



Important IP and Legal Issues in Outsourcing Contract – A Practical Perspective

King & Wood in 2010

Main IP and Legal Issues in Outsourcing Contract of Software

1. Issue on ownership of the intellectual property/technology
2. Issue on control of the intellectual property/technology
3. Issue on infringement risk control of the intellectual property
4. Issue on control of the technology import and export
5. Issue on statement and guarantee
6. Issue of payment
7. Issue on control and management of the contract implementation
8. Issue on failing to delivery
9. Issue on applicable laws of the contract
10. Issue on dispute settlement mechanism
11. Clauses on termination of the contract
12. Issue on mandatory / restrictive regulations of the Chinese laws

Main Type of Software Outsourcing –Business



China's software industry revenue structure for January ~ May of 2009

Source: <http://www.chnsourcing.com/article/Article/1/330920090727095001.html>

Main Type of Software Outsourcing –Business or Contract

Business Type:

- Independent Consultant
- Body Shop
- Spec Converters
- BPO + ITO (integrated outsourcing)

Contract Type:

- Fixed – bid Contract
- Time & Material Contract
- Function Point Contract

Main Fields Involved in Outsourcing of software

Fields: every walk of life

Large-scale integrated projects: bank, insurance, medical care, energy, and aviation

Although there are different outsourcing businesses, fields or contracts, yet the fundamental and key IP and legal issues have many common Points or points mutually referential.

1. Ownership of Intellectual Property/Technology in the Outsourcing Contract of Software

(1) Who has the intellectual property of outsourcing results?
Client? Vendor?

(2) What is the issue on use of the open-source software?

(3) Is there any issue on that any third party is involved or on use of the third party's IP/technology?

Practical Tips:

2. Issue on Control of the Intellectual Property in the Outsourcing Contract of Software

(1) Who controls and restrains the issue on use of the intellectual property in outsourcing?

Ideal Position of Client

Ideal Position of Vendor

(2) Extremely loosen or strict IP protection requirements?

Client's Opinion

Vendor's Practical Conditions

Practical Observations:

3. Issue on Infringement Risk Control of the Intellectual Property in the Outsourcing Contract of Software

- (1) Complete exemption of responsibilities
- (2) Partial exemption of responsibilities
- (3) Upper limit of responsibilities

Practical Observations:

4. Issue on Control of the Technology Import and Export

- Control on technology export in EU, US and other main software contract ordering countries.
- China's stipulations on technology import and export

5. Clauses on Statement and Guarantee in the Outsourcing of Software

- Ideal or realistic?
- How about the validity and enforceability in clauses on statement and guarantee in the contract?
- It is required to pay attention to the importance of such kind of clauses?

Cases and observations:

6. Issue on Payment in the Outsourcing of Software

- A request for proposal will be accepted free of charge?
- Risks brought by different types of payment:
 - fixed-bid
 - time and materials
 - function point contract

Cases and practical experiences: how to solve the disputes on payment?

7. Legal Essences for Guaranteeing the Smooth Implementation of Software Outsourcing

- A high ratio of interruption of the outsourcing contract
- Key points in the implementation of outsourcing contract
- It is required to know and avoid the cultural and human factors, so as to avoid/reduce the rate that the contract can not be implemented caused by this kind of risks from contract perspective.

Cases and Tips:

9. Applicable Laws Dispute Settlement Mechanism in the Outsourcing Contract

- The governing laws and dispute settlement mechanism are very important for a large-sized outsourcing project.
- Will Chinese laws or foreign laws prevail? Any difference? Important?
- Dispute settlement mechanism: arbitration or litigation? Is it important that which method will be used or where does the dispute is solved?

Practical cases:

10. Mandatory Stipulations or Some Special Stipulations which are Applicable in Field of Software Development in Chinese Laws

- Some special and mandatory stipulations needed to be noticed in Chinese laws
 - Ownership
 - Anti-monopoly, obstructing development and innovation of science and technology
 - Risk points in intellectual property which are required to be noticed and can be eliminated by contract or agreement.

11. Other Legal and Practical Problems like Termination in the Outsourcing Contract of Software

- in advance or terminated by one party without the agreement of the other party Some clauses needed to be noticed specially according to practical conditions of the two parties of a outsourcing contract of software
- The legal issues, in particular to the IP issues in case that a contract is terminated in advance or terminated by one party without the agreement of the other party when the contract is not implemented completely.

International Outsourcing of Software

Hope a happy cooperation and a success in the outsourcing business of software !

Open for Questions



Thank you!

Gabriella Liu

Partner

Email: liuge@kingandwood.com

Tel: (86-755)22163315; (86-10)5878 5105