



Australian Government
IP Australia



Delivering a world leading IP system

Guide to Intellectual Property in Research Collaborations in China



Contents

1. INTRODUCTION

2. CHOOSING THE RIGHT FORM OF COLLABORATION

3. APPROACHING POTENTIAL PARTNERS

4. PREPARING FOR THE COLLABORATION

5. WHAT A GOOD R&D COLLABORATION AGREEMENT SHOULD COVER

i. IP ownership

A) Ownership of improvements or achievements

B) Ownership of IP created with external funding (particularly government funding)

ii. Project objectives and success criteria

iii. Commercialization

A) Commercializing the IP produced by your China R&D collaboration

B) Commercializing R&D results owned by a Chinese university

C) Commercializing the IP produced by your China R&D collaboration in other markets

a) Obtaining patent protection in other markets for IP produced in China

b) Approval for technology exports

iv. Sending revenue out of China

v. Tax considerations

6. EMPLOYEE INVENTORS – MANAGING COMPENSATION PROGRAMS

7. DATA

i. Scientific data

ii. China Cybersecurity Law

Checklist

1. INTRODUCTION

Australian researchers collaborate extensively with Chinese partners, with Chinese researchers co-authoring increasingly more papers with Australians. In addition to research collaborations, Australian research institutions and innovative companies often engage in commercial partnerships with Chinese partners.

A successful collaboration or partnership is one that not only yields research outcomes and publications, but protects the intellectual property (IP) produced by the Australian party. This can be a challenge for any international partnerships, including collaborations with Chinese partners.

It is important for Australian research institutions and companies to consider differences in the culture and legal system, as well as government control of technology, before initiating substantive collaboration with China partners. This guide explores common pitfalls Australians face in China, and explains how to use legal agreements as a framework for successful collaboration.

2. CHOOSING THE RIGHT FORM OF COLLABORATION

Australian research entities need to firstly consider the form of collaboration they are seeking based on their resources and goals. In general there are two kinds of R&D collaborations relating to technology development: commissioned developments and joint developments.

Commissioned developments

In a commissioned development, one party (the Commissioner) appoints another party (the Developer) to carry out R&D in a particular area. The Commissioner provides funds or remuneration for the R&D. The Developer is responsible for R&D work, including delivering the agreed results to the Commissioner. The two parties may decide to either jointly own IP rights in the research achievements, or agree for the Commissioner to own all IP rights in the achievements. In either case, the Developer takes on all the project risk and is responsible if the project does not meet its objectives or produce a result.

Commissioned developments may be suitable if the Commissioner has funds to fully support the R&D but lacks know how, capabilities, or other non-financial resources that are necessary to carry out the R&D work; and/or wishes for the Developer to bear all the risk of the R&D project failing to achieve its objectives.

Joint developments

A joint development involves two or more parties jointly contributing to, and participating in, the R&D. All parties fund and contribute to the R&D and they jointly share the benefits, as well as risks, if the project fails to achieve its objectives.

Joint developments may be suitable if the Commissioner is unable or unwilling to fund the project alone and/or wishes to combine their know-how, capabilities or other resources with those of the Developer in order to carry out the R&D.

3. APPROACHING POTENTIAL PARTNERS

When approaching potential partners for an R&D collaboration it is common to initiate an informal dialogue to gauge their capabilities and potential interest. During this phase it is best to limit the disclosure of information on the specifics of the technology and intended collaboration. If there is mutual interest and trust then the next step is usually for the potential partners to sign a non-disclosure agreement (NDA) in order to set up a safer framework to discuss and negotiate the key issues for the collaboration. If you decide to proceed with the collaboration, the next step is usually to negotiate and execute a brief framework agreement, which sets out the key terms of the intended collaboration. If all parties to the partnership are aligned on these key issues then they will go on to negotiate the detailed R&D agreement.

Keep in mind that a NDA only provides a remedy if there is an unauthorised disclosure. It does not prevent the mishandling of information, and cannot address all the commercial consequences of a disclosure. Even with an NDA in place, you should limit the disclosure of sensitive information.

IP Australia has a template non-disclosure agreement suitable for research collaborations in mainland China available to Australian stakeholders on request. The template agreement is a starting point only, and will need to be adapted to your specific circumstances with the assistance of a China-qualified lawyer. You can request the document by emailing MDB-IPCounsellor-China@ipaaustralia.gov.au.

4. PREPARING FOR THE COLLABORATION

It is important that Australian entities carry out basic background checks on Chinese partners before signing any agreements or making investments.

Some areas of research and technology are highly regulated in China, and your partner may need specific licences or regulatory approvals. Working with partners who do not have necessary licences and approvals increases the risk they will not be able to meet their contractual obligations. Once a project has moved ahead it can be difficult, expensive, and time consuming to resolve issues that could have been avoided or managed had they been known at the outset. It also increases the risk of penalties from the authorities. Regulatory clearances and approvals can seriously impact the overall feasibility of a project – you can read about the University of Oxford’s experiences in case study 1 below.

You should aim to verify key information on the other party for yourself, not simply rely on the information they give you and the claims they make. Although there are some publicly available registers and resources that can be viewed online, much of this information is in Chinese only and can be difficult to access outside of China. Consider engaging a law firm with offices in China to carry out these background checks (also known as due diligence).

Particular issues to look out for include:

- the quality and exclusivity of the rights that your partner brings to the venture;

- the identity of the party you are working with and whether it matches up with the party named in the contract, permits, grant documents, licences, etc; and
- the risk of potential 'claw-back'.

'Claw-back' is the right of an employer to claim ownership of an invention produced by a former employee within one year of the departure of the employee. The invention must relate to responsibilities from the employee's previous employment. Claw-back is a feature of China's Patent Law. If you hire R&D staff from another company or organisation to work in a similar research area then you may risk losing ownership of any invention the employee produces during their first year of employment. Asking prospective employees about the nature of their work for their former employer may help you evaluate the risk of potential claw-back claims.

5. WHAT A GOOD R&D COLLABORATION AGREEMENT LOOKS LIKE

A well-drafted legal agreement will clarify the expectations on both parties, reduce ambiguity and uncertainty, and give a collaboration the best chances of success. A good R&D agreement will carefully address key issues including IP ownership, project objectives, the criteria for assessing success, how the results will be commercialized, and payment.

IP Australia's Guide to Contracts in China provides tips on how to ensure that your contracts in China, including R&D collaboration agreements, operate as intended. Download the guide at <https://www.ipaustralia.gov.au/china>.

i. IP ownership

A) Ownership of improvements or achievements

One of the most important considerations for a R&D agreement is the ownership of any new IP produced by the project. This includes both improvements to the IP of one party that was licenced for the project, and IP relating to new achievements.

If the agreement is unclear as to who should own the IP in an improvement or new achievement, then the default position is that the party who created the improvement will own the IP rights in the improvement (including the right to file a patent). If the IP was created with joint input from both parties, it will be jointly owned. Therefore it is critical to clearly address this issue of IP ownership within the R&D agreement.

Parties are free to negotiate the ownership of IP as long as the agreement complies with China's Anti-Monopoly Law and Contract Law and related regulations. These laws include provisions that prevent the dominant party from unfairly abusing its superior negotiating position to claim ownership of IP. If one party wishes to have full ownership of IP that is created by a project, they should ensure that the agreement reasonably compensates the other party for ceding ownership. The standard and nature of what would be considered 'reasonable' varies in each case, but may include one or more of payment, a free licence to use the IP, services, or more favourable profit sharing. Regardless of how a party is compensated for giving up ownership of IP, the agreement should expressly acknowledge that all parties agree the compensation is "reasonable consideration".

Joint ownership may seem like a fair arrangement, but from a commercial perspective, it is generally best to avoid. Joint ownership of IP easily triggers disputes on how to exploit or commercialize technology and share the profits. For example, if IP is jointly owned, it is necessary to obtain the consent of all joint-owners in order to assign/sell the technology or grant an exclusive licence. It is often better to persist in negotiations to settle on agreed reasonable compensation for one party to be the sole owner of the IP.

B) Ownership of IP created with external funding (particularly government funding)

Be aware that accepting external funding for a project usually comes with certain conditions, such as restrictions on the ownership and/or use of IP generated from the collaboration. Chinese government funding is often (but not always) tied to a requirement that the Chinese party obtains ownership of all IP generated. This requirement is most commonly seen in situations where the leading party in the project is a Chinese university or research institution. Funding may not be released unless the research agreement stipulates Chinese ownership of all IP generated.

In these circumstances there may still be ways to reach an arrangement acceptable to both parties. For instance, ownership and rights of commercialization in different territories may be divided between the parties, with the Chinese party retaining rights in China and the non-Chinese party owning IP or exploitation rights in other territories. It may also be possible to transfer IP ownership to the foreign party if reasonable compensation is provided, as discussed previously. Alternatively, an exclusive licence may also provide the desired benefits of ownership.

Negotiating IP ownership arrangements may sometimes delay obtaining government funding approval. It may be possible to address this situation by reserving detailed IP ownership arrangements for a subsequent supplementary agreement to be negotiated once the parties have navigated the funding process.

The type and feasibility of different ownership structures and supplementary agreements is highly dependent on the specific circumstances of each project. You should seek independent legal advice on how to structure IP ownership in projects involving public funding.

ii. Project objectives and success criteria

It is important for all parties to be aligned at the outset about the objectives for the collaboration and the precise criteria to be used in assessing whether those objectives have been met (success criteria). The process of laying out detailed success criteria can also assist in assessing whether objectives are realistic in view of each party's capabilities and resources.

In addition to setting out the objectives and success criteria in detail in the R&D agreement, it is best to annex a statement of work and performance milestones as

exhibits (attachments to the agreement). This is both sound project management practice as well as helpful evidence in case there is a dispute. A statement of work sets out project activities, deliverables, resources, and timelines. Lastly, the consequences of failure to meet success criteria should also be specified, particularly if you want to have more options than just termination.

An example of a straightforward success criterion in the pharmaceutical industry is obtaining government marketing approval. If a drug fails to obtain the required government approval within a defined period of time the project would be considered to have failed.

iii. Commercialization

A) Commercializing the IP produced by your China R&D collaboration

The end goal of many R&D collaborations is the commercialisation of the technology and related IP in order to generate revenue. Commercialisation rights in different territories may be assigned to one party (with reasonable compensation for the other party), or divided between the parties. For example, the Chinese party might retain rights in China and the Australian party retain rights in other territories including Australia.

B) Commercializing R&D results owned by a Chinese university

Chinese universities and research institutes are limited in their ability to directly commercialise the results of their research, and it is common for them to transfer their commercialisation rights to an affiliated holding company. If commercialisation is a goal of your research collaboration, you may need to include the holding company in your due diligence, including reviewing agreements between the Chinese university and the holding company to verify who owns the commercialisation rights. Both the party with the IP rights and the party with the commercialisation rights should be parties to your agreement.

C) Commercializing the IP produced by your China R&D collaboration in other markets

It is important to be aware of, and prepare for, certain limitations on the ability to export and commercialize the IP produced by your R&D collaboration in China.

a) Obtaining patent protection in other markets for IP produced in China – foreign filing licence requirements

If you intend to protect and commercialize IP created in China in other countries it is important to consider security review issues. China's Patent Law requires patent applicants to pass a security review known as 'confidentiality examination' before they apply for patent protection outside of China for an invention or utility model that was substantially created in China. No confidentiality examination is required if the patent is only filed in China or the patent involved

is a design patent. The China National Intellectual Property Administration (CNIPA) will conduct the confidentiality examination.

The policy rationale behind this security review requirement is the protection of national security and state interests. This requirement is comparable to the foreign filing licence requirements imposed by the USA and a number of other countries. For more on the situation in other countries, see https://www.wipo.int/pct/en/texts/nat_sec.html

There are three situations requiring confidentiality examination:

- if an invention/utility model is substantially created in China and you wish to file for patent protection directly in a foreign country. You must file the request for confidentiality examination in advance with CNIPA and describe in detail the related technical solution.
- if you have already filed a patent application (either invention or utility model) in China and then wish to extend protection to a foreign country, you must file a request for confidentiality examination with CNIPA before either filing a PCT application or a national application under the Paris Convention in another country.
- if an application is filed in China as the basis for an international patent application (PCT). CNIPA will automatically conduct the confidentiality examination.

Failing to undergo confidentiality examination before applying for patent protection in other countries can have serious consequences for your IP rights in China. It is likely the patent application will be rejected in China, thereby impacting your ability to protect and commercialise the invention in China. Sanctions or criminal liability may also be imposed in serious cases.

The responsibility and costs for obtaining security clearance should be dealt with under the agreement. These issues should also be factored into any commercialization or funding plan, particularly if the R&D is focused in more sensitive areas.

b) Approval for technology exports

Commercialisation arrangements may involve transferring ownership of a patent or patent application from a Chinese entity to a foreign entity. It is important to understand that Chinese law classifies this change in patent ownership as a technology export.

Chinese law regulates both technology exports and imports. A technology export or import may be restricted or prohibited based on how the relevant technology is classified under the Technology Export Catalogue or the Technology Import Catalogue (the Catalogues). The three categories are:

- Prohibited technology - export (or import) is forbidden.

- Restricted technology - can only be exported (or imported) if government approval is granted and the transfer agreement is registered with the local branch of the Ministry of Commerce.
- Non-restricted technology - may be exported (or imported) once the Chinese entity records the transfer agreement with the local branch of the Ministry of Commerce.

In addition to receiving technology export approval, the assignment of the relevant patents must be recorded with CNIPA in order for the transfer of rights to be legally effective in China.

There can be significant legal and commercial consequences if a technology export occurs without the required export approvals. CNIPA will be unable to record the change of ownership of the patents, and they will remain the property of the Chinese entity, regardless of the agreement between the parties. In addition, under China's foreign exchange controls, banks require certain documentation in order to approve offshore fund transfers. Without CNIPA documentation to provide evidence of patent ownership, it will significantly affect remitting royalties or other income relating to those patents.

Technology import and export regulations, including the Catalogues, only apply to cross-border transfers of technology. A foreign entity's incorporated Chinese subsidiary is considered a domestic company and is therefore not subject to the same requirements as a conventional overseas entity.

If you are considering a transfer of patent ownership from a Chinese to foreign entity, you should make sure you engage experts to review the feasibility of your proposed arrangement. Obtaining export approval will be a fundamental issue for the overall deal and its structuring. In addition, the costs and obligations to apply for export approval should be factored into your negotiations.

iv. Sending revenue out of China

If your commercialization strategy succeeds then it is likely that you will need to repatriate funds back to Australia. Due to China's foreign exchange controls, any funds that are sent out of China must be structured to show a legitimate source. There are three main ways to remit funds from commercialisation:

- **IP Licence royalties**
This is the easiest and most widely used method for a foreign party to repatriate funds, particularly for parties that have not set up a legal entity in China. The IP licence agreements must be recorded with CNIPA. When structuring the royalties, it is common to consider setting a minimum annual licence fee plus a royalty rate based on sale volumes and turnover.
- **Dividends**
This is a long-term approach that requires the foreign party to either set up its own entity as a Wholly Foreign Owned Entity (WFOE), or a Joint Venture (JV) in China with its Chinese partner. The profit generated in the business needs to be

tax compliant before being repatriated and there is a cap on the amount of profit that can be repatriated.

- **Intra-group service payments**

Under this approach, the foreign party charges its Chinese subsidiary for services it provides, such as commissioned research. There must be invoices issued, and a formal service contract between the entities.

Due to the potential complexity of remitting funds from your activities in China, consider engaging experts to advise how to structure these arrangements.

v. Tax considerations

Under Chinese tax law, royalties paid offshore for the transfer of intangible assets (such as IP) are generally subject to a 10% income tax withholding rate (unless otherwise identified in relevant tax treaties) and value-added tax (VAT), as well as surtaxes. Your agreements should be clear whether or not the royalties are gross payments or net of tax deducted in China.

China and Australia are parties to a double taxation agreement. For Australian parties to avoid double taxation in Australia on royalties paid out from China, the Chinese entity must provide certain administrative support. This includes proof of payment of the applicable withholding tax in China together with any other relevant documents. For detailed tax advice, including on applicable VAT, consult a professional tax advisor.

6. EMPLOYEE INVENTORS – MANAGING COMPENSATION PROGRAMS

Inventions that are created by an employee in the course of their employment, or by using their employer's materials and technical resources, are called service inventions. China's Patent Law provides that employers will generally own service inventions, but also requires employers to reasonably compensate the employee for their invention.

It is important that employers have a clear employee invention compensation program in place for how much they pay employees to retain control over service inventions, and to avoid the risk of later claims for compensation. The program should cover both the reward and remuneration requirements below, and should be included in the employment contracts of China-based researchers.

'Reasonable' is assessed based on how the invention is applied and the profit that it generates. The patent award has two components:

- i. Reward – this is a cash payment once the patent is granted; and
- ii. Remuneration – this is a percentage of the profit earned by the employer through exploitation of the patent.

If the employer fails to provide either the Reward or Remuneration the employee will be compensated based on the statutory standard. The table below summarises the statutory

Reward and Remuneration standards under the *Implementing Rules of the Patent Law of the People's Republic of China* (2010):

| Patent | Reward (Minimum) | Remuneration (Minimum) |
|---------------|------------------|---|
| Invention | 3000 RMB | 2% of profits derived from exploiting the invention or 10% of licensed revenue. |
| Utility Model | 1000 RMB | 0.2% of profits derived from exploiting the invention or 10% of licensed revenue. |
| Design | 1000 RMB | 0.2% of profits derived from exploiting the invention or 10% of licensed revenue. |

The employer may provide reward and remuneration that are lower than the statutory minimum, but they must be reasonable.

It is not mandatory for employers to give rewards or remuneration for inventions protected as trade secrets or defensive public disclosures, however offering a discretionary award program may help encourage innovation. It can also be useful to provide guidance on what the employer considers a service invention.

7. DATA

A) Scientific data

China requires researchers to submit certain kinds of scientific data generated in China to a Scientific Data Centre. The primary objective of these requirements is to secure data relating to state secrets, national security, and the public interest. The *Scientific Data Administrative Measures* (2018) requires researchers to submit:

- Scientific data that is generated by Chinese government funding (it is less clear whether partial funding requires data to be submitted); and
- Scientific data that involves state secrets, national security, or the social and public interest (even if it does not involve Chinese government funding).

The term 'scientific data' is broadly defined, and includes both original data and derivative data (generated by processing original data). The *Scientific Data Administrative Measures* does not provide an exception for data relating to trade secrets, or where data disclosure would violate an agreement with a third party.

Failing to submit the required data could potentially result in punishment or administrative penalties (including fines), and could affect the outcome of a project. You should therefore take into account any scientific data disclosure obligations when assessing the feasibility of a project, especially if Chinese government funding is involved.

B) Cybersecurity Law – ‘important data’ and privacy

China’s new Cybersecurity Law took effect in 2017, and has been followed by a number of regulations and provisions relating to cybersecurity. Many of the key provisions relating to ‘important data’ and personal information are still in draft form or otherwise unclarified. This regulatory uncertainty can create risk around collecting, storing, using and transferring various kinds of data. Cybersecurity requirements could potentially impact research collaborations in the following ways:

- **Storage and use of ‘important data’:** ‘important data’ is a loosely defined category that covers data collected in China that is closely related to national security, economic development, and the public interest (including raw data and derivative data). Under this definition, many forms of scientific data could potentially be considered ‘important data’.

Misuse of ‘important data’ may trigger legal liabilities and penalties. Important data is also subject to the localization obligations discussed in the next section.

As an example, certain population health data and human genetic data are treated as important data. No entity or individual may illegally acquire, use, or distribute this data without authorisation, and it must be used within the scope of that authorisation.

- **Data localization:** China’s Cybersecurity law requires that personal information and important data gathered by “critical information infrastructure operators” must be stored in China. The law provides examples of “critical information infrastructure operators”, including entities operating in public communication and information services, energy, transport, water resources, finance and public services. Chinese government approval may be required to transfer the data overseas.

Before you commence a research collaboration project you should review the data management processes. If a project involves sensitive data, such as human genetic data, you should seek the relevant government approvals before formally commencing the collaboration.

CASE STUDY 1

| Data and materials transfer | |
|-----------------------------|---|
| Parties | University of Oxford Fudan University Huashan Hospital (Huashan Hospital) Shenzhen Big Gene Technology Service Co., Ltd. (BGI. Tech) |
| Background | The University of Oxford, Huashan Hospital, and BGI Tech collaborated on a research project involving the genetics of depression in Chinese women. As part of the project Huashan |

| Data and materials transfer | |
|-----------------------------|--|
| | Hospital transferred genetic data to the University of Oxford without permission from the government. |
| Issues | <ul style="list-style-type: none"> • Overseas transfer of sensitive data: China adopts a reporting and registration system for human genetic resources. No organisation or individual may sample, collect, trade or export human genetic resources without permission. • Responsible party: For any international collaborative project involving transfer of human genetic resources outside China, the Chinese collaborating party is responsible for arranging the required approvals. • Customs declaration: All human genetic materials that are physically transported outside China must be declared to customs. Customs will give clearance to those accompanied by the Permit for Export (Exit) of Human Genetic Resources issued by the authorities. |
| Result | <p>The Ministry of Science and Technology (MOST) imposed administrative orders to:</p> <ul style="list-style-type: none"> • Immediately stop the research; • Destroy all the genetic materials and the related research data; • Huashan Hospital was barred from international cooperation in connection to genetics research. |
| Key takeaways | <p>Conduct basic due diligence and project feasibility assessments prior to initiating a collaboration.</p> <ul style="list-style-type: none"> • This review should at least consider scientific data and Cybersecurity / ‘important data’ obstacles and whether they can be overcome. • A review would have highlighted the regulations and risks associated with transferring human genetic material outside of China. Although these obligations are generally the responsibility of the Chinese partner, they have the potential to derail an entire project. Any financial compensation payable to the University of Oxford does not account for practical, reputational, or other damage incurred. <p>The application process for any necessary regulatory approvals, licences, or other clearances should be tied to agreed milestones.</p> |

| Data and materials transfer | |
|-----------------------------|---|
| | <ul style="list-style-type: none"> The agreement and milestones should set out the responsibilities of the Chinese entity to apply for and acquire necessary government approvals. The failure to meet obligations to obtain regulatory approvals at different stages may terminate the contract. The process for seeking regulatory clearance should begin as early as possible, and the level of investment in the collaboration should be dependent on the progress of the approvals. |

CASE STUDY 2

| Joint development | |
|-------------------|---|
| Parties | <p>AusTech Ltd: an Australian software company</p> <p>SinoSoftware: a Chinese financial software development company</p> |
| Background | <p>AusTech and SinoSoftware entered into a Joint Software Development Agreement to design inventory management software in China.</p> <p>AusTech would provide commercial data, hardware and basic software, as well as 3 technical staff to assist data delivery and software testing. SinoSoftware would provide 3 senior R&D technicians to fulfil and finish the R&D within 10 months. AusTech would pay SinoSoftware RMB 450,000 in two instalments.</p> <p>After more than 13 months, SinoSoftware was still unable to complete the R&D and had not provided the software. AusTech wanted its money to be refunded. AusTech initiated litigation against SinoSoftware for breach of contract.</p> |
| Issues | <p>In a joint development, both parties bear the risk of project failure. But was this actually a joint development? Whether a project is a joint or commissioned development depends on the substance of the collaboration, not what the parties choose to call it. Who was responsible for conducting R&D work? Who contributed funds and resources?</p> |
| Result | <ul style="list-style-type: none"> The court found although the title of the contract was “Joint Software Development Agreement”, AusTech contributed funds and SinoSoftware was responsible for most of the R&D. Therefore this was actually a |

| Joint development | |
|-----------------------------|--|
| | <p>commissioned development contract. SinoSoftware, as the commissioned party, bears all the risk of project failure.</p> <ul style="list-style-type: none"> • By making payments, supplying technological materials and data, AusTech performed all its obligations under the contract. • The court ordered SinoSoftware to return the payments from AusTech and pay an additional sum in compensation. |
| <p>Key takeaways</p> | <p>The form of collaboration that you choose is determined by who can contribute what to the project and your appetite for project risk.</p> <ul style="list-style-type: none"> • In a joint development, both parties share the work, contribute resources, and bear the risk of project failure. • In a commissioned development, one party is responsible for R&D work whilst the other party usually contributes the majority of funds and resources. The commissioned party will be responsible for the vast majority of design and R&D work. The commissioned party bears the risk for failure to achieve the anticipated technology achievement. <p>Project risk cannot be shifted by simply describing a collaboration as a joint development or commissioned development. The liability will depend on who contributes funds and who is responsible for conducting the research and development.</p> |

Disclaimer: This guide is for information only. Nothing in this guide should be construed as legal advice, and you should seek your own independent legal advice as required. IP Australia takes no responsibility for any consequences as a result of you using this guide. You can read our full disclaimer at <https://www.ipaustralia.gov.au/about-us/about-this-site/disclaimer>.

CHECKLIST FOR COLLABORATING WITH CHINESE PARTNERS

- 1. Take proactive steps to learn about your prospective Chinese partner before starting formal collaboration.**
 - a. Keep in mind your own goals and what the collaboration is seeking to achieve.
 - b. Conduct basic background checks before disclosing any confidential information, signing a contract or making an investment.
 - i. Is the business scope of the prospective partner's registered business appropriate?
 - ii. Does the prospective partner hold the necessary licences, approvals and/or permissions necessary to perform their obligations under the collaboration?
 - iii. Has the prospective partner been subject to any administrative penalties, fines or restrictions and/or been involved in any litigation proceedings in China?
 - c. Official information sources and/or local legal counsel can be used to conduct basic due diligence and obtain the above information. Do not simply rely on the prospective partners' claims and promises.

- 2. Choose the right form of R&D collaborations, i.e. commissioned developments or joint developments.**
 - a. Consider whether you have enough funds and/or know-how, capabilities and other non-financial resources necessary to carry out the R&D work.
 - b. Understand your risk tolerance level.
 - c. Consider your prospective partners' experience, capability, skill and resources in the related areas.

- 3. If there is mutual interest and trust, then the parties should sign a non-disclosure agreement (NDA) in order to provide a safer framework to discuss the feasibility of the collaboration.**
 - a. Depending on the specifics of the collaboration, also consider including non-compete and non-solicitation clauses, to the extent that they can be negotiated.
 - b. To avoid the leakage of confidential information ensure key employees of all parties have also signed corresponding NDAs with their employers.
 - c. If the Australian party will be the main discloser of confidential information and the main assets of the Chinese partners are in China consider selecting China as the jurisdiction for dispute resolution and PRC law as the governing law. This will provide an additional level of security should you need to enforce the NDA

(i.e. though an injunction to cease further disclosures) and/or seek damages/assets from the Chinese partner, which are presumably in China.

- d. IP Australia has a template NDA suitable for research collaborations in mainland China available to Australian stakeholders on request. You will need to adapt it to your specific circumstances with the assistance of a China-qualified lawyer. You can request the document by emailing MDB-IPCounsellor-China@ipaustralia.gov.au.

4. After evaluating the materials shared during the preliminary discussion and agreeing to proceed, the next step is to negotiate key issues of the intended collaboration.

- a. Who owns the intellectual property rights?
 - i. Check the quality and exclusivity of the IP rights that your partner brings to the R&D collaboration.
 - ii. Although IP ownership is negotiable, neither party should abuse its superior negotiating position to claim ownership, so as to comply with the PRC Anti-Monopoly Law and Contract Law as well as related regulations.
 - In China, employers generally own service inventions (inventions that are created by an employee in the course of their employment, or by taking advantage of their employer's material and technical resources), but they are legally required to compensate the employee inventor. Therefore, it is important to incorporate an employee award program for all China based researchers into employment contracts. The program should specify very clearly that the financial award covers both the Reward and Remuneration requirements under the relevant laws.
 - Take precautions when hiring R&D staff from another company or organization operating in a similar research field to your own, so as to reduce the risk of R&D carried out by your new employees being subject to an ownership claim from their previous employer (claw-back).
 - iii. Joint ownership might lead to disputes about the exploitation, commercialization and profit sharing of the developed technology. Another option to consider is sole ownership by one party in exchange for reasonable compensation.
 - iv. Clearly specify the ownership of the R&D results and each party's right to use the results.
 - v. Expressly define and provide reasonable compensation for sole IP ownership.
 - vi. Be aware that Chinese government funding may come with requirements for the Chinese party to own all IP generated.
- b. How will IP from the collaboration be commercialized?

- i. Identify who owns the commercialization rights (such as transfer or license of patent/technology) and the territory of the rights.
- ii. Technology import/export may be restricted or prohibited based on how the relevant technology is classified under the Technology Import and Export Catalogues. A technology licence from a mainland Chinese entity to a foreign entity is considered a technology export, and *vice versa*.
- iii. A technology export or import requires official approval, including for royalty remittance and transfer of IP rights. The Chinese party is responsible for applying for the technology import/export approval or registration. To do so they must be an entity with a business licence.
- iv. If applying for patent protection outside of China for an invention substantially produced in China, the applicant may need to first apply for “confidentiality examination” security review by the China National Intellectual Property Administration (CNIPA). No security review is required if the patent is only filed in China or the patent involved is a design patent.

c. Other considerations

- i. For tax considerations, clarify whether the royalties are net of all taxes and are to be deductible in China or not.
- ii. Scientific data that is generated by government funded projects or that involve national secrets, state security, or the public interest may need to be submitted to a Scientific Data Centre.
- iii. When the project involves ‘important data’ and/or personal information, be sure to comply with the cybersecurity law and other related regulations and acquire relevant government approvals before formally commencing the collaboration.

d. How will funds be repatriated to Australia?

- i. IP licence royalties is the easiest and most widely used method for a foreign party to repatriate funds, particularly for parties that have not set up a legal entity in China.
- ii. Dividends is a long-term approach that requires the foreign party to either set up its own entity as a Wholly Foreign Owned Enterprises (WFOE) or a Joint Venture (JV) with the Chinese party in China.
- iii. Intra-group service payments to a foreign service provider is another approach.

5. If the parties are aligned on the key issues, the next step is to negotiate and sign a detailed contract.

- a. At the outset it’s important that the objectives for the collaboration and the precise criteria to be used in assessing whether those objectives have been met

(success criteria) are aligned and contained in the contract. The annex should contain a statement of work and performance milestones as exhibits.

- b. Choose the suitable method, location and applicable law for resolving disputes:
 - i. Litigation in China vs. arbitration in/outside of Mainland China (taking enforcement, cost, efficiency and confidentiality factors into consideration)
 - ii. If you are in a situation where it is necessary to enforce the terms of your contract with a Chinese entity, then it is likely that you will either be seeking access to assets or take specific actions in China rather than in Australia (where the Chinese party is unlikely to have assets to fund damages).
 - iii. PRC law is a common choice of governing law for a contract to be enforced in a Chinese court. In practice it often proves difficult to persuade a Chinese court to apply foreign law.
- c. When entering into a formal contract, be sure that the key clauses of IP ownership, project objectives, the criteria for assessing success, how the results will be commercialized, and payment have been reflected in the contract without uncertainty or ambiguity.

6. General steps to improve the effectiveness of contracts in China

- a. Identify the parties in enough detail, including unified social credit number (company registration number) of the Chinese partner, to unambiguously identify the Chinese party.
- b. Use bilingual contracts, particularly if the contract is subject to Chinese law, and clearly specify which language takes precedence.
- c. Ensure the execution of the contract is complete. This should include:
 - i. Company seal of the PRC entity;
 - ii. Signature of the legal representative or duly authorized representative and their title;
 - iii. PRC entity's full name in both Chinese characters and English; and
 - iv. Date of signature.