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Employee-Inventor Rights under the Latest PRC Patent Law and Regulations

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The State Council of the People's Republic of China issued the new *Detailed Rules for the Implementation of the Patent Law* (the Detailed Rules) on January 9, 2010. The amended Detailed Rules causes some changes regarding the legal rights of service invention employees. Those changes are summarized as:

1. It provides three methods to determine the employees' rights.
2. The applicable range to incentive compensation standards is expanded from the state-owned units only to all types of entities.
3. It improves the award amount for inventors or designers of service invention creations.

According to the new regulations, service invention employees have three rights in total, namely the rights of being rewarded, remunerated and named. This article is aimed at looking at these developments and discussing how they can be handled in practice by employers and employees.

Definitions on terms about Service invention

Service inventions are those made in execution of the tasks of the entity to which he/she belongs, or made by him/her mainly by using the materials and technical means of the entity.¹ They include those made in the course of performing their own duties, in execution of any task, other than their own duties, which were delivered to them by the entity, or created within 1 year from their retirement, change of work from original unit or termination of labor, personnel relationship, provided that the

¹ Article 6 of PRC Patent law (amended in 2008)

invention relates to their own duty or to the other task distributed to them by the entity to which they previously belonged.²

Meanwhile, "The entity to which he belongs" mentioned above may be a temporary entity for which the person works.³ "Material resources of the entity" mentioned above includes the entity's money, equipment, spare parts, raw materials, or technical data which are not to be disclosed to the public.⁴

In addition, Article 13 of the Detailed Rules provides that:

"Inventor" or "designer" as mentioned in the Patent Law means any person who has made creative contributions to the substantive features of the invention-creation. Any person, who is responsible only for organizational work, or offers facilities for the use of material resources or takes part in other auxiliary functions in the process of accomplishing the invention-creation, shall not be an inventor or designer.

Parties' agreement, business rules and legal provisions

According to the Detailed Rules, the methods and the amount of the rewards and remuneration for an invention-creation may be agreed by the units and the inventors or designers, or may be provided for in the business' rules. Where none of them exist, the legal standards in the Detailed Rules will be applicable.

Firstly, a contract claim, being a claim for rewards and remuneration to the units under the agreements established by the parties by the inventors or designers, as the employers have refused to pay. According to the principle of autonomy, the amount of rewards and remuneration in the contract claim is not subject to statutory restrictions on the amount, so the parties may agree to a higher or lower amount than the statutory standard. It must be noted that Article 16 of the Patent law demands that employing units reasonably reward and remunerate inventors or designers, thus it would appear that a no-reward or no-compensation rule will be considered invalid by a court. Discussions with the relevant authorities have led us to believe that employment rules that state that "No rewards or remuneration are to be paid to an employee for any invention made by that employee" or "The employee's salary includes a component for invention reward and remuneration" will be held to be invalid.

2 Article 12 of the Detailed Rules

3 Article 12 of the Detailed Rules

4 Article 12 of the Detailed Rules

Differences between the reward and remuneration provided by law

According to laws and regulations, both rewards and remuneration are the material rewards to the inventor or designers who completed the inventions. However, their difference is quite obvious except that both are the statutory systems.

At first, the times of obtaining them are different. Award shall be paid by the units within three months since the date of the announcement of patent.⁵ But remuneration shall be rewarded to the inventor or designer after the implementation of the invention, in other words, within the period of validity every year.

Rewards and compensation are paid in different ways under the statutory scheme, subject to an agreement to the contrary. In general, a reward is paid by a one off payment. Remuneration is paid in installments over the life of the relevant patent.⁶

The statutory amount of the reward and remuneration are different under the scheme as well. The reward has been increased from RMB2000 to RMB3000 for a standard patent invention inventor and from RMB500 to RMB1000 Yuan for utility models and designs⁷ - the percentage for the remuneration has been maintained as being, not less than 2% from the operating profit from the invention or utility patent or not less than 0.2% from the operating profit from a design patent, and not less than 10% of the charged royalties.⁸

Disputes and Remedies

Article 85 of the Detailed Rules provides that the patent administration departments may mediate certain patent disputes under the request of the parties – they include disputes regarding patent application rights and patent ownership, qualification disputes, reward and remuneration disputes and fee payment disputes.

If the parties refuse mediation or the mediation is not successful, the parties can take their case to the PRC courts. The Labor Tribunals would not appear to have any jurisdiction over these sorts of claims by an employee against their employer. The time limit for the lawsuit of a patent dispute is two years.⁹

⁵ Article 77 of the Detailed Rules

⁶ Article 78 of the Detailed Rules

⁷ Article 77 of the Detailed Rules

⁸ Article 78 of the Detailed Rules

⁹ Article 68 of PRC Patent Law (amended in 2008)

Conclusion

It is anticipated that the Chinese Patent Office will issue supplementary rules clarifying some vague areas regarding employee-inventor rights. Further, it is likely that the Supreme Court will issue rules regarding the litigation of employee-inventor disputes as well. Whilst employee-inventor claims have not been very prevalent in China, as the Chinese society continues to become more litigious and employees become more aware of their rights, we expect to see these sorts of claims reaching the courts more often. Employers would be wise to review their employment rules regarding employee-inventor rights to ensure that they are validly protected.