

## Reward and Remuneration for Service Inventions

Shanghai Higher People's Court issues Guidelines following controversial China State IP Office's draft regulations last year

1 August 2013

The draft Regulations on Service Inventions ("SIPO Draft") published by the China State Intellectual Property Office ("SIPO") in November last year caused widespread discussions and concern amongst corporations, to the extent that a number of them have been reconsidering/revamping their R&D strategies in China. (For our earlier article, [click here](#)).

Whilst those are being further considered, the Shanghai Higher People's Court issued its "Guidelines on the Adjudication of Disputes Involving Rewards and Remuneration for the Inventors or Designers of Service Invention Creations" (the "**Shanghai Guidelines**") on 25 June, 2013. The Shanghai Guidelines have no binding effect per se, but as a matter of judicial practice, will be followed by lower courts in Shanghai and are generally persuasive to other courts nationwide. (For the full regulations, [click here](#)).

Unlike the SIPO Draft, which proposes a number of highly controversial provisions such as default minimum rewards and remuneration, higher and inconsistent with those provided in the Implementing Rules of the Patent Law, the Shanghai Guidelines clarify some fundamental issues and are generally welcomed by industry and IP practitioners. We highlight some of the more salient provisions in the Shanghai Guidelines below.

### **Statutory remuneration relating to an assigned patent is similar to that of a license**

Under the PRC Patent Law and its Implementing Rules, employers must pay reasonable reward and remuneration to the inventor-employee. The amount payable can be agreed by the parties, but if there is no agreement, the following statutory minimum default amounts apply:

#### Reward to be paid within 3 months upon grant of the patent:

- For invention patent – not less than RMB3000 (USD 470);
- For utility model patent or design patent – not less than RMB1000 (USD160).

#### Remuneration to be paid upon commercialization of the patent:

- If exploited by employer, the employer shall make annual payments of not less than 2% of the operational profit (for invention patents or utility model patents); and
- Not less than 0.2% of the operational profit (for design patents), or make a lump sum payment based on the above percentage; or
- If licensed by employer, the employer must pay not less than 10% to the inventor-employee of the royalty received.

The Patent Law and its Implementing Rules does not stipulate a statutory standard of remuneration if an employer assigns a service invention. Article 10 of the Shanghai Guidelines addresses this issue and provides that the statutory remuneration for an assigned service invention is determined with reference to the licensing related provisions in the Patent Law and its Implementing Rules, ie 10% of the assignment fee.

The Shanghai Higher People's Court somewhat deviates from the Law on Promoting the Assignment of Scientific and Technological Achievements ("Technological Achievements Law"), which suggests that not less than 20% of the income generated from an assignment of a technological achievement shall be paid to personnel who made significant contributions to the achievement. While still in force, the Technological Achievements Law was promulgated back in 1996 and may seem out-of-date. How these provisions will be reconciled is yet to be seen.

### **Agreements prevail over statutory standards**

Articles 2, 3 and 4 of the Shanghai Guidelines basically echo the Patent Law. It provides that the form and amount of reward and remuneration may be agreed by employee and employer in bilateral agreements or stipulated in legitimately enacted company policies; and that these agreements or company policies prevail over statutory standards. Most importantly, the Shanghai Guidelines recognize that if the

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rewards and remuneration are paid in monetary form, then the agreed amount may be above or below the statutory amounts. Adding flexibility, the Shanghai Guidelines provide that remuneration can be determined according to the average invention value in the R&D field concerned. The Shanghai Higher Court considers that such an approach allows businesses to avoid complex and relatively costly calculation processes.

The Shanghai Guidelines further provide that the forms of reward and remuneration can be varied and include: monetary reward, shares, options, promotions, raises, paid leave and so forth. All these are permissible as long as the reasonableness requirements in the Patent Law are satisfied. Remuneration can also be made in a lump sum payment.

#### **Reward and remuneration standards agreed between the employee and employer are deemed reasonable**

The key tone set by the Patent Law is that agreements between employee and employer (if any) prevail over the statutory default amounts. Despite this, companies are concerned whether agreements between employees and employers regarding remuneration and reward can be challenged as unreasonable at some point. To some extent, Article 6 of the Shanghai Guidelines clarifies these uncertainties. It stipulates that under normal circumstances, such agreements are deemed reasonable. Only if the amounts agreed upon are extremely low and obviously unreasonable, will the court determine reward and remuneration according to the specific circumstances of the case at hand.

A particularly interesting point is that the Shanghai Guidelines recognize "the operational independence of a business and the need to respect the autonomy of the will of the parties concerned". Even if the agreed amounts are considered unreasonable in the sense of the Patent Law, the Shanghai Guidelines refuse to blindly apply the statutory standards. Instead, they provide that the courts should determine the amounts according to the circumstances of the case at hand because the very existence of an agreement already excludes the application of statutory standards. This is an important and welcome clarification.

#### **Commissioned inventions, joint inventions and R&D**

Another major clarification brought by the Shanghai Guidelines relates to commissioned or joint R&D projects. Whilst the Shanghai Guidelines have reiterated that parties to commissioned or joint R&D projects can agree on the

ownership of any inventions developed, it further clarifies that if company **A** owns the patent rights to the commissioned or jointly developed invention that was completed by an employee(s) of company **B**, neither company A nor B is necessarily liable for paying reward and remuneration. According to articles 11 and 12, the inventor or designer of a service invention may only claim reward and remuneration for the invention if he/she is employed with the company that owns the patent rights. This is in contrast with Article 16 of the Patent Law, which leaves it open to interpretation as to whether the company that is granted the patent rights, or the company that is granted the patent rights and also is the employing company should pay the remuneration.

#### **Clarification on applicability of the Patent Law/Implementing Rules**

The Shanghai Guidelines clarify that the provisions on reward and remuneration apply to inventions *completed in China*, regardless of whether a patent is filed in China or overseas. This was accepted to be the case but the Shanghai Guidelines have added clarification.

#### **Disputes by inventors classified as patent disputes**

Another article of interest is the clarification that disputes relating to service invention remuneration and award are classified as patent disputes and is within the jurisdiction of the corresponding People's Court. This alleviates some companies' concerns regarding the labour tribunals' possible influence and jurisdiction to preside over these types of claims, which often are said to be biased towards employees.

#### **Conclusion**

The Shanghai Guidelines have been widely welcomed by both domestic and foreign companies, in particular, those who have established or are heavily invested in their R&D centers in China. In the meantime, we also await the next iteration of the SIPO Draft, which we hope will include some of the clarifications found in the Shanghai Guidelines.

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