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CHINA

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1. LEGAL FRAMEWORK

1.01 The commercial significance of trade in copyright is constantly increasing. Not least due to the concept of 'soft power' and the will of the current Chinese leadership to foster a 'Chinese dream' and a society with 'Chinese characteristics', strong efforts are being made to enhance cross-border exchanges on copyright at all levels. Currently, China still appears to be a net importer of cultural goods. Its main sources are the US for books and audio-visual products and to some extent software, followed by England, Japan, South Korea, France and Germany. China's biggest export partners for cultural goods are the region of Taiwan, US and SAR Hong Kong as the main recipients of books, movies and audio-visual products, followed then by England, South Korea, Japan and Singapore.[1]

1.02 When looking at contracts relating to copyright or software in China it must be remembered that the first Chinese Copyright Law was passed only in 1990, years later than the first patent law or trademark law. The delay in passing a Copyright Law owed much to intensive debates and controversies about copyright protection as such. In the end, US pressure was (and continues to be) a decisive contributory factor[2] to the eventual adoption of the first Chinese Copyright Law of the PRC. After China's accession to the WTO and the Trade Related Aspects of International Property Rights ('TRIPS') Agreement in 2001, the IP system including copyright in China was again substantially revamped, modernised and today has been raised to a status that is in many ways comparable to its peers abroad.

1.03 It has not been an easy voyage for the Chinese legislator. When China first opened up to foreigners in 1978 it initially adopted a system of separate laws and regulations valid only for foreigners and foreign investment in China. The IP laws including the Copyright Law followed this approach less visibly.

1 China Statistical Yearbook IP 2014, 466, 467.
2 CUI, 14.

However, with respect to licensing the impact of the distinction between foreign and domestic legal issues was strongly embedded in the legal system.[3]

1.04 This deep-rooted understanding of treating foreigners differently was first somewhat relaxed in 1999 with the promulgation of a unified Contract Law applying to contracts for foreigners and Chinese nationals alike. Discriminatory treatment further retreated with accession to the WTO in 2001. Nonetheless, in other areas such as market access by foreigners in the cultural goods sector, discriminatory rules continue to apply. These rules until today also impact licensing contracts with respect to a Chinese partner.

The first Copyright Law of the PRC entered into force in 1991, which was followed by the 1993 Regulations on the Copyright Protection of Works of Foreigners. The latter set of regulations was mainly the result of US pressure demanding better protection for foreign works in China. The controversies about the lack of proper protection of foreign works have not stopped since and continued even after the accession of the PRC to the WTO. After China's accession to TRIPS the US initiated a dispute resolution procedure and accused China inter alia of insufficient protection of foreign works, a criticism which the WTO dispute resolution panel[4] eventually confirmed.

1.05 Copyright law and licensing in China is subject to a large number of additional laws and administrative regulations which not only govern market access as such but also in practice heavily influence the possibility, structuring and content of contracts concerning licensing or transferring copyrights.

1.06 These additional regulations are issued by several stakeholders within the cultural goods sector in China. The principal legislator is the National People's Congress and its Standing Committee. There are three other key agencies for such legislation: the State Council; the General Administration of Press and Publication (GAPP), which was recently merged with the State Administration of Radio, Film and Television (SARFT) to form the State Administration of Press and Publication, Radio, Film and Television (SAPPRFT); and its 'little sister' organisation, the National Copyright Administration of China (NCAC). Regarding censorship, the Ministry of Culture (MOC) plays an important role. In relation to the technical aspects of online publishing etc. the

3 As a case in point, licensing contracts were limited to a maximum duration of ten years with the right of the licensee to use the licensed technology thereafter for free.

4 Neuwirth, 369, 370; with reference to the full WTO Panel Report Measures Affecting the Protection and Enforcement of Intellectual Property Rights, WT/DS 362/R (26.1.2009).

Ministry of Industry and Information Technology (MIIT: the former Ministry of Information Industry, MII) is a further crucial actor. Finally, the Supreme People's Court and some lower level courts have issued highly important judicial interpretations which bind the lower courts and have quasi-legislative effect in practice. This particularly concerns the implementation of the law.

1.1 National laws, judicial interpretations and administrative regulations

1.07 The most important laws and regulations are as follows:

(a) Copyright statutes issued at the national level

- Copyright Law of the People's Republic of China (hereinafter: CL) revised for the first time in 2001 and a second time with only minor changes in 2010, promulgated on 26 February 2010 by the Standing Committee of the National People's Congress Order of the President No. 26, effective as of 1 April 2010;
- Implementing Regulations of the Copyright Law of the People's Republic of China (Revised in 2013), promulgated on 30 January 2013 by the State Council Order No. 633; effective as of 1 March 2013 (hereinafter: Implementing Regulations);
- Regulations on Protection of Computer Software, revised for the first time on 8 January 2011 and a second time as promulgated on 30 January 2013 by the State Council Order No. 632, effective as of 1 March 2013 (hereinafter: Software Protection Regulations);
- Provisions on the Implementation of the International Copyright Treaties, promulgated on 25 September 1992 by the State Council Order No. 105, effective as of 30 September 1992.

(b) Administrative regulations

- Regulation on Internet Publication Services jointly issued by the MIIT and SAPPRFT on 4 February 2016, effective as of 10 March 2016;
- Provisions on the Administration of Publications Market promulgated by GAPP and MOC on 25 March 2011 and revised by GAPP on 28 August 2015 with effect on the same day;
- Circular of the Ministry of Culture on Permitting Domestic and Foreign-invested Enterprises to Engage in the Production and Sales of Game and Entertainment Equipment, promulgated on 24 June 2015 by the Ministry of Culture Wenshi Han (2015) No. 576, effective as of 24 June 2015;

- Circular on Regulating the Order of Internet Reproduction of Copyrighted Works, promulgated on 17 April 2015 by the SAPPRFT Guoban Banfa (2015) No. 3, effective as of 17 April 2015;
- Measures for Inquiry into Computer Software Copyright Registration Files, promulgated on 12 March 2015 by the National People's Congress, Announcement of the Copyright Protection Centre of China No. 12, effective as of 12 March 2015;
- Circular of the State Administration of Press, Publication, Radio, Film and Television on Further Implementing the Relevant Provisions on the Administration of Online Foreign Films and Teleplays, promulgated on 2 September 2014 by the SARFT Xinguang Dianfa (2014) No. 204, effective as of 2 September 2014;
- Interim Administrative Provisions on Internet Culture (2011), promulgated on 17 February 2011 by the Ministry of Culture Order No. 51, effective as of 1 April 2011;
- Measures for the Registration of Pledge of Copyright, promulgated on 25 November 2010 by the General Administration of Press and Publication, Order of the NCAC No. 8, effective as of 1 January 2011;
- Tentative Measures on Payment of Remunerations for Broadcast of Sound Recordings by Radio Stations and TV Stations, promulgated on 10 November 2009 by the State Council Order No. 566, effective as of 1 January 2010;
- Interim Administrative Measures for Internet Games, promulgated on 3 June 2010 by the Ministry of Culture Order No. 49, effective as of 1 August 2010;
- Measures for the Implementation of Copyright Administrative Punishment, promulgated on 21 April 2009 by the National Copyright Administration of China NCAC Order No. 6, effective as of 15 June 2009;
- Administrative Provisions on Electronic Publication, promulgated on 21 February 2008 by the GAPP Order (2008) No. 34, effective as of 15 April 2008;
- Measures of the Customs of the People's Republic of China for the Supervision and Administration of Printed Matter, Audio and Video Products Entering and Leaving the Territory of China, promulgated on 18 April 2007 by the General Administration of Customs GACC Order (2007) No. 161, effective as of 1 June 2007;
- Opinions of the Ministry of Culture and the Ministry of Information Industry on the Development and Administration of Net Games, promulgated by the Ministry of Culture and MIIT on and effective as of 12 July 2005.

(c) Important judicial interpretations

- Provisions of the Supreme People's Court ('SPC') on Certain Issues Related to the Application of Law in the Trial of Civil Cases Involving Disputes over Infringement of the Right of Dissemination through Information Networks, promulgated by the SPC on 17 December 2012 Fashi (2012) No. 20, effective as of 1 January 2013 (repelling the Interpretation of the Supreme People's Court on Certain Issues Related to the Application of Law in the Trial of Cases Involving Computer Network Copyright Disputes of 2006);
- Interpretation of the People's Supreme Court Concerning the Application of Laws to the Trial of Civil Disputes of Copyright, on 12 October 2002 and effective as of 15 October 2002;
- Guiding Opinions of the Beijing High People's Court on Certain Issues Related to the Trial of Cases Involving Copyright Dispute in an Internet Environment (I) (Trial), promulgated on 19 May 2010 by the Beijing Higher People's Court Jinggao Fafa (2010) No. 66, effective as of 19 May 2010;
- Interpretation I of the Supreme People's Court of Several Issues concerning the Application of the Contract Law of the People's Republic of China, adopted on 1 December 1999, effective as of 29 December 1999;
- Interpretation II of the Supreme People's Court of Several Issues concerning the Application of the Contract Law of the People's Republic of China, adopted on 9 February 2009, effective as of 13 May 2009.

(d) General laws impacting licensing of rights

- Contract Law adopted on 15 March 1999, effective as of 1 October 1999;
- General Principles of Civil Law of the PRC, as revised in 2009, and effective as of 27 August 2009 (with the original law effective as of 1 January 1987);
- Foreign Trade Law of the People's Republic of China as amended on 6 April 2004 and effective as of 1 July 2004;
- Anti-monopoly Law of the People's Republic of China adopted on 30 August 2007, effective as of 1 August 2008.

1.2 International conventions and conflict of law principles

(a) International treaties in relation to copyright

1.08 China has acceded to a number of international treaties and is a member of the Berne Convention (as of 15 October 1992), the Universal Copyright Convention (as of 30 July 1992), the Geneva Convention for the Protection of

Producers of Phonograms against Unauthorized Duplication of the Phonograms (as of 30 April 1993), the WIPO Copyright Treaty WCT (as of 9 March 2007) and the WIPO Performances and Phonograms Treaty WPPT (as of 9 March 2007). Most importantly, China also acceded to the WTO and TRIPS Agreement as of 11 December 2001.[5] China is however not a member of the Rome Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organisations of 1961.

1.09 It is important to note that international treaties appear not to be directly applicable under Chinese law.[6] Courts in practice will not allow a rightholder to rely on treaties to interpret national law differently from national statutes or interpretations issued by the SPC, or raise a claim not granted under national Chinese law.

(b) Conflict of law principles

1.10 In terms of conflict of law principles, China exhibited a long period of only sketchy legal rules scattered in the General Principles of Civil Law and Contract Law of 1999. In 2010 China finally passed the 'Law of the PRC on Application of Laws of Foreign-Related Civil Relations', effective as of 1 April 2011. This was further supplemented by the Interpretation of the SPC on Certain Issues Concerning the Application of the Law of the PRC on Application of Laws of Foreign-Related Civil Relations (I), effective as of 7 January 2013.

1.11 This new law reiterates the still existing stipulations in Sections 142–150 General Principles of Civil Law, Section 126 Contract Law, and provides that in foreign-related civil relations parties may choose the applicable law.[7] In the case of cross-border copyright license and assignment agreements this now enables parties to choose foreign substantive law[8] over Chinese law to govern their contractual relationship.[9]

1.12 However, in matters pertaining to IP rights, i.e., the question of their existence, ownership and 'content' (scope, limitation, duration of right and their transferability as such) are governed by the law of the country where the protection is claimed (*lex loci protectionis*).[10] Further, cases of tort and liabilities for infringement are also governed by the law of the place for which protection

5 See http://www.wipo.int/copyright/en/treaties.htm.
6 So far, no court decisions in China have cited international treaties as legal basis or supplementary legal basis.
7 Sec 3 Law of the PRC on Application of Laws of Foreign-Related Civil Relations.
8 Excluding conflict of law provisions, see Sec 9, ibid.
9 See the explicit wording in Sec 49, ibid.
10 SONG Haiyan Seagull, 419.

is claimed, or exceptionally according to mutual choice of law by both parties after occurrence of the infringement.[11]

Parties should note that they must provide the laws of the foreign country to a Chinese court. Failure to do so, the lack of ability of a Chinese court to ascertain the law or lack of relevant provisions in the foreign law will lead to the application of Chinese law.[12] As in other countries, courts in China will tend to apply Chinese law wherever possible, which means that choice of law and venue of jurisdiction should be carefully considered in any cross-border license contract.

1.13 Lack of choice of law will lead to application of the laws of the country having the most significant relationship with the license contract, which for contracts is further defined as laws of the habitual residence of the party whose performance of obligations best reflects the characteristics of the contract.[13] While both licensor and licensee may argue that their performance should be regarded as reflecting the necessary characteristics, Chinese courts are likely to consider that the copyright is situated in China and used there, and that payment of license fees is made by a licensee situated in China, thus arriving at Chinese law as the applicable law.

1.14 Care should be taken in relation to jurisdiction agreements involving Chinese courts and/or application of Chinese law. Section 34 Civil Procedure Law provides that parties to a contract may choose the jurisdiction of Chinese courts on a number of criteria. These can include the location of the plaintiff's or defendant's domicile, where the contract is performed or signed, in the location of the subject matter or other locations having actual connection with the dispute, apart from provisions on hierarchical and exclusive jurisdictions. Courts have been strict in interpreting a choice of forum clause (including for courts abroad with the application of Chinese law as substantive law) and have for example excluded the location of the occurrence of the dispute as a suitable forum.[14]

1.15 Section 265 Civil Procedure Law provides that in the case of action concerning a contract dispute over property rights and interests brought against a defendant who has no domicile within the PRC, if the contract is signed or performed within the PRC, or the subject matter located therein, if the

11 Sec 50 Law of the PRC on Application of Laws of Foreign-Related Civil Relations.
12 Sec 10, ibid.
13 Secs 2(2), 41, ibid.; Sec 126 Contract Law; Sec 145 General Principles of Civil Law.
14 ZHOU Cui, 26, citing SPC Min San Zhong (2009) No. 4 and a choice of Singaporean courts with Chinese substantive law held as invalid.

defendant has distrainable property in the PRC or a representative office, the Chinese court at the place where the contract is signed or performed, or where the torts are done, or where the representative office is located has jurisdiction. Further, actions arising from the performance of contracts for Foreign Invested Enterprises will always fall under Chinese courts' jurisdiction.[15]

2. THE OBJECT OF LICENSING: COPYRIGHT IN CHINA

1.16 It is important to note that not only the Chinese Patent Law, but also the Copyright Law was strongly modelled upon the continental European system, particularly the French and German models, and therefore also includes moral rights and distinguishes between authors' rights and neighbouring rights.[16] Nevertheless, US law is often found in current statutes and has steadily increased its influence. It now is often declared as the better benchmark for further amendments in the law, subject to strong internal debate in China.[17]

1.17 The requirements for a work to receive protection under the Copyright Law are quite high, as Section 2 Implementing Regulations stipulates: the term 'work' refers to an intellectual creation in the literary, artistic and scientific domain, insofar as it is capable of being reproduced in a certain tangible form. The practice in China has acknowledged different types of works beyond the classical canon of literary and other works, in particular by way of case law (and currently also under the proposal for the amendment of the Copyright Law), which confirmed for example the existence of works of applied art enjoying protection under the Chinese Copyright Law.[18]

1.18 Computer software is currently subject to a separate regime of rules but under the upcoming revision of the Copyright Law it will be explicitly included within the scope of the Copyright Law as literary works.[19] While the Software Protection Regulations currently still require that software must have been developed independently and be fixed on a tangible medium,[20] this requirement is expected to be dropped in upcoming legislation. Protection for

15 Sec 266 Civil Procedure Law.
16 ZHOU Pingan, 110, 114.
17 SONG Haiyan Seagull, 424.
18 Sec 4 of the most recent draft of the State Council Legislative Affairs Office of 2013; CUI, 184 et seq. with case law referring to Lego bricks, the Mammut chair and other cases.
19 ZHANG Chengguo, 190; for foreign works this is today already stipulated in Sec 7 Provisions on the Implementation of International Copyright Treaties of 1992.
20 Sec 4 Software Protection Regulations.

computer software today is granted also to foreigners having software first published within the PRC.[21]

1.19 Regarding audio-visual works, Chinese law distinguishes 'creative video works' fully protected under authors' rights from 'non-creative or mechanical video recordings' which are only subject to neighbouring rights protection.[22] Case law varies and the requirements to obtain full copyright protection are often higher in some jurisdictions[23] than in others. This creates a risk of qualifying a creative work such as a video-recording as non-creative, and can cover a variety of products, including music videos, flash recordings, animated pictures, 3D animation and reality or Gala TV shows.[24]

1.20 The revision of the Copyright Law intends to replace the term cinematographic work or a work created by a process analogous to cinematography with the term audio-visual works as used in the WCT and WPPT, deleting the need for physical fixation to obtain protection also for purely computer-made flash movies or motion pictures.[25]

1.21 Section 10 CL regulates the author's rights. It lists the moral rights on right of publication, right of authorship, right of revision and right of integrity in No. 1–4, as well as an enumerative open[26] catalogue of examples of economic rights contained in No. 5–17. While the first versions of the Copyright Law did not expressly provide for assignability of copyright and limited license contract duration to a maximum of ten years,[27] this was quickly abolished. Section 10(2) CL now stipulates that a copyright owner may permit others to exercise the economic rights specified in No. 5–17, and Section 10(3) stipulates the assignability in whole or in part of the economic rights listed out in Section 10 CL.

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21 Sec 5(3) Software Protection Regulations, Sec 7 Provisions on the Implementation of International Copyright Treaties of 1992.

22 See Sec 5 No. 3 Implementing Regulations, which define video recordings thus: 'Video recordings refer to the recordation of a series of related images, with or without accompanying sounds, other than cinematographic works or works created by virtue of analogous methods of film production'.

23 ZHANG Chengguo, 189.

24 SONG Haiyan Seagull, 426 with case law cited.

25 ZHANG Chengguo, 189.

26 See Sec 2 Interpretation of the SPC on Certain Issues Related to the Application of Law in the Trial of Cases Involving Computer Networks Copyright Disputes, Fashi 2006 No. 1, stating clearly that:

> with respect to other intellectual creation materials that cannot be categorized under the scope of works enumerated in Article 3 of the Copyright Law when in the web environment, but have unique creativeness in the fields of literature, art and science and can be reproduced in tangible form, a people's court shall provide protection therefor.

27 GUO Shoukang, 528, 529.

1.22 Section 23 Implementing Regulations stipulates that licensing contracts shall be concluded with copyright owners when exploiting works of others. Where the right licensed is an exclusive license, the contract shall be made in writing, except in cases where works are to be published by newspapers and periodicals.

1.23 Neighbouring rights are regulated in Chapter IV of the Copyright Law and are divided into publishers' rights, performers' rights, rights of sound and video recording producers and rights of radio and television stations. These rights can also be assigned or licensed[28] under the Chinese Copyright Law. In exercising their rights, owners of neighbouring rights are not allowed to interfere with the rights of the copyright holder of the original work.[29]

1.24 Publishers require permission under a publication contract and must pay remuneration in exchange for the exclusive contractual right to publish a work;[30] where the work is reprinted or republished, the copyright owner must be notified and remuneration be paid. Where the publisher refuses to reprint or republish the book when it is out of stock, the copyright owner has the right to terminate the contract.[31]

Publishers require permission for revision or abridgement of works by the copyright owner.[32] If works created through adaptation, translation, annotation, arrangement or compilation or pre-existing works are published, consent of all copyright owners must be obtained and remuneration be paid.[33]

1.25 Publishers enjoy the exclusive right of publication and the right to permit or forbid others to use the layout of a book or periodical published by them. The latter right exists for ten years (to 31 December of the tenth year) as of the first date on which the book or periodical was published using the layout.[34]

28 Explicitly stipulated for licensing in Secs 38, 42 CL.
29 Sec 27 Implementing Regulations. See also Secs 30, 35 CL (for publishers), 37 CL (for performers), 40 CL (for audio and video recordings), 46 CL (for radio and TV stations).
30 Secs 30, 31 CL.
31 Sec 32(3) CL.
32 Sec 34 CL.
33 Sec 35 CL.
34 Sec 36 CL.

1.26 A performer enjoys the perpetual right[35] to indicate his identity and protect the character in his performance from distortion, as well as rights limited in time[36] to authorise others to make live broadcasts or to publicly transmit his live performance in exchange for remuneration, to authorise others to make sound/video recordings in exchange for remuneration, to permit others to reproduce and distribute the recordings and to receive remuneration for it, as well as to permit others to disseminate his performance to the public through information networks and to receive remuneration for it.[37]

1.27 Producers of sound or video recordings and their licensees[38] require a license from the copyright owner of the original and any derivative work including adaptations, translations, annotations or arrangements of pre-existing works based on which the recording is made, including the performers.[39] For previously legitimately released recordings of a musical work however, unless the copyright owner has declared that use is not permitted, no authorisation must be obtained and only remuneration must be paid.[40]

1.28 Any producer of audio or video recordings enjoys the right to license, against remuneration, others to reproduce, distribute or rent out an audio or video recording it produces or broadcasts to the public via an information network. Such rights shall be protected for a period of 50 years, ending on 31 December of the 50th year after the completion of the first production of such recording. Where a licensee reproduces or distributes an audio or video recording or broadcasts the same to the public via an information network, she/he shall also obtain permission from the copyright owner and the performer and pay remuneration.[41]

1.29 According to Sections 43 and 44 CL broadcasts by radio and television stations only require a license against remuneration for broadcasting any unpublished work, but are not required to obtain a license in order to broadcast published works or previously released sound recordings, subject however to mandatory payment of remuneration. Television stations that wish to broadcast another's cinematographic work, work created by a process analogous to cinematography or video recordings further must obtain permission from the producer thereof and pay remuneration. In the event of broadcasting video

35 Sec 39(1) CL.
36 Valid for 50 years after the relevant performance took place, Sec 39(2) CL.
37 Sec 38 CL
38 Sec 42 CL.
39 Sec 41 CL.
40 Sec 40 CL.
41 Sec 42 CL.

recordings, the permission of the copyright owner is required and remuneration must be paid.[42]

Radio and television stations can prohibit the rebroadcasting of radio or television broadcasts or recording of them onto audio or video media and their reproduction for a period of 50 years after the first transmission.[43] **1.30**

3. LEGAL NATURE OF LICENSE CONTRACTS

In Chinese legal theory, heavy debates exist over the question of what precisely a license is and what the different characteristics of the license mean in relation to the assignment of right. **1.31**

3.1 Licenses

Chinese law only in relatively few instances specifically addresses the legal concept of a license. For patents and technology see in particular in Section 342 Contract Law, Sections 11(2), 12 Patent Law, Section 25 of the SPC Interpretation of the Supreme People's Court concerning Some Issues on Application of Law for the Trial of Cases on Disputes over Technology Contracts, for trademarks in Section 40 Trademark Law, as well as in Section 24 Copyright Law for copyright. **1.32**

The SPC for technology related contracts has provided some definition of an exclusive license, sole license and simple license in its Section 25 of the Interpretation of the Supreme People's Court concerning Some Issues on Application of Law for the Trial of Cases on Disputes over Technology Contracts. This definition does not explicitly refer to copyright related licenses. However, in practice the same distinction is made for copyright licenses.[44] The exclusive license under this definition allows for an exclusive license in the sense of '独占' (Pinyin: duzhan), i.e., a license excluding also the right owner her/himself, or a license in the form of '排他性' (Pinyin: paitaxing), excluding only all third parties from further use. Finally, the simple license provides a mere use right without any exclusivity. **1.33**

In this respect it is important to note that in practice the legal terminology for a use right granted to another party often is not used coherently. As in other **1.34**

42 Sec 46 CL.
43 Sec 45 CL.
44 ZHANG Yi, 40.

jurisdictions, it will depend on the intended meaning of the parties rather than the wording used to determine the nature of the license agreed upon.[45]

1.35 Regarding copyright and explicit stipulations in Chinese statutes, Section 24 CL stipulates that for the use of the work of someone else a contract shall be concluded. Section 24 Implementing Regulations further stipulates that sub-licensing, regardless of whether made by a sole or exclusive licensee, requires the consent of the copyright owner.[46] Parties are however free to agree otherwise. In essence, it is the general understanding in China that the license contract provides the legal ground of the use rights for a validly existing intellectual property (IP) right such as copyright or software copyright.

1.36 The contractual stipulations about the rights and obligations of the parties to a license agreement in a Chinese law environment play a crucial role in the assessment of what rights a licensee may enjoy.[47] It is therefore highly advisable to include more extensive and clearly defined language about the intent of the parties which conclude a contract on use rights or neighbouring rights.

1.37 The legal nature of the license contract, in particular whether a license contract grants an absolute right on the licensee, is strongly disputed among Chinese scholars. A license contract is generally seen as a bilateral contract for debt between (usually) two parties which concerns an ongoing and continuous obligation.[48] Problems may occur as the Contract Law and its general stipulations as such only address contracts relating to the exchange of goods and services. The lack of specific stipulations on licensing can cause problems, i.e., regarding clauses for termination of contracts.[49]

1.38 A general difficulty also exists for the categorisation of royalty-free license contracts. Some argue that license without payment obligations shall be deemed a contract for donation which for example leads to decreased obligations of the licensor in the case of deficiency of the contractually licensed object. Currently it is further still unclear whether an exclusive license carries not only obligatory elements but also, similar to a transfer of right, a legal effect which shall be held valid against any third party.[50]

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45 Ibid., 18.
46 Ibid., 19.
47 ZHOU Pingan, 155.
48 WU Handong, 109; ZHOU Pingan, 153.
49 ZHANG Yi, 24.
50 Ibid., 20

1.39 The problem of the legal nature of a license for example arises when a copyright owner grants several licenses to different parties. Chinese scholars argue among themselves whether for example an exclusive license can be granted after a simple license has been previously made available to another party. The majority supports the validity of a previously granted license and grants protection against later disposition of rights by the right owner which contradicts earlier contracts.

1.40 The Copyright Law in itself does on the other hand not provide any provision on validity or protection of an exclusive licensee against further acts of licensing by the copyright owner.[51] Thus, the position of an exclusive licensee is much weaker compared to other jurisdictions where the grant of an exclusive license may bestow a stronger position on the licensee. From a Chinese viewpoint, an exclusive license only limits the number of licensees.[52]

1.41 If unauthorised sub-licensing occurs without the consent of the licensor or copyright owner, the licensor has a claim against his licensee to cease and desist from breach of contract; however, the license contract between the sub-licensee and the first licensee remains valid and the use of the licensed object cannot be prohibited. As a result, the original licensor can only demand damage compensation for breach of contract according to Sections 112, 113 Contract Law.[53]

1.42 Breach of obligation of use of the licensed object, including the question of whether a licensed right has been sufficiently or timely used, can be pursued under Sections 112, 113 Contract Law under a claim for damage compensation as well as a claim for contract fulfilment. It is currently discussed at which degree of non-use the lack of use by a licensee may grant the right to terminate the contract. If license fees are paid based on a 'license per object' model, a right of termination is usually granted.[54] If a contractual obligation of use is executed with delay, termination of contract may further be possible under Section 94 No. 3 Contract Law requiring urgent fulfilment and a reasonable amount of time given for it.

1.43 Partial contract fulfilment will however in principle lead to application of Section 166 Contract Law, leading to an unsure assessment of whether a partial fulfilment is sufficient for a licensor to terminate a contract.[55] License

51 Ibid., 153.
52 Ibid., 48.
53 Ibid., 123
54 Termination is then possible under Sec 94 No. 4 Contract Law.
55 ZHANG Yi, 135, 136

contracts should therefore explicitly describe eventual use requirements and quotas to be reached.

Restrictions on geographical scope, quantities or time periods for use must be explicitly described in the license contract, subject to their validity under applicable laws for competition law. Lack of precise limitations may prevent the termination of contract, that is in the case of overproduction and manufacturing of higher quantities than contractually allowed.[56]

1.44 Assignment of rights and/or obligations to third parties under a license agreement is subject to the stipulations of the Chinese Contract Law, General Principles of Civil Law and other laws and judicial interpretations governing civil relations. Such assignment is excluded in the case of conflict with provisions of laws, contractual restrictions or due to conflict with the nature of the contract. In practice, the contractual agreement on restrictions of assignment based on Section 79 No. 2 Contract Law is the most relevant reason for barring assignment of rights or obligations.

1.45 Apart from these reasons for excluding assignment of rights and obligations, a licensor or licensee under the applicable stipulations of the Contract Law is in principle free to assign individual rights under a license contract, subject to fulfilling further legal conditions as stipulated in the Contract Law, that is consent by the other party. In the case of a novation of contract Section 88 Contract Law stipulates that upon the consent of the other party, one party may transfer all of its rights together with its obligations under contract to a third party. In such a case, Section 80 Contract Law further stipulates that where the obligee assigns its rights, it shall notify the obligor. An assignment will have no effect on the obligor without notice thereof.

3.2 Assignment

1.46 Agreements to be distinguished from license contracts are agreements for transfer/assignment of rights where a change of ownership occurs.[57]

1.47 Whether ownership is assigned or only a use right granted can be a substantial issue and is also of relevance for the enforcement of rights, as usually only the authorised owner of a right can intervene and request third parties to cease and desist from infringement and use. The courts have solved this problem by

56 Ibid., 138, 139, who sees Sec 107 Contract Law as not applicable.
57 ZHOU Pingan, 153.

issuing special regulations in relation to authorisation of licensees to independently sue third parties for infringement of right.

1.48 Regarding the assignability of copyright, Section 24(2) CL explicitly stipulates that property rights under the Copyright Law are assignable, whereas moral rights are not mentioned. The currently dominating view is that moral rights are not assignable.[58] Assignment agreements concerning Chinese copyright law therefore need to take the lack of assignability of moral rights into account and require adequate contractual safeguards to the extent permissible under Chinese law.

1.49 Under Chinese law the stipulations on purchase of goods regulated in Sections 124, 174 Contract Law can also be applied for the purchase of IP rights.[59] It is possible to transfer and assign only a part of the related IP right,[60] provided the assigned parts are separable from the original IP right. Part of the literature in China claims that copyright can only be assigned in its entirety and finally, which is however heavily disputed.[61]

4. MARKET ACCESS AND POSSIBLE SCOPE OF CROSS-BORDER ACTIVITIES BY FOREIGN RIGHT OWNERS

1.50 China grants market access only under a strict set of rules and regulations which require foreign investors or contractual partners to comply with their activities. The 'cultural products' market is much more strongly controlled than the technology market and is partially sealed off from foreign business activities.

1.51 China is extremely sensitive about the social and cultural fabric of its society[62] and in addition to restricting access by foreigners to the market it conducts heavy state-supervision and censorship of products such as movies, music and web content.[63] Foreigners wanting to engage in the Chinese market therefore need to be aware of the limitations of content which may be introduced into the Chinese market and the procedures required.

58 Ibid., 171; CUI Guobin, 339.
59 ZHANG Yi, 28
60 ZHOU Pingan, 171.
61 ZHANG Yi, 30.
62 See, e.g., ZHOU Pingan, 12 et seq.
63 Publications for example are subject to the system of editor accountability. If publications deal with key subjects involving state security, public stability, significant revolutionary subjects or historic materials, prior to dissemination the publisher is responsible for obtaining approval from GAPP and possibly also from the Ministry of Culture and further ministries and agencies, depending on the circumstances.

4.1 Investment barriers

1.52 Foreign investment in China can only be done within the scope allowed under the Foreign Investment Guidance Catalogue,[64] which for example prohibits foreign direct investment into the business of publishing books, newspapers and periodicals or the publishing and production of audio-visual products and electronic publications or network publishing services. Acting directly in the market without 'investment' as an alternative is not permissible.

1.53 One recent highly visible example for such market access restrictions is the new 'Regulation on Internet Publication Services' (网络出版服务管理规定, 'Internet Publication Services Rules') jointly issued by the Ministry of Information Industry and State Administration of Press, Publication, Radio, Film and Television on 4 February 2016 and effective as of 10 March 2016. It has introduced strict rules on foreign investments in online publications. The Internet Publication Services Rules cover a wide range of products, including 'texts, pictures, maps, games, animations, audios and videos', and prohibit any foreign joint ventures, joint cooperation models and foreign entities from engaging in online publishing services.[65]

1.54 In effect, market access for foreign right owners requires finding a Chinese cooperating partner. Even then, any cooperation projects between any Chinese online publication units and foreign invested joint ventures, joint cooperation ventures or overseas organisation or individuals are subject to pre-approval by Chinese authorities on a case-by-case basis.

1.55 The legal implications of such regulations go beyond the risk of administrative (or criminal) sanctions. Some authors support the view that contracts in fields where one contractual partner is not licensed to operate shall always be regarded as fully invalid.[66] Even if approval is sought, parties to a contract should realise that only compliance with further procedural steps and requirements will lead to an enforceable contract.

1.56 Providing intangible digital publications via the internet to the public in China requires an 'Internet Publication Service Permit'[67] granted by SAPPRFT,

64 Catalogue of Industries for Guiding Foreign Investment, promulgated by the Chinese National Development and Reform Commission (NDRC) and Ministry of Commerce (Mofcom) on 28 June 2017, available at: http://www.fdi.gov.cn/1800000121_39_4851_0_7.html, last accessed 7 February 2018.

65 Sec 10 Internet Publication Services Rules; see also http://www.miit.gov.cn/n1146290/n4388791/c4638978/content.html, last accessed 7 February 2018.

66 ZHOU Pingan, 152.

67 In Chinese: '网络出版服务许可证'.

which must be obtained for any and all entities engaging in Internet Publication Service with the following requirements:

- as one of the application documents, a commitment letter ensuring that all relevant server and storage equipment will be located within China and shall be submitted by the applicant;
- the legal representative of an Internet Publication Service entity shall be a Chinese citizen whose permanent residence is within China; and
- according to the Administration Measures on Internet Information Services an ICP license is also required in the event of selling e-products online.

1.57 Chinese contractual partners therefore must obtain a number of approvals, permits and licenses to engage for example in publishing digital publications.[68] An ordinary Chinese company cannot act as partner. This function is restricted to companies that have the properly approved business scope to conduct the exactly determined business, and always under the condition that authorities will give the green light.[69]

4.2 Example of market access control: publication contracts

1.58 According to Provisions on the Administration of Publications Market promulgated by GAPP and MOC on 25 March 2011 and revised by GAPP on 28 August 2015 with effect on the same day, and the Several Opinions of the Ministry of Culture, GAPP, NDRC and MOC on Canvassing Foreign Investment into the Culture Sector, effective as of 6 July 2005, a Foreign

68 In the example cited, approval by SAPPRFT/GAPP, registration with the competent Press and Publication Authority at provincial level, permit for publishing digital publications by GAPP, an Internet Publication Permit and Internet Content Provider License by MIIT and a filing for record with the competent Press and Publication Authority will be inter alia required.

69 Publication of paper publications by foreigners through a PRC publisher requires that the PRC publisher should obtain a 'Book Publishing License' and/or a 'Periodicals Publishing License' for publishing books and/or periodicals respectively. The publisher must indicate the author, publisher, printer, or reproducer, distributor, book number, periodical number or edition number and all other mandatory information on the books. In the case of the publication of foreign-originated books, the publisher needs to indicate the publishing contract registration number on the relevant book.

For publication of digital publications, a Chinese publisher must obtain an 'Electronic Publishing License', which in practice many mainstream book publishers have also obtained. To publish digital publications which have been authorised by an overseas copyright owner, the publisher must file an application to the GAPP and the main contents of such digital publications must be approved by GAPP. The approval number and certificate of the contract for authorisation of copyright must be clearly indicated on the printed surface of the carrier of the digital publications on a conspicuous place of the binding.

Publication of audio-visual publications (AV Publications) requires that the publisher must obtain a 'License for Publishing Audio-visual Products'. For AV Publications authorised by a foreign copyright owner, a publishing contract shall be concluded and registered with the national copyright administrative authorities, and the publisher shall mark the contract registration number on the AV Publications.

Invested Enterprise such as a joint venture is prohibited from carrying out 'general distribution of books, newspapers, periodicals, audio/video products and electronic publications', which by law refers to the sale of such publications by the sole supplier to other publications operators.

However, a foreign invested company can engage in other activities of publication distribution, such as wholesale, retail, leasing, organising the exhibition of publications and operating a chain business for distributing books, newspapers, periodicals, electronic publications and audio/video products by obtaining a 'License for Publication Business' from the competent administrative department of press and publication.

The Chinese regulations distinguish between paper publications, digital publications and audio-visual ('AV') publications. A digital publication is defined as 'magnetic, optical, electronic or other media that have a fixed physical form such as CD-ROM, DVD-ROM, diskette, hard disk and other media formality recognised by GAPP, where the publications contents are stored by means of numeric codes'. Under this definition digital publications shall have a tangible physical formality, whereas any intangible digital publications are part of what is otherwise defined as 'Internet Publication'.

In terms of AV Publications defined as 'tapes, CDs, and DVDs where audio-visual Publications are stored by means of recording or laser', a Foreign Invested Enterprise is prohibited to carry out general distribution, but allowed to engage in wholesale, retail, marketing and operating a chain business for distributing AV Publications by obtaining a 'License for Publication Business' from the competent administrative department of press and publication.

1.59 In terms of online distribution of paper, digital or AV publications, after obtaining the 'License for Publication Business', a Foreign Invested Enterprise can also engage in online distribution (but not publication) within the approved categories scope after satisfying the requirements of filing records with the competent administrative department of press and publication for conducting online distribution and obtaining a 'Value-added Telecom Service Permit' (also known as an 'ICP license').[70] In practice the Chinese government is making it increasingly difficult for joint ventures to obtain ICP licenses because of the tightening policies on internet censorship. Up to now, only around 28 joint ventures have managed to get such an ICP license in China.

70 According to the Administration Measures on Internet Information Services promulgated and revised by the State Council on 25 September 2000 and 8 January 2011 respectively, an ICP license shall be obtained for profitable internet activities such as distributing publications online.

4.3 Impact of prohibited or restricted market access on license agreements

1.60 The business models underlying a license contract require clear knowledge about the limits of permitted activities by foreigners. The limitations may require having to grant broader licenses to Chinese partners than in other jurisdictions: if, for example, editing of content is part of a cooperation agreement, foreigners are excluded from such editing and will officially have to rely on the implementation of editing by their Chinese partner.

1.61 License agreements therefore need to carefully reflect the lower level of control by foreign parties. Reliance on standard legal contracts used in other jurisdictions may not provide an adequate and feasible legal set-up under which foreign rightholders can obtain all rights stipulated under the contract and control their content and related products in the market.

1.62 For example, assignment of rights should not be executed prior to having made sure that all necessary permits, approvals and licenses are obtained or that a proper termination clause in the case of failure to obtain proper licenses is stipulated. Parties need to take into account that control over content and its marketing may be hindered or limited due to state interference. Contracts should provide safeguards in the case of any inability to reach certain objectives, grant-back of rights and compensation clauses, and should contain clear clauses on the scope of each party's responsibility.

4.4 Work-arounds and legal risks

1.63 Foreign companies have designed 'variable interest entities' (VIEs) which allow a foreign investor to take actual control of a Chinese company which engages in business areas restricted or prohibited under Chinese foreign investment law. Under such VIE structures, a controlling company exerts de facto legal control over an operating company which holds the necessary licenses under Chinese law to conduct the business. The control is established by a set of contractual agreements which often includes copyright licenses or assignment agreements. These VIE structures are currently under heavy scrutiny by Chinese authorities and their legal validity is highly uncertain.

5. IMPORTANT ISSUES AND PRINCIPLES FOR CROSS-BORDER COPYRIGHT CONTRACTING

1.64 License or assignment agreements require valid rights owned by the assignor or licensor.

5.1 Determination of copyright ownership

1.65 Licensing or assignment of future rights coming into existence will require determination of whether such a right exists at all. Under conflict of law principles, the law of the country where protection is sought applies to the question of whether a right has come into existence and who the original owner is. These problems are particularly relevant in relation to joint or commissioned creation of new copyrights.

1.66 Under Chinese law, copyright vests in the author unless the Copyright Law or an agreement between the parties provides otherwise.[71] Chinese copyright law does acknowledge copyright ownership of legal entities, in particular where a work is created according to the will and under the responsibility of a legal person or organisation.[72] The author is the person who creates the work. Creation refers to the intellectual activity that directly produces the literary, artistic or scientific works; undertaking organisational work, providing advice, material means or other forms of support to another's creation are not regarded as creations.[73] If a natural person, legal person or non-legal work unit affixes its name on the work, the person indicated shall be deemed to be the author unless there is evidence to the contrary.[74]

1.67 Compilations of several works, extracts from works or data or other materials that do not constitute a work may be compilation works, provided they show originality in terms of selection and arrangement of their contents. Copyright in such compilations is enjoyed by the compiler, provided the exercise of such copyright does not prejudice the copyright in the pre-existing works.[75] Where a work is created through adaptation, translation, annotation or arrangement of a pre-existing work, the copyright in such work vests in the person having undertaken these acts, provided the exercise of his/her right does not prejudice the copyright in the original work.[76]

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71 Sec 11(1) CL.
72 Sec 11(3) CL.
73 Sec 3 Implementing Regulations.
74 Sec 11(4) CL.
75 Sec 14 CL.
76 Sec 12 CL.

1.68 For protection of movies and TV programmes (currently defined in the law as cinematographic work or a work created by a process analogous to cinematography), Section 15 CL stipulates that the copyright vests in the producer of such work. The screenwriter, director, cinematographer, lyricist, composer and other authors enjoy the right of authorship in the work, and have the right to receive remuneration pursuant to the contract entered into with the producer. Authors of the screenplay, musical work and other works that form part of a movie and can be used separately have the right to exercise their copyright independently.

1.69 A contentious issue under the current law remains the question of whether individual authors must be remunerated in the absence of a contract or even when the remuneration agreed on in a contract is not spelled out.[77]

5.2 Jointly owned works

1.70 Where two or more persons jointly create a work, the copyright in that work will as a default rule be jointly owned by the co-authors.[78] The law is silent about the nature of ownership, in particular whether the right is owned by shares or percentages in accordance with their degree of contribution or jointly enjoyed by each party in full.

However, where a joint work can be separated into distinct parts in accordance with each author's contribution, each co-author may hold independent copyright in the part that he/she has created, provided that his/her exercise of such copyright does not prejudice the copyright in the joint work as a whole.[79] Where a joint work cannot be used separately, the copyright is jointly owned and exercised through consultation among the co-authors. Where they fail to reach an agreement and have no justified reason for the failure, no party may hinder any of the other co-creating parties from exercising all the rights except the right for assignment. Income generated therefrom must be fairly distributed between the co-authors.[80]

1.71 This stipulation in the law vividly demonstrates the importance of concluding joint-ownership agreements or adding detailed stipulations on the exercise of jointly created rights. Disputes are inevitable in the case of an envisaged

77 SONG Haiyan Seagull, 427.
78 Sec 13 CL.
79 Ibid.
80 Sec 9 Implementing Regulations.

exclusivity, which may be side-stepped simply by failing to agree on the terms of the exercise of co-owned rights.

1.72 If sole ownership for jointly created works is envisaged, the Copyright Law to date does not provide for a provision similar to Section 17 CL for commissioned works. In essence, this means that a specific assignment of rights must be contractually agreed to secure sole ownership of one party for jointly created works.

5.3 Service works and ownership

1.73 Current Chinese copyright law provides for a split set of rules on ownership of works made under employment. The sketchy rules are subject to proposals for revision but currently are not yet revised, which causes significant legal risks to cross-border co-operations with local content development.

1.74 Section 16 CL provides that the copyright in any work created by a citizen in order to comply with a task assigned[81] to him by a legal person/other organisation during employment in principle shall belong to the employee as author; the employer enjoys a prior right to use such work within the scope of its business. Within two years after the completion of such work, the author may not authorise without consent of the employer any third party to use the work in the same way in which it is used by the employer.[82] If the author with the consent of the employer authorises a third party, the remuneration shall be distributed between the author and the employer at an agreed ratio.[83]

1.75 However, Section 16 CL provides for a different allocation of rights under the following circumstances: the natural person and employee as author only enjoys the right of authorship, while all other rights (including the other moral rights[84]) will be enjoyed by the employer in relation to (1) drawings of engineering designs and product designs, maps, computer software and other works which are created in the course of the employment mainly with the material and technical resources of the legal entity, and for which the legal entity bears responsibility; (2) works created in the course of employment for which the copyright vests in the legal person/other organisation pursuant to law, administrative regulations or according to a contract concluded between the creating employee and the employer.[85]

81 See further definition of 'assigned task' in Sec 11 Implementing Regulations.
82 LI Mingde/GUAN Yuyan/TANG Guangliang, 364.
83 Sec 12 Implementing Regulations.
84 LI Mingde/GUAN Yuyan/TANG Guangliang, 365.
85 Sec 16(2) CL.

1.76 As long as contractual stipulations are clear and precise on the ownership of copyrightable creations achieved in the course of employment, problems with ownership by Chinese companies as contractual partners are limited. Contracts need to address not only the question of unlimited ownership but should also stipulate regulations on how to deal with the right of authorship and whether the employer will grant remuneration for the copyright obtained through the creation by its employee.[86]

In practice, however, most labour agreements contain very general language and sometimes no rules on IP ownership at all. The lack of proper management of IP ownership under labour employment can already be problematic as governed by general rules such as Section 326 Contract Law and its stipulations on pre-emptive rights for 'technical job results'. However, it creates considerable risks for cooperation with foreign partners that rely on valid ownership by a Chinese partner who will either use his/her employees or a third party for content creation.

5.4 Commissioned work contracts (works made for hire)

1.77 Chinese copyright law gives priority to contractual stipulations for commissioned works, for which a contract may stipulate ownership in accordance with Section 17 CL. If no contract is concluded or said contract is silent regarding the ownership of copyright, the commissioned party is deemed to be the copyright owner.

While this rule seems to be straightforward, it must in fact be read carefully in conjunction with Sections 14 and 16 Copyright Law on jointly created works and service works. Contractual partners who have disregarded clear contractual agreements with content creators used by them may not in fact be the owners of the rights they dispose of. Later on, claims by individual creators against the alleged foreign or Chinese owner of copyright for content newly created in China may be raised.[87]

1.78 It is therefore of vital importance for cross-border agreements concerning content creation in China (but also for the translation of existing works into Chinese) to analyse in advance the creation and the securing of ownership rights by parties involved and to include a clear description of assigned and

86 Sec 16 CL unlike Chinese Patent Law does not mandatorily require remuneration. While earlier drafts of administrative rules by SIPO on service inventions seemed to attempt to include copyrightable works into the scope of rights to be remunerated by an employer, this proposal has not yet materialised in Chinese laws and regulations.

87 LI Mingde/GUAN Yuyan/TANG Guangliang, 365.

licensed rights, warranties, indemnification clauses, as well as assignment of rights by third parties involved.

5.5 Copyright registration

1.79 Copyright protection in China according to international treaties and Section 6 Implementing Regulations commences on the date when the creation of a work is completed and no registration is required either for foreign or Chinese rightholders for the copyright to come into existence.[88]

1.80 Copyright registration with Chinese registration authorities enables rightholders providing rebuttable evidence on copyright ownership in China. While the registration only creates a 'prima facie' evidence,[89] in practice authorities will not question the validity of such ownership without very strong evidence of a challenging party. Copyright registration can therefore help to determine the subject of a cross-border license agreement and provide a useful basis for possible enforcement of copyright against third parties.[90]

1.81 Registration certificates from outside China can be provided in notarised and legalised format as an alternative but these may be more easily rejected as insufficient during enforcement.[91]

1.82 There are currently two sets of administrative regulations regulating the registration process for either copyright works[92] or computer software.[93] Under these rules, registration authorities do not examine substantively whether the object of registration is indeed a work capable of being protected under Chinese copyright law.

Registration of a work or software is done with the China Copyright Protection Centre in Beijing and provincial copyright offices.[94] Registration

88 BU Yuanshi, GRUR Int. 2009, 987.

89 See the wording of Sec 7(1) Computer Protection Regulations: 'A software copyright owner may register with the software registration institution recognised by the copyright administration department of the State Council. A registration certificate issued by the software registration institution is a preliminary proof of the registered items.'

90 Xianjing TIAN, Fuxiao JIANG, Katherine C Spelman, Daniel Gervais, Mark H Wittow and Trevor M Gates in Donna SUCHY, 199.

91 Ibid.

92 Interim Measures for the Voluntary Registration of Works, issued by the NCAC on 31 December 1994, effectives as of 1 January 1995.

93 Order of the NCAC on the Issuance of the Measures for the Registration for Computer Software Copyright 2002.

94 Sec 6(2) Order of the National Copyright Administration on the Issuance of the Measures for the Registration of Computer Software Copyright.

procedures under the applicable China Copyright Protection Centre rules are cheap and fast, including in relation to software copyright.[95] By paying an additional fee, it is possible to restrict access for a third party to a registered work or software in order to prevent abuse.

In some specific instances, registration of copyright or related agreements is required in order to obtain licenses and permits relevant for entering into and acting in the Chinese market. For example, any book publisher's publication of a foreign-originated book (including translation and reprinting for publication) is subject to the conclusion of a publishing contract with the copyright owner of the relevant foreign-originated work. As an overseas copyright holder, a publishing contract with the PRC publisher must be registered with Chinese copyright authorities by the Chinese publisher. The national copyright authorities will then make announcements on the main issues covered by such a contract, including issues such as the parties thereto and the content of the license to the extent that the information does not involve trade secrets. The same applies to a publisher publishing overseas digital publications and AV publications. It may further be required if preferential policies on tax rebates or investment are claimed by right owners.[96]

5.6 Copyright assignment agreements

1.83 Assignment of economic rights under the copyright, apart from following an agreement between the parties, does not require a separate act of disposal under Chinese law.[97] However, for an assignment agreement on copyright, a written and not an oral only form generally applies.[98] Assignment contracts for copyright under Chinese law in order to be enforceable and clear have to stipulate the title of the work, an enumeration of the rights being transferred and the geographical scope of such rights, payment, method of payment,

95 Statistics for 2013 show a total number of 834,569 works registered nationwide, with the majority of types of works (in decreasing order) being photos, works of art, literal works, music, designs and movies. Regarding registered contracts including licensing and assignment, 19,251 contracts, the vast majority of which concerning either books or software, have been registered, China Statistical Yearbook 2014, 464, 465. More critical in particular in relation to software registration see SUCHY, 199.

96 ZHAO Qingli/QU Linggang, Ruanjian Zhuzuoquan Dengji Zhidu de Fansi yu Wanshan (Review and Perfection of the Software Copyright Registration System), in: International Forum on the Centennial of Chinese Copyright Legislation, 482.

97 BU Yuanshi, GRUR Int. 2009, 987.

98 WU Handong, 112; weitergehend mit der Behauptung, dass dies zwingend erforderlich sei, allerdings ohne weitere Nachweise Xianjing TIAN, Fuxiao JIANG, Katherine C Spelman, Daniel Gervais, Mark H Wittow and Trevor M Gates in Donna SUCHY, 201. Sec 22 Interpretation of the SPC Concerning the Application of Laws in the Trial of Civil Disputes over Copyright, Fashi (2002) No. 31, stipulates application of Sec 36 and 37 Contract Law. Under these regulations, if one party has performed its principal obligations which has been accepted by the other party, the contract shall be deemed as established.

liabilities for breach of contract, as well as further content as agreed on between the parties.[99]

1.84 Parties can assign part or all of the economic rights under a contract.[100] Transfer of ownership of an original work of fine art or comparable works shall not be deemed to be an assignment of the copyright in such a work. However, the right to exhibit the original vests with the owner of the original work.[101] Moral rights however cannot be transferred and can only be exercised by their owner or authorised to be executed by a contractual partner.[102]

1.85 An important exception exists for the assignment of computer software which according to the wording in Section 8(3) Software Protection Regulations allows assignment also of the right of publication, the right of attribution and the right of alteration, subject to a written agreement. Registration of such agreement again is not mandatory.[103]

1.86 In practice contracts often lack a specific description of which rights are assigned and whether such assignment shall concern global rights or just specific countries. This may require further consent by the copyright owner in case of disposition over the allegedly assigned rights.[104] In the course of the dispute it can be very difficult to prove the intention of the parties, in particular in contracts that are rather short and sketchy.

1.87 The assignment is valid as of the date stipulated in the contract, otherwise as of the date of effectiveness of the contract. No registration of assignment is required for the legal validity of the assignment itself.[105] Lack of ability however to prove ownership of the assigning party or its identity may render assignment unenforceable and lead to disputes. Parties are therefore well advised to verify alleged copyright registration by themselves and not only rely on warranties contained in an assignment agreement.

99 WU Handong, 112, 113.
100 Ibid., 112.
101 Sec 17 Implementing Regulations.
102 WU Handong, 112.
103 BU Yuanshi, GRUR Int. 2009, 988.
104 Sec 27 CL stipulates that the other party may not exercise any right that the copyright owner has not explicitly licensed or assigned in the licensing or assignment contract.
105 BU Yuanshi, GRUR Int. 2009, 988.

5.7 Copyright licensing contract

(a) Form of copyright licensing contract

1.88 Section 23 Implementing Regulations stipulates that a contract or the authorisation to use another's copyright work must be in writing, except where the work is to be published by a newspaper or magazine. Although oral contracts may be sufficient for a valid license agreement in principle, license agreements on copyright or neighbouring rights will generally be in writing.[106] For exclusive licenses such as on software copyright the law explicitly requires the written form.[107]

1.89 The terms of such a contract should include stipulations on the authorised forms of use of the work, exclusivity or non-exclusivity of the license, scope and term, royalty rate and method of payment, rights and obligations for breach of the contract and other necessary terms to give effect to the licensing relationship.[108]

(b) Scope of license

1.90 As described, the content of an exclusive license according to Section 24 CL shall be agreed in a contract. Exclusivity under Chinese copyright law means that the copyright owner himself is excluded together with any third party from exercising the licensed rights; however, the parties can specifically agree that the copyright owner may continue to use the licensed rights alongside an exclusive licensee without the right to grant further licenses to other third parties. A simple license however will allow the licensor to grant further licenses to third parties.[109] Parties are well advised to clearly describe any restrictions on use, in particular in relation to further licenses or the remaining rights of the licensor.

1.91 Where no contractual agreement is made or the agreement is not clear, the law provides a presumption that the licensee has the right to exclude any other person, including the copyright owner, exploiting the works in the same way. Except as otherwise agreed, a licensee who licenses a third party to exercise the same right must be authorised by the copyright owner.[110] Lack of clear contractual stipulations relating to other essential parts of an assignment

106 WU Handong, 109.
107 Sec 19 Software Protection Regulations.
108 WU Handong, 110; MOSER/Matthew A Murphy, 289.
109 WU Handong, 110.
110 Sec 24 Implementing Regulations.

contract leads to the application of the general principles enshrined in the Chinese Contract Law.

1.92 Regarding description of specific rights licensed, some additional rights will be implied if and to the extent they are necessary to enable the licensee to use the licensed right, such as the right to adapt or re-arrange for the license to produce a film out of a work.

1.93 In relation to the publication of foreign books and AV products related to foreign books, the contract between the domestic publisher and the copyright owner must be registered with the local copyright bureaux within seven days of the date of contract.[111]

1.94 For publication of a work created through the adaptation, translation, annotation, arrangement or compilation of a pre-existing work, the permission of the owners of the copyrights in both the adapted, translated, annotated, arranged or compiled work and the original work shall be obtained and remuneration paid.[112] This requires that safeguards and appropriate clauses to be used by a Chinese publisher as contractual partner should be foreseen.

(c) Royalty and remuneration

1.95 A classic copyright license contract does grant a usually restricted use right to the licensee in exchange for payment of a running royalty.[113] The amount of the running royalty according to Section 27 CL can be freely agreed between the parties. There are sometimes special rates stipulated in voluntary rules of departments of the State Council which may also be applied if the parties agree upon them. Care should be taken to explicitly address the issue of remuneration and royalty as some opinions hold that the lack of stipulation about the amount of the license fee and the method of payment should exclude valid conclusion of a license contract.[114]

(d) Other important clauses

1.96 Use requirements can become an essential requirement under a license contract which calculates remuneration based on turnover or number of sold items. Clauses should be included which deal with breach of contract in

111 Notice on registration of contracts for publication of foreign books, issued by the NCAC on 15 January 1995, effective as of 1 February 1995.

112 Sec 35 CL.

113 WU Handong, 110.

114 ZHANG Yi, 59.

relation to such obligations and consequences.[115] Lack of such clauses will make it extremely difficult for right owners to prove their actual damage in case of negligent or intentional non-use by a licensee.

1.97 Chinese licensees will often require licensors to take all reasonable measures to pursue and stop infringement actions by third parties; the obligation for defence of a licensed right under Chinese law typically lies with the licensor.[116]

1.98 Foreign rightholders should always agree an arbitration clause in line with the requirements under Chinese law to have an enforceable award after conclusion of a dispute with the contractual partner. Most countries' court judgments currently are not enforceable in China, and vice versa.

(e) Restrictions in copyright licensing

1.99 According to Section 52 Contract Law a contract is invalid inter alia if harm is done to social and public interests. While this stipulation is theoretically applicable also in the case of abusively high license fees (excessive pricing), so far case law has not relied on this legal basis.

1.100 An obligation to use the licensed copyright to a certain extent as stipulated in a contract is heatedly debated in the Chinese literature. To the extent that the economic interests of the licensor are dependent on the use by the licensee, some scholars argue that an agreement with an obligation for the licensee to exercise and implement the license right should be permissible.[117]

1.101 Moral rights may be licensed alongside economic rights.[118] Care should be exercised in not depriving a licensee of all rights, which may come close to an assignment of moral rights. Explanatory language, for example, on the exercise of the right of alteration by the licensee will help in case of conflict to prove the intention of the parties and voluntariness of the copyright owner and licensor to grant exercise of these rights to the licensee. Publishers, performers, producers of audio and/or video recordings, radio stations, television stations, etc. who use the works of others pursuant to the relevant provisions of the Copyright Law shall further not infringe an author's right of authorship, revision or integrity or the right to receive remuneration.[119]

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115 WU Handong, 111.
116 ZHANG Yi, 92.
117 ZHANG Xiaodu, 48 f.
118 WU Handong, 110.
119 Sec 29 CL.

1.102 Where the copyright owner has authorised others to make cinematographic works and works created by virtue of analogous methods of film production, it is deemed that she/he has permitted them to make necessary alteration of his/her works insofar as such alteration does not distort or mutilate the original works.[120] Clauses on adaptation needed therefore should make explicit reference to this stipulation to avoid later possible claims of distortion.

1.103 In principle, using works of a licensor will require an indication of the name of the author and the title of the work, a stipulation that is otherwise subject to an agreement: for example, it may be impossible to fulfil the requirement due to the special characteristic of the way the work is exploited.[121] License agreements should therefore contain a clause on license markings and an indication of the author.

5.8 Contractual claims

(a) Non-performance, faulty performance and debtor's delay

1.104 Non-performance, faulty performance and debtor's delay are treated under the Contract Law without distinction compared to normal commercial cases. Non-fulfilment or fulfilment not in compliance with the contract according to Section 107 Contract Law in principle leads to a claim for performance or fulfilment of obligation, a right to remedy or relief measures and compensation obligations.

1.105 Under Chinese law the party obligated will be held responsible notwithstanding any fault on its part for any default in performance. According to Section 121 Contract Law either party that breaches the contract due to a third party shall bear the liability for breach of contract to the other party. This demonstrates vividly that a clearly defined description of contractual duties is even more important under Chinese law than in other jurisdictions. The risk for liability therefore also exists in cases where the law does not allow a license for foreign entities or forbids engagement within the Chinese market with specific actions such as editing or publishing. Rightholders are well advised to clarify in advance the limits of legal licensing of copyright and related content in China.

1.106 Contractual disputes about negligent noncompliance in relation to certain obligations by one party which are not the essential obligation but nonetheless required for fulfilment and implementation of the contract may lead to claims

120 Sec 10 Implementing Rules.
121 Sec 19 Implementing Rules.

of the other party for damage compensation, which can also include lost profits. However, to the extent the parties have agreed on the scope of damage compensation, the latter agreement prevails.[122]

(b) Pre-contractual or post-contractual breaches

1.107 Section 107 Contract Law does not regulate pre-contractual or post-contractual breaches of duty. If a party prior to conclusion of the contract acts with intent to deceive or otherwise contravenes the principle of good faith, Section 42 Contract Law provides a claim for damage compensation. A corresponding rule is found in Section 61 General Principles of Civil Law for *culpa in contrahendo* (invalidity of the contract).

(c) Liability exemption and liquidated damages

1.108 Clauses in licensing contracts on liability exemption are invalid if they limit liability for causing physical injury to the other party or causing losses to property to the other party by intention or due to gross negligence.

1.109 Damage compensation according to Section 107 Contract Law in relation to license contracts includes the interest in the complete fulfilments of an obligation, i.e., positive interest including lost profits. However, compensation shall not exceed the damages which the obligated party at the time of conclusion of the contract could foresee or should have been able to foresee, according to Section 113 Contract Law. Damage compensation is always to be paid in money and does not include restitution in kind.

1.110 According to Section 114 Contract Law, parties are free to agree on clauses for liquidated damages. If the actual damage exceeds or is below 30 per cent of the stipulated sum, each party may apply to a Chinese court to adjust the amount of liquidated damages.

(d) Protection of confidential information

1.111 Section 43 Contract Law provides for special protection against disclosure of confidential information which is obtained in the making of the contract, no matter whether the contract is executed or not.

1.112 Section 92 Contract Law further stipulates that after the termination of rights and obligations under contract the parties shall perform the duties of notification, assistance and confidentiality in light of the principle of good faith and in accordance with trade practices. In spite of these general stipulations it is

122 ZHANG Yi, 108, 109.

highly advisable to conclude a nondisclosure agreement with sufficiently broadly worded clauses in order to prevent leakage of trade secrets and unfair competition by prospective, current or former business partners.

5.9 Application of law in the absence of essential clauses

(a) Lack of clear stipulation on license fee

1.113 If the parties do not agree on an amount and calculation of the license, Section 61 Contract Law provides for the possibility to agree on a supplemental agreement or, in the absence of such, to determine these 'in accordance with the related clauses of the contract or with trade practices'.

1.114 Section 62 No. 2 Contract Law further stipulates that in the case of an unclear price for remuneration stipulation the contract shall be performed in accordance with the market price at the place of the contract performance at the time of making the contract or according to the government set price or government guided price, if it is so required by law.[123] Section 27 CL further stipulates that the rate of remuneration for the exploitation of work may be agreed upon by the parties or may be fixed in accordance with the rates issued by the administrative department for copyright of the State Council in conjunction with the other departments concerned. Currently there are two examples of such rates for the publication of works of art and written works.[124]

(b) Statutory grounds for termination of contract

1.115 Regarding termination of the license contract Section 94 Contract Law provides a set of four specifically defined circumstances (plus one general catch-all clause), which are: (1) 'force majeure'; (2) the full period of performance expires, either party clearly indicates by word or by action that it will not discharge the principal debts; (3) either party delays the discharge of the principal debts and still fails to discharge them within a reasonable period of time after being urged; and (4) either party delays the discharge of debts or is engaging in other illegal activities and thus makes realisation of the aim of the contract impossible. The latter reason of termination can become important if the parties have agreed on a specific obligation of the licensee to further the

123 See also Art 88(2) General Principles of Civil Law.

124 'Opinions of the NCAC on Remuneration for the Publication of Written Works' promulgated on 14 March 2003; Measures on the Publication Renumeration of Written Works, promulgated by the National Copyright Administration in 1999, currently proposed to be amended with the Circular of the National Copyright Administration on Seeking Public Comments on the Measures for Public Remuneration of Written Works (Revision Draft for Comments), promulgated on 23 September 2013 by the State General Administration of Press, Publication, Radio, Film and Television (National Copyright Administration).

contract performance; however, general breaches of contract will usually not allow a party to rely on this stipulation for termination.

1.116 According to Section 94 No. 4 Contract Law contractual termination of the license contract is possible if violation of duty to further the contract negatively impacts the ability to reach the objective aim of the contract. The licensee in that case has a free choice between a claim for continued fulfilment or termination. Termination of the contract in such a case is effective *ex nunc* (from now on).[125] The legal consequences of termination are stipulated in Section 97 Contract Law, with a focus on the re-establishment of the former status quo, remedial measures and damage compensation.

Section 97 Contract Law stipulates that after the dissolution of a contract, for those clauses which are not yet performed, the performance shall cease. For those already performed, the party concerned may in accordance with the situation of performance and the nature of the contract demand restoration to the original status or take other remedial measures and have the right to claim compensation.

5.10 Collective administration of copyright

1.117 Copyright collective management was introduced in China quite late in the 1990s and originally only in the music industry sector.[126] Section 8 CL provides the legal basis for the establishment of various Collective Management Organisations or CMOs. Currently, there are five CMOs in various fields in China. One of the most influential is the Music Copyright Society of China established on 17 December 1992. It is an energetic CMO with about US$20 million in revenue annually and active litigation records against unauthorised users of its rights.

1.118 The China Audio Video Copyright Association (CAVCA) was established in May 2008 and is responsible for collective management in the field of music, video and similar works. This CMO manages the right of public performance, the right of public presentation, the right of broadcasting, the right of rental, the right of communication between information networks, the right of reproduction and distribution and other copyright and related rights of AV works that can be exercised. Its revenue was reportedly above US$23 million in 2013.

125 ZHANG Yi, 119.
126 XU Chao, 587.

1.119 The China Literary Works Copyright Society was founded on 24 October 2008. The Images Copyright Society of China and the China Film Copyright Association were respectively established in November 2008 and October 2009.[127]

In China, there is no competition between different CMOs in the same field.[128] CMOs must by law be non-profit organisations.[129] Furthermore, CMOs must obtain authorisation from rightholders to be able to license. They cannot refuse to contract with rightholders or refuse to meet the acceptance requirements prescribed in the bylaws of each CMO. In return, rightholders cannot exercise their rights or authorise other persons to enforce or otherwise license their rights mentioned in the contract with the CMO;[130] authorisation is thus given on an exclusive basis. It is acknowledged that there is a fiduciary relation between the CMO and the rightholders.[131]

1.120 CMOs may conclude licensing contracts with users on set terms and tariffs. These tariffs must comply with the rates published by the copyright registration department of the State Council. A compulsory license situation exists under the cases of Sections 23, 32(2), 39(3), 42 and 43 CL, Section 47 Collective Copyright Administration Rules.

1.121 While in principle the Chinese government strongly supports collective management organisations, rightholders reportedly in practice are often strongly dissatisfied with the level of collection of license fees and the distribution of collected fees to (foreign) rightholders.

5.11 Enforcement of licensing contracts

1.122 The majority of lawsuits initiated in China in the area of IP rights is based on copyright infringement: almost half of the roughly 100,000 IP cases in Chinese courts per year relate to copyright disputes. However, most of these cases do not relate to contractual disputes but rather concern infringement actions.

127 SUCHY, 205 et seq.
128 Sec 7 Collective Copyright Administration Regulations.
129 XU Chao, 590.
130 Ibid., 594.
131 SUCHY, 208.

(a) Right to sue

1.123 Generally speaking, sole and joint right owners always have a right to stand and initiate a lawsuit in Chinese courts provided there is jurisdiction. Foreigners must be represented by local counsel in order to take action. While sole right owners will have no problem in quickly initiating a lawsuit, in the case of joint ownership, courts often require that all owners proceed or specifically grant permission to one owner to initiate a lawsuit under a specific authorisation to the court. This can make enforcement of jointly owned rights highly difficult in practice.

1.124 Simple and exclusive licensees as well as assignees who are party to a contract can raise contractual claims as independent parties against a right owner and licensor, or former assignor, as the case may be.

1.125 When raising a claim, under Chinese law right owners will have to choose between breach of contract and tort.[132] Generally speaking, claims based on a contract are often easier to enforce since no level of fault needs to be proven and claims are based on the prior agreement between the parties. In addition, contractually stipulated damages often spare the need to prove the extent of damages suffered by an aggrieved party.

1.126 As an exception to the rule of no monetary compensation for mental pain and suffering, compensation may be granted in the case of infringement of moral rights.[133] They are determined based on the infringer's degree of fault, the scope and seriousness of the infringement, the illegal gains of the infringer and the infringer's economic capacity. Reportedly, awards typically range between CN¥ 2000 and CN¥ 50 000 (approximately US$ 300 and US$ 7,250).[134]

1.127 The statute of limitations for contractual claims is two years.[135]

(b) Courts and administrative enforcement

1.128 Rightholders in China may request administrative authorities to enforce their rights in the case of infringement. Doing so does not prevent parties from seeking further relief from Chinese civil courts.[136] The procedure is regulated

132 Sec. 54 CL.

133 LI Xuening/ZHANG Honglei/YU Mei/LIN Wen, 63.

134 SUCHY, 230.

135 Sec 135 General Principles of Civil Law; a longer period of four years applies to technology import and export contracts relating to technology, see Sec 129 CL.

136 Sec 3 Interpretation of the SPC Concerning the Application of Laws in the Trial of Civil Disputes over Copyright, Fashi 2002 No. 31.

in a separate set of administrative regulations and does require that administrative authorities are willing to take a case.

1.129 This possibility, however, will generally not exist in the case of contractual disputes. An important reason is that administrative acts can only be applied under Chinese law when a case between two or more companies involves the public interest.[137] While public interest may be confirmed in cases of significant product piracy and breach of contract by a contractual partner, each case is up to the full discretion of the authorities to accept or reject.[138]

1.130 While the administrative enforcement procedure is generally less time-consuming, more cost-effective and less complicated, under the procedure right owners cannot obtain damage compensation by unilateral decision of the authorities.[139] Further, the decision is not final and may be appealed in court, leading often to a procedure in court in spite of the intention to avoid court procedures by choosing the administrative enforcement route.[140]

6. CASE LAW: TYPICAL CRITICAL ISSUES IN COPYRIGHT CONTRACTS USED IN CHINA

1.131 Typical contracts with which authorities and courts are familiar concern book publication contracts, joint publishing contracts, newspaper publication contracts, contracts for adaptation of works, contracts for translation of works, performance contracts and contracts for use of audio visual recording producers' rights.

1.132 While with the arrival of the internet many new forms of contract involving copyright are being created, so far very few experts, scholars or judges treat and analyse such contracts in the context of Chinese law. Foreign parties are well advised to rely on extensive contractual language and the creation of strong evidence when embarking on agreements involving new subject matter not yet extensively used in China. At the same time, reliance on the general rules contained in the Contract Law, Copyright Law and related known copyright contracts will help in the case of dispute or conflict.

137 Sec 48 CL.
138 SUCHY, 233.
139 Sec 48 CL.
140 Sec 56 CL.

1.133 Publishing contracts under Chinese law include a classical publishing contract for publication of a work in a book or as news or a magazine, a contract for manuscripts and also joint publishing contracts. They require written form. Where it is agreed in a book-publishing contract that the publisher enjoys the exclusive publishing right, but the contents of the right are not clearly defined, the publisher is deemed to enjoy the exclusive right to publish in the same language of the original edition or revised edition of the book within the term of validity of the contract and in the geographic area agreed on under the contract.[141] Publishers may also revise or abridge a work only with the consent of the copyright owner.[142]

1.134 Regarding the obligations under a publishing contract, the copyright owner must deliver the work within the time limit specified in the contract, and the book publisher must publish the book in accordance with the qualitative requirements and time limit specified in the contract. The book publisher is liable for breach of contract under Section 54 Copyright Law if she/he fails to publish the book within the time limit specified in the contract. Where the work is reprinted or republished, the copyright owner shall be notified and remuneration shall be paid. Where the publisher refuses to reprint or republish the book when it is out of stock, the copyright owner has the right to terminate the contract.[143]

1.135 Joint publishing contracts as a separate case describe contracts between a publisher and a cooperating party who is not necessarily the right owner.[144]

1.136 Different therefrom, newspaper publication contracts are concluded for publication of a work in a newspaper and magazine, and are usually very limited regarding their duration and often do not require written form.[145] Where a copyright owner submits a manuscript to a newspaper or periodical and does not receive notification of the decision to publish within 15 days after the submission to the newspaper, or within 30 days after the submission to the periodical, the copyright owner may offer the same manuscript to another newspaper or periodical, unless the agreement between the two parties states otherwise. After a work is published, the work may be reprinted or published as abstract or materials by other newspapers and magazines with remunerations paid to the copyright owner as prescribed, unless the copyright owner

141 Sec 28 Implementing Rules.
142 Sec 34(1) CL.
143 Sec 33 CL.
144 WU Handong, 111.
145 Ibid.

declares that the work shall not be reprinted, extracted or compiled.[146] Further, newspapers and periodicals may revise or abridge a work only for reasons of style and require permission by the author to revise the contents of the work.[147]

1.137 Contracts of adaptation of an existing work require the adapting author party an agreement and stipulate appropriate clauses on ownership.[148] For translation contracts, a precise definition of the language into which the contract is translated is required.[149] For works created in the Han language by a Chinese citizen, legal person or other organisations, translation into the language of a domestic minority may be done and used without payment of remuneration but mention of the name of the author and title of the work must be included.[150]

1.138 Regarding performance contracts, no written form is explicitly required.[151] Such contracts are defined as a contract between the copyright owner and the performing artist.

1.139 For contracts for the use of AV recording producers' rights, it is important to note that following the WTO dispute DS362 initiated in 2007 audio and video recordings produced and distributed in the territory of China by foreign or stateless producers are explicitly protected by the Copyright Law, even if these may not have passed censorship and approval for distribution. The right enjoyed by foreign or stateless producers in their audio and video recordings produced and distributed in the territory of China is protected by the Copyright Law.[152]

7. ANTI-MONOPOLY LAW AND LICENSING IN CHINA

1.140 License agreements in relation to Chinese jurisdiction may become subject to scrutiny under Chinese administrative law in relation to anti-competitive behaviour. Choice of a foreign law as the applicable law does not exclude the applicability of Chinese competition law. For example, the conclusion of an

146 Sec 33 CL.
147 Sec 34(2) CL.
148 WU Handong, 112.
149 Ibid.
150 Sec 22 No. 11 CL.
151 WU Handong, 112.
152 Sec 34 Implementing Regulations.

agreement between competitors,[153] a denial to deal by a holder of a dominant market position granted by ownership of copyright,[154] or including certain restrictive provisions or excessive pricing conditions in license contracts may all conflict with a number of stipulations under the Anti-Monopoly Law (AML) and related administrative regulations. Right owners need to be aware of the active role of Chinese courts and the possibility for a competitor to raise a civil lawsuit based on the violation of one or several of the provisions of the AML under certain conditions.[155] Even more so, Chinese administrative authorities have been and are becoming very active in creating further legal provisions which provide Chinese authorities with the possibility to investigate and sanction certain behaviours deemed anti-competitive.

1.141 Different kinds of anti-competitive conduct will be handled by different bodies: the most important agencies in regard to licensing of copyright are the National Development and Reform Commission (NDRC) as well as the State Administration of Industry and Commerce (SAIC). Under the legal framework, the NDRC is the competent authority to supervise and investigate price monopolies including excessive pricing, whereas the SAIC is responsible for the supervision of possibly monopolistic (horizontal or vertical) agreements, conduct of behaviour excluding or restricting competition and the abuse of a dominant position other than business concentration (the latter falls under the jurisdiction of the Ministry of Commerce 'Mofcom').[156]

Following the enactment of the AML in 2007, the NDRC has quickly gained the reputation of an avid enforcer of the law, and has not only targeted patent-related agreements[157] but also in 2013 and 2014 reportedly started to investigate Microsoft, until then one of the most important software providers to China.[158]

7.1 Relevant laws and regulations

1.142 The AML of 2007, effective as of 1 August 2008, contains the central set of regulations and basic principles of Chinese competition law, especially in relation to horizontal or vertical agreements between competitors or abuse of a dominant position, including by way of an IP right.

153 Sc. Secs 13, 14 AML.
154 Sc. Sec 17 AML.
155 Provisions of the Supreme People's Court on Application of Laws in the Trial of Civil Disputes arising from Monopolistic Practices Fashi 2012 No. 5.
156 Thomas PATTLOCH in: Stefan LUGINBUEHL/Peter GANEA, 316.
157 LI Tao, GRUR Int. 2015, 444.
158 BU Yuanshi, GRUR Int. 2015, 1098.

1.143 Section 55 AML provides the legal basis for the application of the AML and related regulations to the extent that there is no 'normal' exercise of IP rights but rather an 'abuse of intellectual property by undertakings to eliminate or restrict competition'. This rather general language and its meaning in practice is being elaborated on by various further regulations issued by the State Council Anti-Monopoly Commission in charge of organising, coordinating and supervising among the three key agencies for implementation of the competition law, namely the NDRC, Mofcom and the SAIC.

1.144 The AML has thus been supplemented by a number of administrative regulations and judicial provisions significant for IP-related agreements and the abuse of a dominant position.

1.145 In addition, the Supreme People's Court issued the Provisions on Several Issues Concerning the Trial of Civil Cases Caused by Monopolistic Conduct on 8 May 2012, in force since 1 June 2012. While Chinese courts have been very active in addressing patent-related issues and violation of the AML,[159] so far decisions on copyright-related license agreements appear scarce.

1.146 Section 329 Contract Law and related regulations in the Technology Import and Export Administration Regulations, Interpretation by the Supreme People's Court on Technology Contracts, Foreign Trade Law and other laws and regulations mainly address 'technology contracts', which should exclude in general 'pure' copyright license agreements. However, in the case of software and related licenses these additional regulations must be abided by and require review of standard agreements used under foreign law to be also binding and compliant with the mandatory requirements under Chinese law.

1.147 The following provisions have been issued as clarification of the general rules under the AML and related other administrative regulations and judicial interpretations. While these administrative regulations to the extent already enacted are strictly speaking only binding in relation to the issuing agency, they may be taken as guidance by Chinese courts. In all cases, the general provisions and principles of the AML continue to apply as higher-ranking law.[160]

159 See, e.g., the dispute of Huawei against InterDigital and the decision by the Guangdong Higher People's Court (2013) Yue Gao Fa Min San Zhongzi No. 305 and 306, issued in 2013.

160 For an overview see Thomas PATTLOCH in Stefan LUGINBUEHL/Peter GANEA, 313 et seq.

(a) SAIC Provisions

1.148 On 7 January 2011, the SAIC promulgated the Regulations on Prohibiting the Abuse of a Dominant Market Position ('Circular No. 54') with respect to the implementation of the Anti-Monopoly Law. These rules already provided further guidance on Section 17 AML[161] but have been further detailed and clarified in a new set of regulations.

1.149 The SAIC on 7 January 2015 released the Provisions on the Prohibition of the Abuse of Intellectual Property Rights to Exclude or Restrain Competition, effective as of 1 August 2015 ('Provisions'). The Provisions clarify the concepts of the 'abuse of intellectual property rights to exclude or restrain competition' and 'relevant market' and define technology market or a product market including specific IPRs. Rightholders should note that the practice on the definition of the relevant market tends to strongly restrict these markets when assessing for example a dominant position.[162] This leads to a higher probability of the application of the AML and the Provisions in practice.

1.150 Key provisions in the SAIC rules relate among others to the prohibition of both horizontal and vertical agreements that restrict competition; application of an 'essential facilities' doctrine requiring IP right owners with market dominance to license their IP rights; and prohibition on IP right owners with market dominance from imposing specific contractual clauses on licensees without valid justification.

(b) Refusal to license

1.151 Article 7 of the Provisions provides that where the IP rights of a business operator in a dominant market position constitute a necessary facility for relevant production and operating activities, such a business operator may not refuse without a valid reason to license his IP rights on reasonable terms. A refusal to license can be regarded as a violation of the AML under the

161 Sec 17 AML describes as abuse of a dominant position:

1. Selling commodities at unfairly high prices or buying commodities at unfairly low prices;
2. Selling commodities at a price lower than cost without justified reasons;
3. Refusing to trade with relevant trading counterparts without justified reasons;
4. Restricting trading counterparts to the trading only with the said operator or its designated operator without justified reasons;
5. Conducing tie-in sales without justified reasons, or adding other unreasonable conditions to the trading;
6. Discriminating against trading counterparts of the same qualifications with regard to transaction price, etc., without justified reasons; and
7. Other practices determined by the anti-monopoly law enforcement authorities as abuse of dominant market position.

162 See BU Yuanshi, GRUR Int. 2015, 1099 with examples.

following conditions: where there are no other reasonable substitutes for the IP rights in the relevant market and the IP rights are necessary for other operators to participate in the competition in the relevant market; where refusal to license the IP rights will have adverse impacts on competition or innovation in the relevant market and harm the consumers or public interest; and provided the licensing will not cause unreasonable harm to the IP rights owner.

This provision enables Chinese authorities to regard a copyright in itself as an essential facility under certain conditions. While the current use of this provision may seem theoretical, care should be taken by right owners to take into account the possibility of its application in the future, in particular in relation to making available online content.

(c) Prohibition against tying arrangements

1.152 Article 9 of the Provisions prohibits a business operator with a dominant market position without justification implementing compulsory tying sales or bundling different goods for sale in violation of normal trade practices or consumption habits, or by ignoring the function of the products, to eliminate or restrict competition. The implementation of a tied sale must extend the dominant position of the operator in the tying product market to the tied product market, thereby eliminating or restricting competition either in the tying product market or tied product market.

1.153 The practice of bundling has already come under close scrutiny by Chinese competition authorities.[163] While the Provisions allow for an owner of an IP right with a dominant market position to justify the bundling, care should be taken to be able to prove such justification. In the *Qihoo v Tencent* case,[164] the court found that Tencent had been justified in combining the installation of an instant messaging service and security software. This was because Tencent's action was beneficial to consumers since it improved the performance of their computers. Further there was no evidence that the alleged tying actually excluded competition.

163 Ibid.

164 Supreme People's Court Civil Judgment (2013) Min San Zhong Zi No. 4, available at http://www.court.gov.cn/xwzx/yw/201410/t20141016_198470.htm.

(d) Prohibited restrictive conditions

1.154 Article 10 of the Provisions prohibits a business operator in a dominant market position from imposing unreasonable restrictive conditions without justification. For copyright license and assignment contracts, specifically, the prohibition to require exclusive grant-backs of any improved technology (software) or prohibiting trading partners from dealing with third parties are of greater importance for future consideration.

7.2 State Council Anti-Monopoly Commission: Anti-Monopoly Guideline on Intellectual Property Abuse

1.155 Based on the division of jurisdiction by the administrative agencies under the AML, the SAIC Provisions do not apply to price-related monopolistic activities. On 31 December 2015, the NDRC as the entity entrusted by the State Council Anti-Monopoly Commission published a new draft of the Anti-Monopoly Guideline on Intellectual Property Abuse ('Guideline'). The Guideline has a broader scope than the Provisions as it covers price-related monopolistic activities. The draft Guideline is also more detailed than the Provisions in that the Guideline provides particular explanations for different types of agreements and activities.

1.156 The draft Guideline explains the methodology of the definition of relevant markets and determination of dominant market positions with a specific view to IP rights. The Guideline in its second part refers to the various types of agreement enumerated in Section 13 AML and addresses IP agreements that may eliminate or restrict competition.

(a) IP agreements (horizontally or vertically)

1.157 The draft Guideline separately discusses several types of IP rights agreement while looking at the determination of an actual or possible competitive relationship not only before the conclusion of a contract but also after it:[165] (1) joint R&D; (2) patent pooling arrangements; (3) cross-licensing not only of patents but any IP rights: relevant factors for possibly restrictive effects are exclusivity of a cross-license, whether it constitutes a barrier for access by third parties to the relevant market and whether the cross-license blocks competition in relevant downstream commodity markets; and (4) formulation of standards.

165 See draft Guideline II.

1.158 The draft Guideline further looks at agreements reached by business operators without a competition relationship based on Section 14 AML and determines price restrictions: if a licensor maintains the prices of commodities utilising the licensor's IP sold to third parties, or if the licensor restrains the lowest prices, the provisions concerning resale price maintenance under the AML apply.

1.159 A further important issue is exclusive grant-back clauses exercised for further improvements made by a licensee based on the licensed IP or new achievements developed by the exercise of the licensed IP. The draft Guideline for anti-competitive effects lists the following factors as relevant: whether the licensor provides substantial consideration for exclusive grant-back or both parties request exclusive grant-back mutually; whether the exclusive grant-back leads to a concentration to the business operators of related IP improvements or new achievements which let the business operator obtain or strengthen his control over the relevant market; whether the exclusive grant-back harms the initiatives of the licensee to make further improvements. If grant-back is not demanded to the licensor, but a third party specified by the licensor, these factors still apply.

1.160 The draft Guideline mirrors the substantial concerns of the Chinese legislator when it comes to obligations for future rights and achievements which may be obtained in addition to the contractually agreed obligation by a licensee. While the draft Guideline is currently not yet law, it mirrors earlier similar provisions issued by Mofcom, the Ministry of Science and Technology and the Supreme People's Court and further tightens the conditions for an admissible grant-back.[166] Parties to a license agreement should therefore be conscientious about carefully drafting any such obligation with sufficient regard to the high requirements under Chinese law.

1.161 The draft Guideline further addresses other restrictive clauses, which include agreements that confine the use of IP rights by a licensee to a particular geography, restrict the quantities, sales channels, sales scope or transaction counterparties of the products provided by the licensee, or prohibit a licensee from obtaining a license of competitive IP rights from a third party or prohibit a licensee from producing or selling products that compete against the products of the licensor.

166 Art 29 Technology Import and Export Administration Regulations; Art 10 No. 1 Interpretation of the Supreme People's Court on Some Issues Concerning the Application of Law in the Trial of Technology Contract Dispute Cases, Fashi 2004 No. 20.

The draft Guideline clearly states that the enumerated restrictive clauses in a non-competitive relationship in general will be commercially reasonable but stipulates that certain factors have to be taken into account: these include the content, degree and implementation method of a restriction; the characteristics of commodities provided by the licensee utilising the IP right; whether other business operators holding competitive IP rights implement identical or similar restrictions; and whether the restriction promotes the implementation and development of the licensor's IP or other IP. Where a competitive relationship exists, Section 13 AML is referred to as the applicable rule.

The draft Guideline also provides for a (rebuttable) safe harbour rule in accordance with Section 15 AML.[167] An agreement is presumed to be exempted if its parties compete against each other and together possess a market share in any relevant market related to IP agreements of no more than 15 per cent, or if its parties do not compete against each other and their market share is no more than 25 per cent in any relevant market related to IP agreements; clear-cut violations of Section 13 or 14 AML however will not be subject to such exemption.

(b) Abuse of dominant market position

1.162 The draft Guideline separately discusses six types of abuse of a dominant market position: (1) licensing at unfairly high prices; (2) refusal to license; (3) tying; (4) imposing unreasonable conditions; (5) discriminatory treatment; and (6) coercion by an owner of standard-essential patents upon a licensee by means of injunctive relief.

Different from European antitrust authorities, Chinese authorities and courts have been actively deciding cases on alleged unfairly high royalties for licensed IP rights.[168] Right owners involved in repeated licensing in China should pay close attention to the following factors enumerated by the draft Guideline under its Part III: whether the royalties charged obviously do not match the value of the licensed IP rights; which license commitments are undertaken; license history and comparable rates; whether the licensor charges royalties beyond the geographical regions in which the IP rights subside or beyond the

167 Notably, the conditions under the draft Guideline for exemption are stricter than compared to Sec 5 SAIC Provisions, which only require: (a) the combined market share of the competitors involved in the relevant market is no more than 20 per cent, or no less than four other independent, interchangeable technologies exist in the relevant market and can be licensed at reasonable costs; or (b) neither the relevant market share of the undertaking nor the relevant market share of its trading company is more than 30 per cent, or no less than two other independent, interchangeable technologies exist in the relevant market and can be licensed at reasonable costs.

168 LI Tao, GRUR Int. 2015, 444.

scope of commodities covered by the IP rights; whether royalties are charged for invalid or expired IP rights when licensing an IP portfolio; whether the license agreement includes other conditions leading to unfairly high royalties; whether the licensor makes the licensee accept its offered royalties by improper means.

1.163 An owner of a dominant market position and his justifiable reasons of refusal to license are determined based on factors such as the license commitments undertaken; whether the relevant IP rights are necessary to have access to the relevant market and whether there are reasonably available alternative IP rights; effects on the business operator's innovation lead by licensing relevant IP rights; whether the refusal is based on lack of willingness or capacity to afford reasonable royalties of the prospective licensee; whether the refused licensee lacks the necessary support for qualities and technologies to ensure the proper use of the IP rights or the security and performance of related commodities; and whether the use of IP rights causes negative effects on social public interests such as energy saving and environmental protection. While these grounds are of particular relevance mainly for technology licensors, the broad scope of the draft regulation may provide a feasible basis to request right owners to license in spite of any lack of willingness on the part of the licensor, in particular in relation to reasons for innovation lead or negative effects on social public interests.

Regarding discriminative treatment, according to the draft Guideline authorities shall examine whether the conditions of the licensee are substantially identical, as well as the scope of the licensed IP rights and the substitutive relationship among the commodities or services provided by different licensees utilising the IP rights; whether the conditions of the licensee are substantially different in addition to the clauses in the license agreement, as well as the substantial impact of other commercial arrangements reached between licensor and licensee on the license agreement; and whether discriminative treatment leads to significant negative influence on the competition in the relevant market.

7.3 Outlook

1.164 Many of the regulations currently proposed by the draft Guideline are under heavy criticism, which mirrors the unease of foreign and domestic IP right owners when it comes to the limits of exercise of IP rights under Chinese competition law. While much of the current discussion focuses on the issue of standards and patents, copyright which plays an important part for certain markets or acts as foundation for the functioning of networks, services or

content may in future also become a substantial part of the discussion. Right owners are well advised to closely follow the development of legislation and the decision making of the judiciary and administrative authorities to assess the limits and prospects of copyright licensing in China in the future.

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