the trademark or the patent. Even if the licensor takes the raid with the local trademark office or the patent office, the officials will suggest the Licensor to gain an effective court decision on the civil contract issue, or they cannot hold the infringement to be constituted by the licensee.

Three years ago, there was a case involving a US fashion brand: the licensee did not pay the royalty in time based on "unsafe right of defense", because the licensor developed several sub-brands of the licensed mark and wanted to make more money from other new licensees, and a rumor that the Licensor was supposed to sell the brand to a Japanese company. After several rounds of friendly negotiation, the licensor refused to reduce the licensing fee and provide promise that it would not sell the mark within one year and terminated the agreement in advance. However, the licensee refused such termination and just kept appointing OEM factories to manufacturing the shoes and garments – the thousands of local distributors also supported the licensees as well. The licensor subsequently failed on the trademark infringement enforcement and shopping mall complaints. So, to block the distribution, because the

Résumé

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licensee still had the Notice of Recordation of Trademark License issued by the Trademark Office, the licensor had to deal with terminating the Agreement first and this constituted a major problem. The Agreement, in fact, provided that the jurisdiction on the termination issue should have been handled by the Chicago court, which had no power of direct enforcement over the Chinese licensee. As far as I know, the cases have not yet been successfully filed with the Chinese court.

The second major issue is about the legal format of the license agreement. Generally speaking, if the agreement is concluded between two domestic parties, it shall be signed and executed according to the domestic law and procedure. However, as far as a multi-national agreement is concerned, different countries have different provisions and cultures, thus the legal format of the agreement shall be different.

Especially in China, evidence that exists overseas or is written in foreign language shall be notarized in the foreign country and legalized by the Chinese embassy or the court cannot determine whether the agreement is legally authenticated and effective. Usually the foreign party just signs the name of the legal representative of the Party, but who is this signatory? Sometimes, Chinese lawyers cannot read the name of the signature or understand whether the signatory was authorized or not. The court has to determine such facts. An example of this comes from last year, 2015, when there was a trademark infringement lawsuit in Anhui Province. Although the licensee proved the payment of the royalty and the original of the license agreement, the attorney denied the authentication of the agreement because there was only a signature of the licensor. The lawyer argued that anyone could imitate the signature or sign the name on the agreement. It can be suggested that such 'evidence' would probably be unreasonable in the UK, but they are real in China. The licensee lost the lawsuit because it could not prove the authentication of this agreement.

In such circumstances, the signatories of both parties should be notarized first at the public notary office, where they can check the ID, position and authorization of the signatory, and then have them legalized by the embassy. Although it will increase the signature cost, the safety of the transaction is always preferred.

One more issue that is common is that the licensor sometimes forgets to pursue its intellectual property portfolio in China or in the licensed territory. Often, the licensors aggravate the licensee's liability but just exclude their contract liabilities. They believe that since they do not have any affiliates or branch office or any other property that can be executed in the licensed territories that they sometimes breach the agreement at will, because they assume that they can just leave the liability and walk away. However, reality is quite different from this. The IP license agreement is based on the IP rights, no IPR means no license; the licensee can still have many things to do. This year one Italian licensor had to deal with the freezing of its registered luxury trademarks in China. The ex-licensee sued it in Shanghai court and applied the court to freeze its trademark assets in classes 18 and 25, the worst was that the trademarks were pending for assignments to a new owner and when the Trademark Office received the court's freezing notice, it refused the assignment. It was a disaster. The licensor should have reviewed the risk of its IP portfolio before transferring the IP or find a new licensee. The freezing of the IP asset means that the court may auction the IP rights and restrain the proprietor to execute its right.

Other recurring issues are about some standard clauses, such as: the licensee shall not challenge the intellectual property of the licensor on the validness of the IP; no opposition or invalidation causes must be filed; no improvement should be made on the IP, etc. As we know, the intellectual property law also aims to protect the public interest and promote the development of the science and technology, this is the most important principal of IP laws, so such restraint on the rights of licensee shall violate this principal and the court usually holds that such clauses are invalid.

In conclusion, the author would like to suggest the legal counsel or attorney, whether from the side of licensor or licensee, to break through its inherent aggressive thought on the draft of the licensing agreement, to ensure the clients can reach a good deal that can be executed by law, in both the country of the licensor and licensee.