On the Issue of Validity of Technology Contract

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In today’s society where science and technology are undergoing rapid development, and enterprises competing each other primarily with advanced technologies in which they enjoy their own intellectual property right, a major part of an enterprise’s business activities is that patented technology and technical secret (or known-how) are taken as goods of technical trade and that R&D of hi-tech achievements are undertaken by way of conclusion of contracts. It is worth attaching importance to how to ensure the legitimacy and validity of a technology contract in the processes of conclusion of it to enable the parties to gain their expected economical benefits by performing the contract. This article is intended to explore and analyse the issue of validity of technology contract in the light of the related Chinese laws, regulations, and the judicial practice of the people’s court in China.

Mainly the following laws and regulations have their impact on the validity of technology contracts: the Contract Law, Patent Law, Unfair Competition Law, Foreign Trade Law, and Regulations on Technology Import and Export Administration, as well as those related to technologies under technology contracts. The technology contracts are divided into five categories depending on the different circumstances of their validity: (1) valid contracts; (2) contracts not taking effect; (3) invalid contracts; (4) modifiable or cancelable contracts; and (5) technology contracts with changed conditions. The five categories of contracts entail the establishment of contracts, which is the true expression of the two parties’ will on the agreed rights and obligations under each contract. The parties to a contract expect to conclude a valid contract, and try to stay away from the other four categories of contracts. To this end, the discussion in this article is focused on the examination of the causes of these four categories of contracts, the defects of validity, and the legal liabilities resulting from them for the reference of patentees and patent attorneys in their conclusion of technology contracts.

I. Technology contract not taking effect

A contract not taking effect, also known as a contract yet to take effect, refers to one that does not satisfy the statutory conditions or agreed conditions for it to take effect, and it is not legally effective. What is contained in a contract of the kind is not contrary to law. Rather, it does not take effect only due to the existence of statutory defects in the formalities or procedures in which the contract is concluded. Although a contract that not taking effect is not legally binding, and cannot produce the legal effect which the parties expect, the parties to the contract who are willing to continue to perform the contract may turn it into a valid one protected under the law by going through the related follow-up formalities.

Under the Contract Law and the relevant IP laws and regulations, a technology contract, generally, takes effect upon its establishment under the law as is the case with contracts for licensing the exploitation of patents, known-how assignment contracts, technology service contracts, technology consultation contracts, technology assignment contracts for importing a freely importable technology and technological development contracts concluded between Chinese nationals, legal entities or other organisations. Contracts not taking effect are likely to arise from the following two circumstances:

1. Any technology contract in respect of which the statutory formalities of approval and registration have not been gone through. Article 10 of the Patent Law provides that “any assignment, by a Chinese entity or individual, of the right to apply for a patent, or of the patent right, to a foreigner must be approved by the competent department concerned of the State Council;” “The assignment shall take effect as of the date of registration”. Article 16 of the Regulations on Technology Import and Export Administration provides that, in respect of a contract for importing a technology restricted from importation, “the contract for technology import takes effect
as of the date of issuance of the technology import license”. Any technology contract subject to the preceding provision, if the formalities of approval and registration are not gone through according to law in respect of it, it is a technology contract that has not taken effect.

Some law provisions on the formalities of “recordal” of contracts are set forth in the relevant Chinese laws and regulations. For example, Rule 15 of the Implementing Regulations of the Patent Law provides that “any license contract for exploitation of the patent which has been concluded by the patentee with an entity or individual shall, within three months from the date of entry into effect of the contract, be submitted to the Patent Administration Department under the State Council for the recordal”. Article 17 of the Regulations on Technology Import and Export Administration provides that “freely importable technologies shall be subject to the contract registration system. A contract for importing a freely importable technology takes effect from the time when the contract is established according to law, without taking the registration thereof as a condition for the contract to take effect”. The above formalities of “recordal” are for the convenience of administration and statistics of contract of the kind of by the administrative agencies, rather than the conditions for a contract to take effect. Where the parties to a contract do not go through the formalities of “recordal”, the contract is still effective.

2. Technology contracts that do not satisfy other conditions for them to take effect

(1) Technology contracts with agreed conditions for them to take effect. For example, if it is agreed that a contract “takes effect upon notarisation”, the contract does not take effect until the parties go through the formalities of notarisation. In judicial practice, there are cases where it is agreed in a few contracts that the “contracts shall take effect upon notarisation by both parties”, but the two parties begin to perform the contract without going through the formalities of notarisation, say the assignor delivers technical data/information and gives technical instruction as agreed, and the assignee pays the royalties and exploits the technology under the contract. When handling disputes arising from a contract of the kind, the court would generally hold that both parties have altered the term of notarisation as agreed in the contract with their actual acts, and determine that the contract has taken effect.

(2) Any technology contract concluded by an actor without, in excess of, or beyond the expiration of, the right of agency in the name of a principal. The practical situation in China is that many nationals are patentees, and they generally appoint an agency to assign their patented technologies, so do the small and medium-sized enterprises when introducing patented technologies. Cases often arise in which actions are brought due to technology contracts that are concluded by an agent in excess of the right of agency or beyond the expiration of the right of agency in the name of principal. Under Article 48 of the Contract Law, contracts of the kind are not binding on the principal before the principal gives ratification.

In handling contracts not taking effect, it is provided in (1) of the Judicial Interpretation by the by Supreme People’s Court on the Implementation of the Contract Law (the Judicial Interpretation for short) that “according to the provision of Article 44, paragraph two, of the Contract Law, where a contract takes effect only after going through the formalities of approval and registration according to laws and administrative regulations, the party concerned does not go through the formalities of approval or the formalities of approval and registration before the end of the court session of first instance, the people’s court should determine that the contract has not taken effect”.

The Judicial Interpretation is of great instructive significance for the judges to correctly determine the validity of, and handle disputes arising from, contract of the kind. In judicial practice, a few judges confuse a contract not taking effect with an invalid one. For them, neither contract is legally binding. They simply treat the former in the same way as that they treat the latter, thus resulting in erroneous decision as is shown in the analysis of a case as the following:

In 1993, a person named Du and other two persons jointly filed, with the State Intellectual Property Office (SIPO), applications for three patents when they respectively held the posts of chairman of the board, general manager and chief engineer in a Shenzhen-based company. In 1994, the three stated, in a “Formal Statement” they presented to the Shenzhen-based company, that they voluntarily gave, the three patents for which they filed the applications in their own name with the SIPO to the company free. After the patent rights were granted to the three applications, they gave the patent certificates to said company in its custody, and the latter had, ever since, met the obligations of paying the filing fees, substantive examination fees and patent certification fees, and of paying the annual fees in a timely manner for the three patents. From 1994 to 2000, said Shenzhen-based
company exclusively exploited the three patented technologies. During that period, the three did not object to the exclusive exploitation of said patent rights by the defendant (the Shenzhen-based company), nor did the latter go through the formalities of "registration" of the transfer of the patents at the SIPO with the "Formal Statement". In 2001, on quitting their jobs in the defendant company, the three sued the Shenzhen-based company on the ground that the latter's exploitation of the three patents infringed the patent rights they jointly enjoyed, and requested the court to order the latter to cease the infringement and pay damages caused because of the infringement.

Upon hearing the case, the court of first instance held that what was given as "gift" as mentioned in the "Formal Statement" by the three plaintiffs then were non-patented technologies, which were different from the patented ones, the act of "giving as gift" of them to the defendant was not registered; hence the rights therein were not transferred and the three plaintiffs were still the patentees. The defendant's use, without authorisation, of the three plaintiffs' patented technologies constituted infringement. It was thus ruled that 1) the defendant cease its infringing act; and 2) the defendant pay over RMB 3 million yuan in compensation of the damages caused because of the infringement.

The court of second instance held that the three plaintiffs' three patents were protected under law. The "Formal Statement" showed that the technologies to be patented the three plaintiffs gave as gift to the defendant was the same as the patented technologies, and they were different only in legal status; the defendant's act of exploiting the three patents after acceptance of the gift was an act of exploitation licensed by the three plaintiffs, which, therefore, did not constitute patent infringement. The facts ascertained were wrong in the first ruling; it was undue to determine that the defendant had infringed the patents; and it was devoid of facts and legal grounds to order the defendant to cease infringing act and pay damages for infringement. Accordingly, it was ruled after the second-instance trial that 1) item 1 "the defendant cease the infringing act" in the ruling of first instance be altered into "the defendant cease the act of exploitation"; and 2) item 2 in the first ruling be cancelled.

For these writers, the ruling of second instance in the present case embodies the correct principle for handling contract not taking effect. What are given as "gift" in the "Formal Statement" are technologies in the phase of application for the patents, and the defendant does not go through the formalities to register the transfer of the right to apply for the patents according to the Patent Law. In terms of legal effect, only the property right (the right to apply for patent and the later granted patent rights) in said technologies is not transferred according to law, but the transfer of the right to use said technologies takes effect without the necessity to register. Therefore, the defendant's act of using the technologies in suit after acceptance of the gift obviously does not constitute an infringement according to either the Patent Law or the Contract Law.

Legal experts concerned once looked into the legal issues involved in the present case. Most of them believe that the "Formal Statement" is a lawful and valid donation contract, which takes effect without the necessity to go through the statutory formalities, and should be protected under the law. The "Formal Statement" has the nature of a contract in which the right to exclusively use the three patented technologies is assigned free, with the same legal character as that of a patent licensing contract. Once the contract takes effect, the patentee should not exploit it himself, nor should he license it to someone else. The two kinds of contracts are different only in that one is a free assignment while the other is one requiring payment of royalties. In addition, a licensing contract for the exclusive exploitation of a patent is one that takes effect without the necessity to go through the formalities of registration. For this reason, after the donation contract takes effect, the right to exclusively use the three patented technologies is transferred to the donee. The three plaintiffs, though they are still patentees, are not entitled to rescind the donation contract. The defendant has exploited the patented technologies for seven consecutive years under the leadership of the three plaintiffs. The time limit for action has long expired. According to most of the experts, the defendant should enjoy the right to continuously use the three patented technologies.

The general principle for handling contracts not taking effect is that the party at fault for causing a contract not to take effect should be liable for the injury caused by the other party's performance of the contract. For example, for a contract under which a Chinese entity or individual assigns the right to apply for patent or a patent right or for a contract for importing a technology, the Chinese entity or individual is obliged to go through the formalities of examination and approval, and should be liable for the damages caused because of the foreign party's performance of the contract if it or he causes the contract not to take effect for failure to go
II. Invalid technology contract

An invalid technology contract refers to a contract which the law prohibits from being performed for reasons, in its contents, of being contrary to the mandatory provisions of the law and regulations. An invalid technology contract is invalid from the beginning, and should not be recognised and protected under the law. Any contract a court or an arbitration organisation establishes as invalid should not be performed if the parties concerned do not perform it, and the performance of it should cease if it is being performed. Where a contract has been performed, the state before the conclusion of contract should be restored as much as possible. The party at fault for making the contract invalid is liable for the damages caused because of the other party’s performance of the contract.

Articles 52 and 329 of the Contract Law provide that the causes of an invalid contract are that any technology contract that illegally monopolises, impedes technological progress or infringes technological results of others; and that a contract is invalid under any of the following circumstances: either party enters into the contract by means of fraud or coercion and impairs the national interests; there is malicious conspiracy causing damage to the interests of the nation, the collective or a third party; there is an attempt to conceal illegal goals under the disguise of legitimate forms; harm is done to social and public interests; or mandatory provisions of laws and administrative regulations are violated. In this article, an analysis is made of the ways invalid technology contracts are determined and treated.

1. Technology contract concluded by means of fraud

By the conclusion of a contract by means of fraud is meant that a party intentionally gives the other party false information, or conceals the facts or truth to induce the latter to make erroneous expression and concludes the contract. Lawsuits are common involving contractual disputes caused because the licensors conceal the serious defects of the technologies in suit or the patents are likely to be invalidated, or they exaggerate the technological performance index or economic benefits of their technological achievements. In case like this, a licensee often requests to establish the contract invalid due to the other party’s fraud. Once the facts of fraud are ascertained, the court would establish the contract as invalid. For example, in 1988, a Belgian company, after being granted a patent for a design of street lamp, concluded a contract for licensing the patent to a Chinese company and sued another company for infringement. It was later found out that the design was registered in the related country in Europe as early as the 1970s, and the European patent right expired in the late 1970s. The Chinese Patent Office declared the patent right for the design invalid. The Belgian company clearly knew that its patent application did not meet the requirement of “novelty” under the Chinese Patent Law. For these writers, the patent is invalid as a result of “bad faith on the part of the patentee” under Article 47 of the Patent Law. This is a case where the patentee deceives the other party by intentionally conceals the truth when it entered into the contract; the contract should be established as invalid.

2. Technology contract that infringes another party’s technological result

Cases often arise where a third party sues a licensee for infringement after the products made by the licensee of a technical assignment contract by virtue of exploiting the technology under the contract are put on the market. Besides making a counterclaim based on the fact that the technology it has exploited is lawfully licensed to it and requesting that the licensor be the joint defendant, the licensee often brings a contractual suit.

Under Articles 329 and 353 of the Contract Law, if the infringement is established, the technology assignment contract should be determined as invalid, the liabilities for the infringement should be borne by the licensor. This principle for resolving dispute of the sort is demonstrated by the following case:

In the case of dispute arising from the infringement of a patent for an “instrument for diagnosis of human-body information”, the defendant, a technology news paper publisher from a province licensed the patented technology to a Dandong-based company in the name of the patentee by the name Zhang without the latter’s knowing about it. Later, upon knowing that its patented technology was licensed by the defendant, the patentee brought an action in the Nanjing Municipal Intermediate People’s Court, and the Dandong-based company also brought a contractual lawsuit. Upon hearing the two cases together, the Nanjing Municipal Intermediate People’s Court held that the technology assignment contract concluded between the publisher and the Dandong-based company invalid; the publisher was at fault for the contract being rendered invalid, and should be liable for the infringe-
ment of the patent and the invalid contract. The court then decided that the Dandong-based company cease exploiting the technology under the contract; the publisher return the technology licensing fee RMB 80,000 yuan to the Dandong-based company; pay the company RMB 30,000 yuan in compensation of its economic injury for its performance of the contract; and pay the patentee RMB 1,800 yuan in compensation of his injury caused because of the infringement.

For these writers, the court decision complies with the Patent Law and the Contract Law, and has protected the lawful interests of the licensee in good faith.

Whether a licensee has obtained a contractual technology in good faith, that is, whether he/it concludes the contract with the other party and performs the contract in spite of the fact that he/it knows or has reason to know that the latter commits infringement has a bearing on whether the licensee should be held liable for the infringement or the invalid contract. If he/it obtains the technology in good faith the case is dealt with in the light of the above principle; the legitimate interests of the licensee in good faith are protected. If he/it does not obtain the technology in good faith, the licensee and the licensor have jointly committed the infringement of the patented technology concerned, and should be severally and jointly liable for the infringement and for the invalid contract.

3. Technology contracts that illegally monopolise, or impede technological progress

It is one of the fundamental principles underlying the technology legislation in China to encourage technological innovation and to promote conversion of hi-tech into productivity. Article 29 of the Regulations for Technology Import and Export Administration provides that a technology import contract should not contain such restricting terms as “restricting the receiving party from improving the technology supplied by the supplying party, or restricting the receiving party from using the improved technology” or restricting the receiving party from obtaining technology similar to that supplied by the supplying party from other sources or from obtaining a competing technology”. Article 10 of the Supreme People’s Court’s Interpretation of Several Issues Related to Application of Law to Trial of Cases of Technology Contract Dispute provides that “contracts restricting a party from carrying on new R&D on the basis of the technology under a contract or from using an improved technology” or contracts restricting a party from obtaining a technology from another source similar to or competing with that of the technology provider are invalid technology contracts that “illegally monopolise, or impede technological progress”.

As these provisions show, these grounds usually render part of the terms of a contract invalid. For example, in “a contract for licensing the technology for measuring and prescribing Chinese herbal medicine with a computer”, it is agreed that “the licensee should not modify the technology under the contract without authorisation, or it shall pay RMB 10,000 yuan for breach of the contract”. In performing the contract, the licensee improved the technology under the contract by adding to it the function of price calculation. In the later contractual lawsuit, the licensor argued that the licensee broke the contract, and requested the court to order it to pay RMB 10,000 yuan for the breach of contract. Upon hearing the case, the court believed that this agreed term was one that “illegally monopolised or impeded technological progress”, and decided that the term was invalid and should not be protected according to law, and rejected the licensor’s litigant claim.

4. Technology contracts that are contrary to the mandatory provisions of laws and regulations

Since science and technology have great impact on the national security, public interests, ecological environment and people’s health, some laws and regulations have set forth mandatory provisions banning exploitation of some technologies. For example, Article 30 of the Environmental Protection Law provides that “import of technology and equipment that do not meet the environmental protection requirement shall be prohibited”; any technology “with exhausted pollutant exceeds the State and regional standards” shall not be assigned or exploited. Article 16 of the Foreign Trade Law provides that the State may restrict the import and export of the goods and technologies under any of the following circumstances: “(1) for safeguarding national security, public interests or social morals or customs, there is need to restrict imports or exports; (2) due to short supply in the domestic market or for effective conservation of exhaustible domestic resources, there is need to restrict exports”. The relevant departments under the State Council formulate and issue in a timely manner, the catalogue of technologies prohibited from exploitation and prohibited or restricted from importation or exportation in accordance with the related law provisions, and make adjustment in response to the technological and economic developments in China and changes in the international market. Therefore, conclusion of any technology assignment contract should be in keeping with the
Contract Law and the IP-related laws, and, as well, complies with the mandatory provisions of the related laws and regulations, or the contract would be rendered invalid. For example, in the case of dispute over the contract for assigning the technology for making red vanadium sodium, the first and second instance courts held that since using red vanadium sodium would seriously pollute the environment, the department concerned under the State Council banned any project with an annual production capacity of less than 3,000 metric tons; when the parties concluded the contract in suit, the ban on such projects had been issued, and the agreed annual production capacity in the contract was around 3,000 metric tons, so the contract was determined as invalid under the Environmental Protection Law.

The people’s court deals with an invalid technology assignment contract in line with these principles:

1) try to restore the initial state by requiring the licensee to cease exploiting the licensed technology, return all the technical data/information, sample and prototype machine to the licensor, the copy of which is not allowed to be held; requiring the licensor to return to the licensee the royalties;

2) doctrine of fault: the party at fault for rendering the contract invalid is liable for paying the faultless party in compensation of his/its damages caused because of the invalid contract, if both parties are faulty, each bear his/its own liability; and

3) the agreed terms of the contract for keeping the technical secrecy confidential remain valid, and both parties are obliged to do so.

III. Technology contract that can be rescinded or altered

Article 54 of the Contract Law provides that any party has the right to request a people’s court or an arbitration institution to alter or rescind any of the following contracts: 1) any contract which is concluded under substantial misunderstanding; 2) any contract that has not been concluded on fair terms; and 3) where a party makes the other party enter into a contract against its true will by means of fraud, coercion or taking advantage of its difficult situation.

Contracts of the kind are relatively invalid contracts, and have the following characteristics compared with the abovementioned contracts:

1) the right to request to rescind or alter the contract should be exercised only by a party thereto on his/its own initiative. If the party does not request to rescind or alter the contract, the court will treat the contract as a valid one;

2) a contract that can be rescinded is valid before it is rescinded, and is binding on the parties thereto; and

3) the right to request to rescind or alter the contract is subject to a statutory one-year limitation of action. The court does not support a request for rescinding or altering the contract if the limitation of action expires, and the parties must perform the contract.

It is worth noting that both Articles 52 and 54 of the Contract Law have set forth the same grounds of “fraud and coercion” since the legislators intend to protect the “national interests”. If “fraud or coercion” results in prejudice to the “national interests”, the provision of Article 52 on invalid contract applies; if “fraud or coercion” results in prejudice to the interests of one party, the provision of Article 54 on rescindable or alterable contract applies. As a case in point, a patentee from Shanghai stated in an advertisement for assigning the patented technology of “automatic temperature lowering bed” in the Township Enterprise News that “the present patented technology, a blessing for township businesses, requires little investment and produces benefits fast, with an annual profit amounting to RMB one million yuan”. Upon seeing the advertisement, a township business from Jiangxi Province went to Shanghai and negotiated on a contract for licensing the patent. During the negotiation, the patentee showed the business the Patent Certificate, but not any information of the technology, such as the description and drawings of the patent. It said it would provide the related technological information after conclusion of the contract and payment of the royalties of RMB 40,000 yuan. This township business concluded with the patentee the contract and paid the royalties of the amount. The business learnt, from the description and drawings of the patent, that the patented technology of “automatic temperature lowering bed” achieves its effect of absorbing heat and lowering temperature by placing a rectangular water groove underneath the bed and using cotton yarn to connect the plastic cloth in the lower part of the bed to absorb the water from the water groove to the lower part of the bed, and putting an electric fan at each of the four legs of the bed for water evaporation. The township business argued that use of this bed in regions along the Yangzi River range in humid summer would make it even more humid, and no one would like to buy the product, so it requested to rescind the contract with the patentee, and asked the latter to return the royalties. The patentee refused
the request; hence the dispute arose. Upon hearing the case, the Shanghai Intermediate People’s Court held that the patentee should, but did not, show the description of the patent in suit during the negotiation and conclusion of the contract. It is a fraudulent act to conceal the truth about the patent, and such act has caused substantial misunderstanding of the technology under the contract on the part of the plaintiff, so the contract should be rescinded according to law. The court ruled that the contract be rescinded, and the patentee return the royalties of RMB 40,000 yuan to the plaintiff.

IV. On change in the situation of technology contract

After a contract takes effect according to law, both parties must strictly perform it. The change in the situation of a contract means that if important changes take place in the objective situation serving as the basis of the contract, they are beyond both parties’ expectation; these changes have nothing to do with either party. No one can prevent them. They are unavoidable. Under the changed situation, strict performance of the contract is likely to inflict heavy losses to the party. It is obviously unfair. Under this circumstance, if both parties fail in negotiation, it is necessary for the judge to intervene in their contractual relations and adjust the contractual rights and obligations, alter the contract, or rescind the contract and exempt them from the liabilities. The draft Chinese Contract Law (issued for comments) set forth in Article 77 in the section on the General Principles, the principles to be applied in changes in situation. When the Contract Law was reviewed by the National People’s Congress, the conditions of the changes in situation were held to be too much in principle and too difficult to work for the judges; they were deleted. For these writers, although the Contract Law does not provide for the principle with regard to the changes in situation, today when the science and technology are in constant change, changes in situation, do exist in technology contracts, and they often result in lawsuit; hence the issue is explored in this article.

There are mainly these circumstances under which technology contracts that have to meet the change in situation are applicable:

1) Article 337 of the Contract Law provides that “where the technology, as the subject matter under a technological development contract, is disclosed to the public by others, thus rendering the performance of the contract meaningless, the parties may rescind the contract”;

2) The patent right is invalidated in the course of performance of a patent licensing contract; it is obviously unfair for the licensee to continue to pay the royalties under the contract; and

3) The technological secret, as the subject matter under a technical secret assignment contract, has been disclosed by a third party; it is unfair for the licensee to continue to pay the royalties under the contract.

All these circumstances are the conditions for the changes in situation. Important changes have taken place in the objective situation serving as the basis of the contract, and the important changes are beyond both parties’ expectation, are insurmountable, and render it meaningless and obviously unfair for both parties to continue to perform the contract.

Since neither party is at fault for the changes in the situation, the people’s court deals with such changes in the light of the fairness principle.

For the above first circumstance, the parties rescind the technology development contract. Injury caused because of the performance of the technology development contract are treated according to the provisions as agreed in the contract if any; or it is reasonably borne by both parties in the absence of such agreed provisions.

For the above second circumstance, Article 47 of the Chinese Patent Law provides for the three principles for the treatment thereof:

1) Non-retroactive. “The decision declaring the patent right invalid shall have no retroactive effect on any contract of patent license or of assignment of patent right which has been performed”, which means that in the period of performance of a contract, the patent right is valid, the licensee has exploited the patented technology and achieved the expected benefits from the exclusive use of said patented technology, and the patentee has been paid the agreed royalties. After the contract terminates, the patent right is declared invalid. In situation like this, to protect both parties’ reasonable interests and to maintain a stable socio-economic order, nothing would be retroactive to the performed patent licensing contract and patent assignment contract.

2) Principle of fairness. “The patentee or the assignor of the patent right does not repay to the licensee or the assignee of the patent right the fee for the exploitation of the patent or of the price for the assignment of the patent right,
which is obviously contrary to the principle of equity, the patentee or the assignor of the patent right shall repay the whole or part of the fee for the exploitation of the patent or of the price for the assignment of the patent right to the licensee or the assignee of the patent right. The circumstance under this provision is that the patent licensee or assignee has paid a lump sum or a large amount of royalties, the patentee has met his/its obligation to provide the technological data, give technical guidance, and transfer the patent right; the former has exploited the technology under the contract. The term of the contract does not expire, but the patent right is invalidated, which obviously inflicts substantial damage to the licensee or assignee. According to the fairness principle, the lump sum or the amount of royalties should be returned to the licensee or assignee. When ordering the patentee to return part of the royalties or licensing fees, the people’s court generally takes account of these three factors: the amount of royalties paid by the licensee or assignee; the benefits gained by him/it from exclusive use of the patented technology; the human and material resources the patentee has put into the licensed or assigned technology.

3) The circumstance of existence of bad faith on the part of the patentee in respect of the invalidity of the patent right. Here, bad faith means that the patentee clearly knows that his/its patent application is contrary to the provisions of the Patent Law when he/it finds it. He/it is intentionally fraudulent in his/its acquisition of the patent and in his/its conclusion of the patent licensing contract or patent assignment contract with another party, and, in doing so, objectively prejudices the interests of the licensee and the public at large. Contracts of this nature are invalid ones.

As for a technological secret under a contract for the transfer thereof that has been disclosed by another party, the related Chinese laws do not set forth any express provisions. For these writers, the matter should be treated with reference to the provisions on invalidation of patent. In the trade of technologies, the subject matter of many technology assignment contracts relate to both patented technologies and technological secrets. The invalidation of the patent under such a contract has no impact on the validity of the part of the contract related to the assignment of the technological secret, and the licensee should continue to pay for the royalties for it; likewise, disclosure of the technological secret by another party has no impact on the part of the contract related to the licensing of the patent, and the licensee should continue to pay the royalties for it.

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