

# Relations between outsourcer and developer and third party intellectual property rights

**Dalian – 23 June 2010**

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# IT in China: emerging opportunities

- ▼ Growing demand from sectors like telecoms, logistics and retail
- ▼ Outsourcing from South East Asia in addition to Japan and the US
- ▼ Informatisation of SMEs - a government priority
- ▼ Tax incentives for software firms
- ▼ More sophisticated manufacturing sector demanding ERP's solutions
- ▼ Launch of 3G services

Source: Business Monitor International



# IT in China: facts

▼ Players like Ufida Software and Alisoft continue to expand

▼ China Soft and Digital China switching their focus from hardware to services

▼ Lenovo, HP and others expanding sales and services network in rural areas

▼ Continuous development of new application suites for large and medium enterprises by Kingdee

▼ IBM's cloud computing centre for Chinese software companies (2008)

▼ Microsoft China revenues growing at a double-digit rate

▼ Increased presence of international players like Oracle, Infosys, Satyam and EDS

Source: Business Monitor International



# Introduction

- ▼ Fast development of China software industry → constant increase of software and service outsourcing
- ▼ Do not put the horse before the cart
- ▼ Fairy tale vs B-category horror movie



# What is an (IT) « outsourcing » contract?

- ▼ Terminology: Outsourcing/ facilities management/ system management/ business process outsourcing/ managed services etc...
- ▼ Outsourcing involves the contracting out of a business function to an external provider
  - ▼ i.e. Entrusting to specialized IT companies the management and the exploitation of pre-defined services (**non core**) formerly performed by the customer.
- ▼ (Legal qualification) Services contracts



# What is an IT « outsourcing » contract?

- ▼ Importance of a written contract
  - ▼ Basis of protection
  - ▼ Structure the relationship
    - ▼ Expectations and SLA
    - ▼ Framework for evolution
    - ▼ Mechanisms in case of failure/ exit arrangements
    - ▼ Dispute resolution
  - ▼ Avoid later disagreements (Detailed terms?)



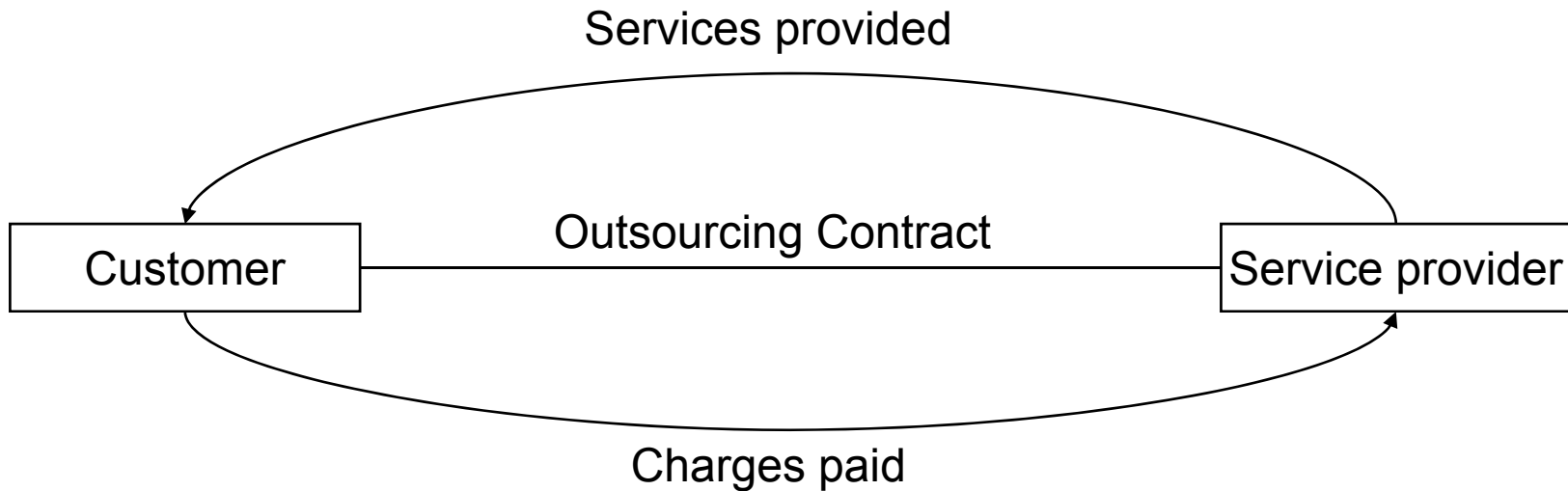
# Contract law

- ▼ An outsourcing contract remains subject to general contract law
- ▼ Application of general principles:
  - ▼ Autonomy (! Mandatory laws – i.e. copyright laws)
  - ▼ « *Pacta sunt servanda* »
  - ▼ Good faith enforcement
  - ▼ Sanctions (early termination clauses)
- ▼ « Tailor-made contract »
- ▼ Its content will differ regarding the customer's situation and objectives



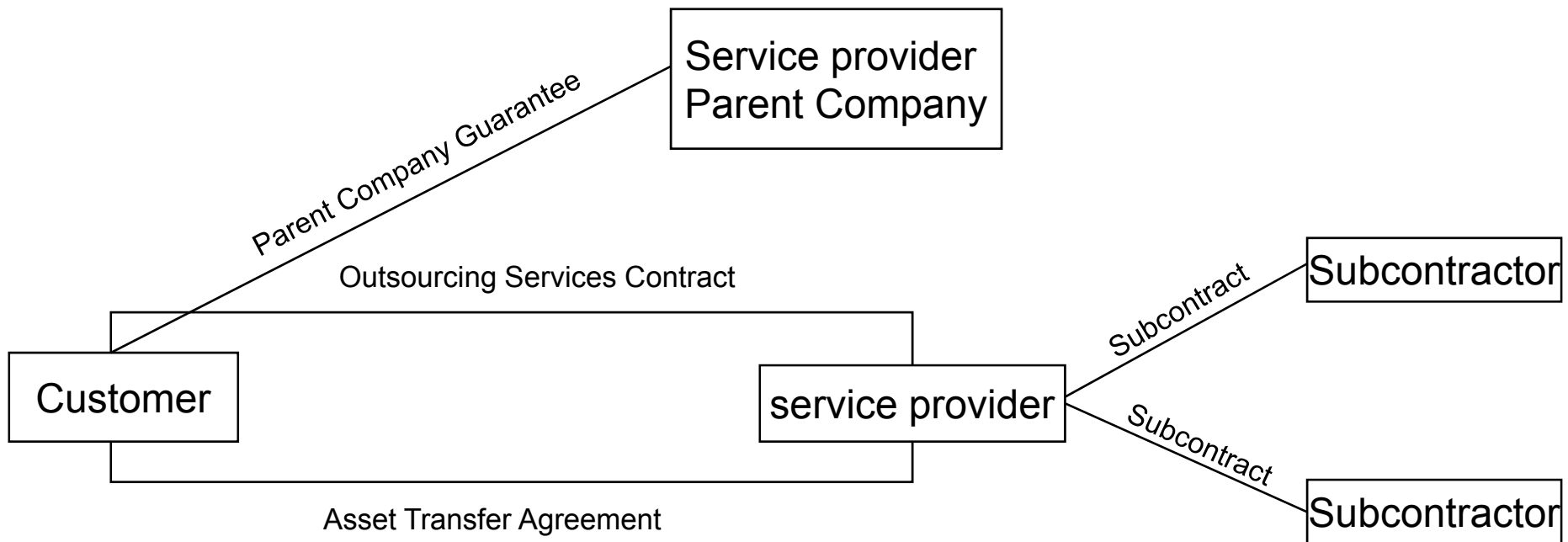
# Contractual structures I

Simple model:



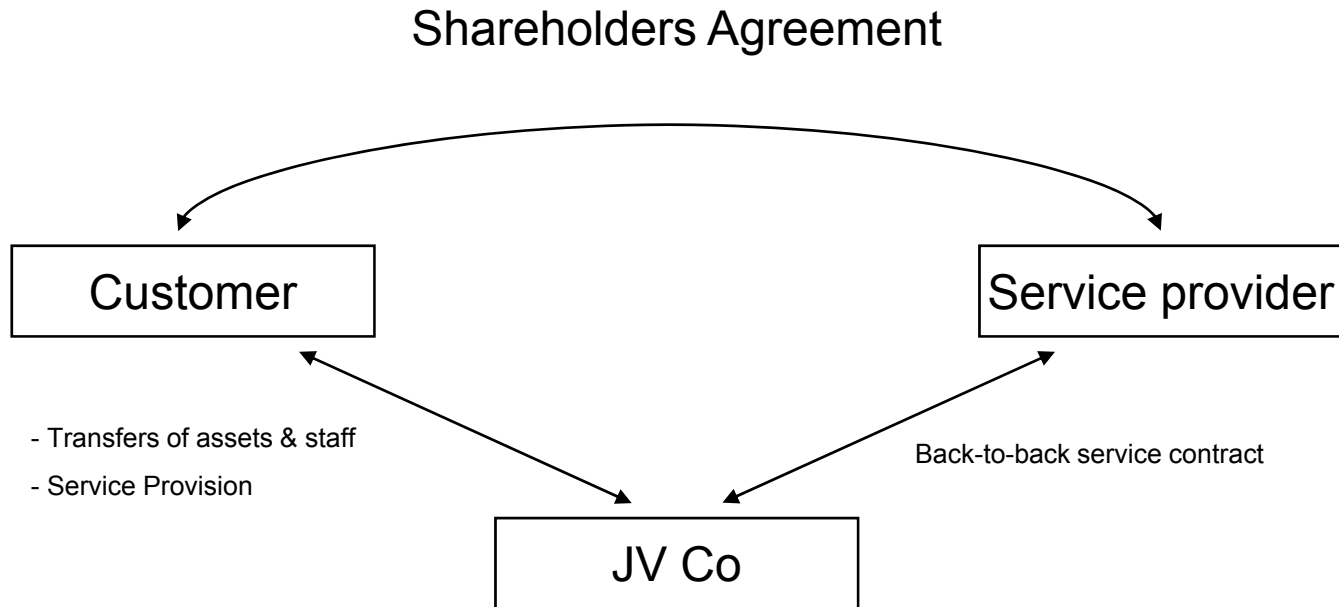
# Contractual structures II

A more complex model:



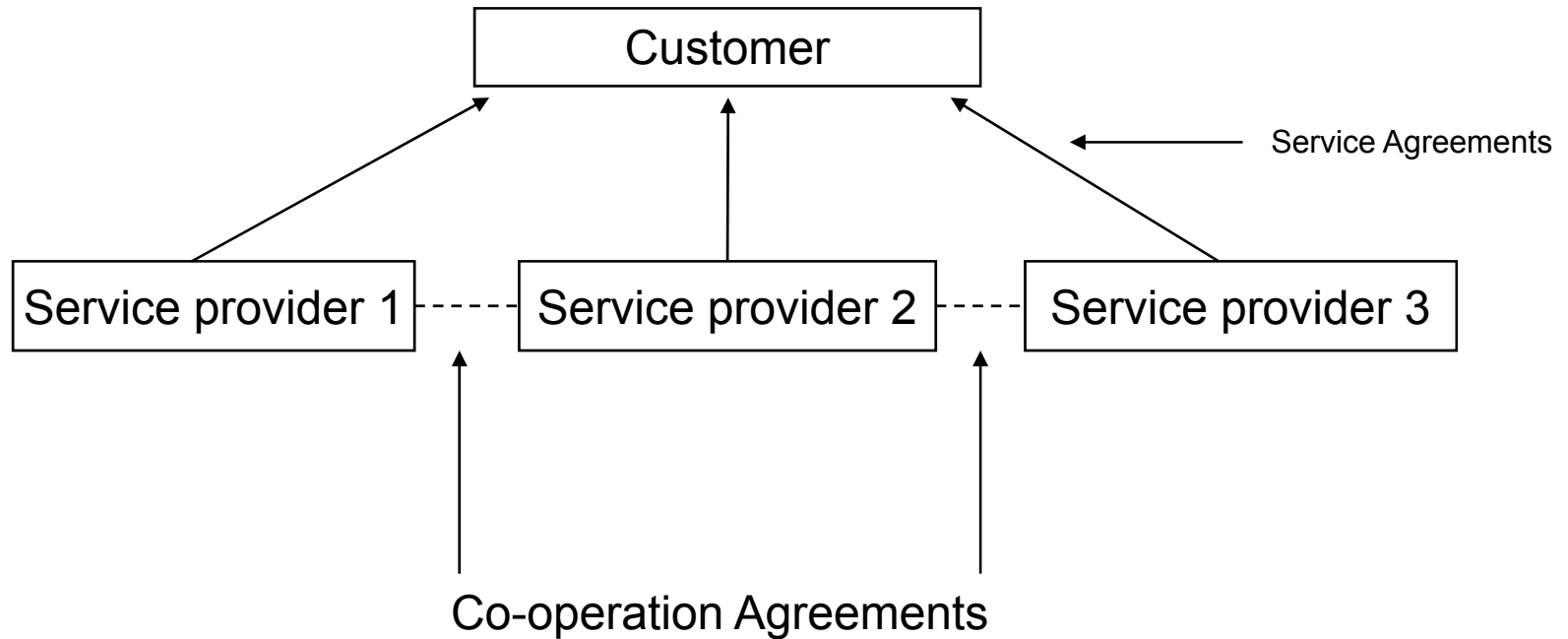
# Contractual structures III

## A joint venture/utility model:



# Contractual structures IV

## Multi-vendor outsourcing:



# Object of the contract

## ▼ First step

- ▼ Description of the transferred services and assets (HW,SW) and resources
- ▼ Inventory: What does the customer have at the date it considers outsourcing?
  - The client and the service provider will often proceed to an **AUDIT**
  - This audit should be made at a preparatory level and constitute the basis of the specifications.  
If the audit is made after the contract is signed, such contract should provide an « exit » clause in case the customer disagrees with the service provider's analysis
  - Duty to inform (! Specialist)



# Object of the contract

- ▼ General object
  - ▼ Clear and precise task description + « performances »
- ▼ General tools warranting the delivery
  - ▼ « Obligations of result » vs. « Obligation of means »
  - ▼ Related concepts:
    - Best efforts
    - Best industry practices
    - Standard industry practices
    - Rules of the art
    - Good house father



# Object of the contract

- ▼ Specific tools
  - ▼ Frequency of incidents (SLA) (Credit services vs. damages)
  - ▼ Adaptation to regulatory evolution
  - ▼ Adaptation to technological evolution
    - ▼ Vis-à-vis competitors products
    - ▼ Vis-à-vis interconnected softwares (New versions)
  - ▼ Volume of processing (Speed)
  - ▼ Calendar of provision of services etc... (Delay damages)



# Duration of the contract

- ▼ Generally concluded for a long period
  - ▼ Permanent contract (undetermined time period)
    - ▼ May be terminated by any party + long period of notice (at least for the service provider)
  - ▼ Contract with a definite duration
    - ▼ 3 - 4 years
    - ▼ Generally provides renewal by tacit agreement (for 2 years or more)
  - ▼ Transitory measures (cf. infra)
  - ▼ 7 years average duration



# Specificities on dispute resolution

- ▼ Mediation (Legal and technical mediators)
- ▼ Arbitration (Confidentiality, language) (NY Convention)
- ▼ Exequature
- ▼ Collaterals



# Benchmarking

- ▼ Regular evaluation process of the products/services/methods compared to those of the competitors
  - ▼ Need of service level indicators (objectives in terms of performances)
  - ▼ Balanced criteria
  - ▼ Need of a third party specialized in benchmarking techniques (difficulty to find a competent/impartial/independent benchmarker)
  - ▼ If possible, consumer enquiry in another sector (competition)
  - ▼ Cost



# « Evolution » clauses

- ▼ Crucial: taking into account the duration of the contract
- ▼ Reciprocal claim
  - ▼ At the customer's request
  - ▼ At the service provider's request (critical massa / €)
  - ▼ At the other service provider's customers demand
- ▼ Take into account the regulatory evolution
- ▼ Escalation process
- ▼ Organize the financial consequences ( Balance )
  - ▼ customer: price competitiveness
  - ▼ service provider : adequate compensation
- ▼ Organize the « ownership » of the « new configuration »  
( ! End of the contract)



# Reversibility

- ▼ Dependence to the service provider
- ▼ Keeping internal expertise team
- ▼ Transparency and reporting
- ▼ Association to the major steps of the outsourcing
- ▼ « Reversibility clauses » : option for the customer (or new service provider) to take back the management of the outsourced services



# Reversibility

- ▼ « *Restitutio statu quo ante* »?
  - ▼ The contract must provide obligations of cooperation and assistance at the termination of the contract
    - Vis-à-vis customer
    - Vis-à-vis new service provider
- ▼ Reversibility must not only be contractual but also technical!
- ▼ Transfer of necessary means
  - ▼ Transferred elements
  - ▼ Developed applications?
  - ▼ Are equipments repurchased? (Depreciation)
  - ▼ Files/documentation...
  - ▼ Human resources (poaching)
  - ▼ Transfer vs sublicense (exclusivity vs non exclusivity)



# Copyright / Computer program protection

- ▼ Legislation
  - ▼ EU directive of 14 May 1991 on computer programs (copyright)
    - ▼ BE: Law of 30 June 1994 regarding the protection of computer programs (PA)
  - ▼ Berne Convention of 1886 on the protection of literary and artistic works and EU copyright directives (Directive 2006/115 (rental and lending right), Directive 2001/29 (information society), Directive 2006/116 (term) etc...)
    - ▼ BE: Law of 30 June 1994 regarding copyright and neighboring rights (CA)
  - ▼ EU directive of 11 March 1996 on databases
    - ▼ BE: Law of 31 August 1998 regarding the protection of databases
- ▼ Important rules in practice
  - ▼ Computer programs are protected by copyright (PA + CA)
  - ▼ Documentation + icons (CA)
  - ▼ Assignment of rights in writing + restrictive interpretation (CA)



# Copyright / Computer program protection

- ▼ Presumption of assignment (salaried vs free lance) (CA vs PA) (BE / FR ≠ NL)
- ▼ Economic rights → assignment (CA vs PA)
  - ▼ Right of reproduction, in part or in whole.
  - ▼ Right of translation/adaptation/arrangement (etc..)  
(without prejudice to the rights of the person who alters the program : copyright vs software)
  - ▼ Communication to the public?
- ▼ Moral rights → waiver of enforcement (CA vs PA) vs. assignment
- ▼ Joint works
  - ▼ Joint creation
  - ▼ Joint exploitation (contract?)
  - ▼ Divisible (consent of all writers) vs. indivisible
- ▼ Derived works
  - ▼ Works depending on a pre-existing work
  - ▼ The « new » author is the single owner of the copyright
  - ▼ Need to obtain the prior consent of the original author
- ▼ When the outsourcing services provider is also the integrator



# Rights on the transferred elements / Outsourcing compliance / Clearing – Preparatory phase I

- ▼ The contract must describe the material means and softwares transferred to the service provider and provide their legal « situation » (Prior, during and after)
  - ▼ MATERIALS
    - ▼ Does the service provider own (lease) the material?
    - ▼ Related questions of « Transfer of risks » (theft, destruction etc...)
    - ▼ Insurance (multi-jurisdictional outsourcing – exclusions)
    - ▼ maintenance
  - ▼ STANDARD SOFTWARES
    - ▼ Check, licence by licence, if the customer can transfer/sublicence freely the exploitation of the softwares to the service provider
    - ▼ Maintenance agreements + services contract (Exclusivity, termination clause)



# Rights on the transferred elements

## ▼ SPECIFIC SOFTWARES

- ▼ Made for the specific needs of the customer before the outsourcing operation.
- ▼ Check the rights of the customer on such softwares (development contract of the software)
  - ▼ If the customer owns the IP rights and the sources (sure?)
    - Free-lance, founders, affiliated companies, open source
    - Scope of ownership: sublicence (one-shot/ leased licence /termination clauses
    - the customer must allow the service provider to use/adapt the softwares
  - ▼ If the customer only has limited rights
    - need to obtain the consent of the rightholder of the software BEFORE the conclusion of the outsourcing contract (avoid risk of unfair bargaining and of refusal)
  - ▼ Employment contracts (IPR terms)
  - ▼ Confidentiality aspects
- ▼ FILES/DATABASES (4 protection levels)
- ▼ KNOW-HOW – PROCESSES – PATENT (Embeded software)



# Data protection

- ▼ If the outsourcing concerns processing of personal data
- ▼ The customer usually remains the data controller
- ▼ Customer (data controller) + service provider (data processor)
- ▼ What is required?
  - ▼ Data processing agreement complying with EU (Belgian) data protection law
  - ▼ Data transfer agreement (if service provider is located in non-EEA country not ensuring adequate data protection) - EC model contract can be used



# Preparatory phase

## ▼ Rectification



# Caveats – Breach of rights of third parties

- ▼ Risk (preliminary injunction)
- ▼ Contractual approach
  - ▼ Financial (cap vs unlimited responsibility – insurance – performance bond)
  - ▼ Operational (workaround – forced licence)



# During the performance of the outsourcing agreement

- ▼ Anticipation
- ▼ During the outsourcing
  - ▼ Towards the service provider
    - ▼ customer (proprietary) software
      - ▼ Right of use (including modification rights) vs exploitation right
      - ▼ Sub licence (Chinese subcontractors)
    - ▼ Third party software
      - ▼ New licence vs sub (sub) licence (Escrow)
  - ▼ Towards the customer
    - ▼ (Sub) licence – joint ownership – assignment (technology/regulatory refresh)
    - ▼ Surviving clauses
    - ▼ Warranties (no violation of rights of third parties)
    - ▼ Exchange of know-how - training



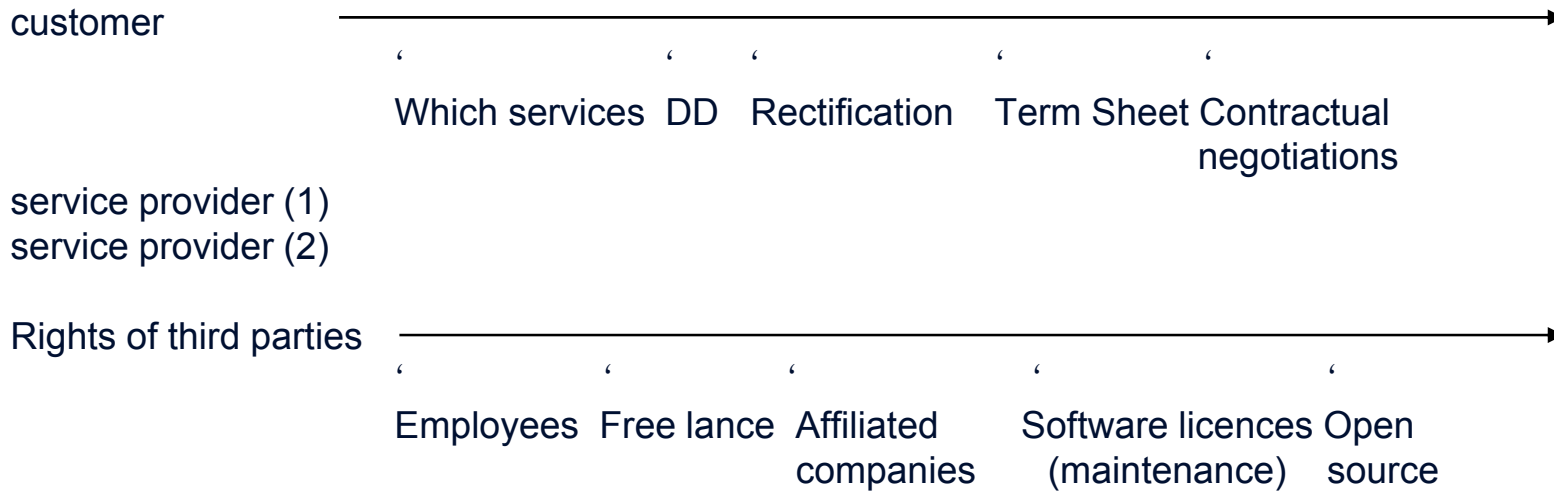
# Termination of the contract

- ▼ After the termination of the outsourcing contract
  - ▼ Insourcing
  - ▼ Re-assignment vs sub (sub) licence
  - ▼ Migration + provision of services towards the customer and/or the service provider n° 2
  - ▼ Further exploitation by service provider n° 1



# IT outsourcing Project management –Time line

## Before



# IT Outsourcing Project management – Time line

During

customer



Economic rights      Know-how (training)

*migration*



service provider (1)



Economic Rights      (Exploitation rights ?)      New IER (upgrades)

*migration*



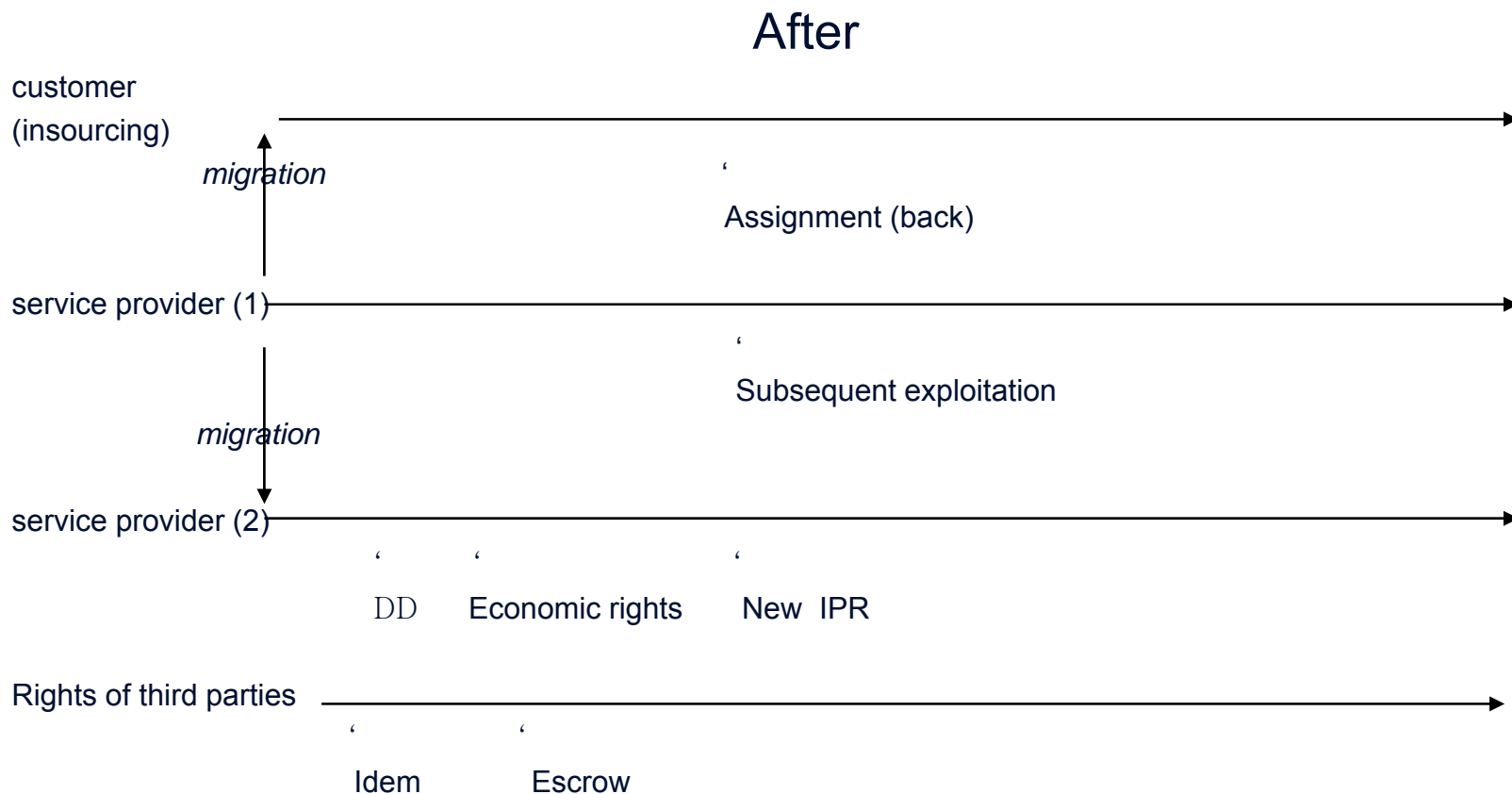
Rights of third parties



Idem      Escrow



# IT Outsourcing Project management –Time line



# Conclusion



*(no title) - Jens Chr. Jensen*

