

## E-ALERT | Industries, Regulatory & Legislative

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### CHINA RELEASES DRAFT REGULATION ON EMPLOYMENT INVENTIONS

On November 12, 2012, China's State Intellectual Property Office ("SIPO") released for public comment a draft regulation governing employment inventions (the "Draft Regulation"). The term "employment invention," sometimes translated as "service invention," is defined similarly as in the Patent Law and the Implementing Rules of Patent Law. If implemented in its current draft version, the Regulation on Employment Inventions would affect all companies conducting research and development in China. The Draft Regulation would apply not only to patentable inventions, but also to other types of intellectual property, including trade secrets and Integrated Circuit layout design, among others.

According to SIPO's explanation accompanying the draft, the Regulation on Employment Inventions is designed to encourage the discovery and exploitation of employment inventions and protect and balance the rights of employers and employees by providing detailed rules and adding process requirements governing employment inventions. SIPO began working on the regulation in late 2010 and completed a draft for discussion in late 2011. In mid-2012, SIPO released a preliminary draft of the regulation to a select group of stakeholders, including industry groups representing foreign companies conducting research in China. The preliminary draft granted significant rights to employee inventors, prompting several industry stakeholders to submit comments, some of which were incorporated into the new draft.

We highlight a number of notable provisions below:

- **Employer's freedom to contract out of the default regime limited.**
  - As under the existing patent regime, the Draft Regulation would allow the employer and employee to agree to an amount of reward and remuneration that would supersede the regulatory default minimums.
  - However, the Draft Regulation adds a new limitation that the agreement may not "eliminate" or "limit" the employee's rights under the regulation. It is unclear what level of reward and remuneration would be considered to "limit" the employee's rights under the Draft Regulation. The draft only provides a general guideline that in setting the amount of reward and remuneration, the employer must take into account the employee's opinion and the potential profit from the employment invention.
- **Increased default amount for reward and remuneration.**
  - Under the current Patent Law and Rules for the Implementation of the Patent Law, in the absence of an agreement, employers are required to provide a default minimum of between RMB 1000 and 3000 (approximately \$160 and \$480) to the employee inventor as a reward for his or her patented invention, plus a default minimum of between 0.2% and 2% of the operating profit from exploiting such patent, or a comparable lump sum, as remuneration.
  - The Draft Regulation would increase the default minimum reward for patentable employment inventions to twice the average monthly salary of the company's employees. The draft would

also increase the default minimum remuneration for a patentable invention to 5% of the operating profit earned from exploiting such invention, or 0.5% of sales revenue from exploiting the invention, or a comparable lump sum or multiple of the employee's salary.

- **A report/response regime for inventions imposed**. The Draft Regulation creates a default notice scheme, under which the employee is first required to report the invention to the employer within two months of discovering the invention (unless otherwise stipulated by the employer or agreed with the employee). In this notice, the employee must disclose whether he or she believes the invention is an employment invention (and thus belongs to the employer) or whether he or she believes that the invention is unrelated to the employment (and thus belongs to the employee).
  - If the employee claims that the invention is not an employment invention, and the employer does not respond within two months, the invention is deemed to be a non-employment invention belonging to the employee.
  - The employer should decide, within six months after the receiving the invention report from the inventor, whether to apply for IP protection in China, protect as trade secret or publish, and should notify the inventor of the decision.

While SIPO maintained some employee entitlements from the preliminary draft, it considerably scaled back others, apparently in response to comments from industry groups:

- **Unregistered IP is automatically protected as a trade secret**. Unregistered IP (such as patentable inventions for which a company has not applied for a patent) is protected as a trade secret without the company having to give any formal notice to the employee inventor. The preliminary draft required the employer to inform the employee within a certain period of time whether the employer would register the IP, keep the IP as a trade secret, or disclose the IP to the public. If the employer failed to provide such notice, the IP rights would be deemed assigned to the employee.
- **An abandoned patent does not automatically revert to the employee**. If the employer intends to abandon a patent application or patent relating to an employment invention, it must give the employee inventor one month's notice, and the employer and the employee inventor should negotiate the ownership of the rights related to the invention. The preliminary draft provided that the employee inventor may claim all rights relating to abandoned patent applications or abandoned patents.
- **The employer does not automatically lose rights to an invention not exploited within three years**. The new draft also amends a provision addressing an employer who does not exploit the invention within three years of being granted intellectual property rights over the invention. Under the preliminary draft, all employers who did not exploit the invention within three years were required to pay compensation to the employee or else face the automatic transfer of the implementation rights to the employee. Under the new draft, this provision applies to state-owned employers only and allows the employee, in accordance with his or her agreement with the employer, to implement the invention if the employer is not prepared to exploit the invention within three years.

We encourage all companies conducting research and development in China to carefully review this Draft Regulation and consider submitting comments to SIPO. The deadline to comment on the Draft Regulation is December 3, 2012.

If you have any questions concerning the material discussed in this client alert, please contact the following members of our industries, regulatory & legislative group:

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