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Inventor Remuneration: Have A Company Policy

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The Chinese inventor remuneration laws have been in flux for the last several years. Uncertainties are abundant. The first remuneration case involving a foreign company, Zhang v. 3M, has exacerbated the uncertainties – it seems to call into question if any remuneration policy short of 2% profit sharing would pass muster. However, a remuneration case involving a Chinese company, Liang v. Shanghai Zhongji Company, seems to suggest that a legally promulgated remuneration policy is likely to be respected by the courts. That is certainly a comforting signal.

Inventor Remuneration under Chinese Patent Law

Article 16 of the Chinese Patent Law sets out the requirement for inventor reward and remuneration for service inventions made by employee-inventors as follows:

> The entity that is granted a patent shall ***reward*** the inventor(s) of a service invention and, upon exploitation of the patented invention, shall pay the inventor(s) reasonable ***remuneration*** based on the extent of the invention being applied and the economic benefits yielded.

Article 16 has been on the books for a number of years and was not changed by the third amendment to the Chinese Patent Law in 2009. However, the implementing regulation to the Chinese Patent Law was amended substantially after the third amendment, including the provisions on inventor reward and remuneration.

Article 76 of the 2010 implementing regulation (the "Implementing Regulation") to the Chinese Patent Law allows an employer to specify the method and amount of reward and remuneration. That is, employers decide the method and manner by entering into a contract with employees or legally enacting a company policy. Absent such contract or policy, the Implementing Regulation provides for the following default scheme for reward and remuneration:

– Within three months of the grant of a patent, the reward must be at least RMB 3,000 for an invention patent and at least RMB 1,000 for a utility model or design patent;

– Upon exploitation of a patent, the remuneration must be at least 2% of after-tax profit for an

invention or a utility model patent and at least 0.2% of after-tax profit for a design patent; and

– Upon licensing a patent, the remuneration must be at least 10% of after-tax income from a patent license.

The law and regulation seem to be clear and straightforward; but there are many unanswered questions.

First, under the Implementing Regulation, a mutual contract with employees or a legally enacted company policy can override the above default scheme for reward and remuneration. However, it is not clear if such contract or policy is subject to reasonableness scrutiny by courts in litigation. The Implementing Regulation does not specify that the contract or policy be reasonable; but the law requires reasonable reward and remuneration!

Second, under Article 16 of the Patent Law, the entity that is granted a patent has the obligation to pay reward and remuneration. The Chinese term “entity” has the connotation of “employer”. Therefore, a strict reading of Article 16 suggests that the reward and remuneration obligation applies to an employer who is also a patentee. Arguably, no one has any reward and remuneration obligation when a patent is assigned to a different company. In this case, the employer is not the patentee, and the patentee is not the employer. But is this right?

Zhang v. 3M

In late 2012, a former employee of 3M China, Zhang Wei-feng, sued 3M China and 3M Innovative Properties to claim reward and remuneration for one of his service inventions. Two hotly contested issues are:

1. Which defendant should pay the reward and remuneration to Zhang? 3M China or 3M Innovative Properties?

Zhang worked for 3M China from 2003 to 2010. Under a complicated internal arrangement, 3M Innovative Properties centrally owns and manages all the intellectual property developed and acquired by 3M affiliates around the world. To be specific:

– 3M China assigned the right to file a patent application for Zhang’s service invention to 3M Innovative Properties;

– 3M Innovative Properties applied for and was granted the patent in suit in China;

– 3M Innovative Properties then licensed this patented invention back to 3M China.

3M China was Zhang’s employer, but 3M Innovative Properties is the owner of the patent. Strictly speaking, under Article 16 of the Patent Law, no one is liable for remuneration.

The Shanghai 1st Intermediate Court ruled that 3M China, not 3M Innovative Properties, is liable for Zhang’s claim. The reasoning was not based on the statutory language of Article 16; reading between the lines, the court was not prepared to accept a scenario where no one was responsible for inventor remuneration.

The appellate court, the Shanghai High Court, upheld this ruling; but its reasoning is half-baked:

– With respect to 3M China, the appellate court interprets the "legislative intent" as to ensure sufficient compensation to an employee-inventor – "therefore, even though 3M China is not the owner of the patent in suit, as it was Zhang's employer, 3M China should pay remuneration for Zhang's service invention".

– The appellate court recognizes that "3M Innovative Properties was not Zhang's employer but owns the patent in suit according to the arrangement among 3M affiliates". Considering the court has already ruled that 3M China should pay remuneration for Zhang's service invention, 3M Innovative Properties should not be held liable.

2. Can the court override a company policy because it finds the remuneration scheme unreasonable?

In late 2010, 3M China announced the "3M China reward plan for service inventions", including fixed rewards and proportionate payments based on sales revenue (i.e. remuneration = annual sales × 0.01% × coefficient of the contribution to the finished product × coefficient of patents involved × coefficient of inventors involved).

Both courts acknowledged that this company policy was legally promulgated and thus acceptable. But the trial court nonetheless questioned the coefficient of 0.01% as unreasonably low compared to the statutory rule (i.e., the remuneration must be at least 2% of after-tax profit). The appellate court did not address the sufficiency of the coefficient of 0.01% and seems to have accepted the plan.

The appellate court ultimately concurred with the trial court in finding 3M China's remuneration insufficient (under its own remuneration plan) because 3M China did not provide specific data for the calculation. The appellate court also rejected Mr. Zhang's calculations as lacking factual support. As such, the appellate court affirmed the lower court's award of remuneration (RMB 200,000), which is between the amount of RMB 20,000, (paid by 3M China) and RMB 4.4 million (sought by Mr. Zhang).

Liang v. Shanghai Zhongji Company

When employed by the defendant (Shanghai Zhongji Company), the plaintiff (Mr. Liang) was the inventor on 44 utility model patents and 19 design patents. According to the defendant's inventor reward policy, the reward for each utility model patent is RMB 500 to RMB 10,000, and for each design patent RMB 300 to RMB 8,000. Upon internal assessment, the defendant determined that the total reward for the 43 utility model patents was RMB 25,000. The plaintiff demanded that the defendant reward RMB 1,000 for each utility model patent or design patent according to the Implementing Regulation. Thus, the total reward should be RMB 63,000. The defendant argued that its inventor reward policy should trump the statutory amounts.

Finding that the plaintiff did not provide any evidence to prove that the inventor reward policy was unreasonable, the court affirmed the defendant's reward for the 43 utility model patents.

As to the remaining one utility model patent and 19 design patents, the court considered the defendant's policy and the nature of the patents and concluded that the total reward for the remaining patents should be RMB 45,000 under the policy. Neither party appealed the court rulings. Therefore, this decision has come into effect.

The Shanghai High Court designated this case as one of the ten exemplary IP cases for 2014. It stands for the following propositions for adjudicating inventor remuneration claims:

1. If there is a specific amount set out in a legally promulgated company policy, courts should abide by the specific amount;

2. If only a range of remuneration is provided in the policy, courts can determine an appropriate amount within the range based on the nature of the patents; and

3. It is improper to apply the statutory amounts in such cases.

The presiding judge in the Liang case wrote a commentary on the case and gave his thoughts on judging the reasonableness of a company remuneration policy. He is of the view that:

1. The statutory amounts should not be a reference point for judging the reasonableness of a remuneration scheme.

2. It should be presumed to be reasonable if employees reach an agreement with their employer on a remuneration scheme. Employees should bear the burden to prove its unreasonableness.

3. When examining the reasonableness of remuneration, courts should focus on the procedures a company adopts to arrive at the amounts, not the amounts themselves. Whether the company rolled out the remuneration policy in a procedurally fair way and whether the company considered the input of employees are relevant factors to consider, among other things.

Because the Liang case has been designated as an exemplary case, it serves as a binding precedent in the Shanghai courts. It can be persuasive elsewhere in China.

Legislative Updates

SIPO Draft Rules. Over the last few years, the State Intellectual Property Office of China ("SIPO") has been working on its draft rules on inventor remuneration, primarily as a gap-filler to the Implementing Regulation. The draft rules enunciate the principle of "priority of agreement", i.e. a contract with an employee or a legally promulgated company policy on invention remuneration should be given priority of consideration. However, the draft rules include a provision that any unreasonable restriction on inventor remuneration shall be unenforceable. Moreover, the draft rules mandate onerous invention tracking and management procedures. As a result, many companies have voiced their opposition. In April 2015, SIPO presented the draft rules to the State Council Legislative Affairs Office for consideration. Now, the draft rules are still pending there.

Amended Technology Commercialization Law. On August 29, 2015, the Standing Committee of the National People's Congress of China approved amendments to the Law on Promoting Commercialization of Scientific and Technological Achievements (the "Amended Technology Commercialization Law"). The Amended Technology Commercialization Law will take effect on October 1, 2015. Currently, there is no English version. The Chinese version is available at http://www.gov.cn/zhengce/2015-08/30/content_2922322.htm.

This Amended Technology Commercialization Law defines "scientific and technological achievements" broadly to encompass all outcomes of R&D, such as patented inventions, trade secrets, etc. From the perspective of inventor remuneration, the most relevant provision is Article

45 that sets forth mandatory minimum amounts of reward and remuneration for all scientific and technological achievements (in the absence of any contract or company policy). Under Article 44, an employer shall pay contributing employees no less than 50% of the assignment fees or license fees. This is much higher than the no-less-than-20% fee requirement before the amendment. It is also higher than the no-less-than-10%-license fee requirement under Article 78 of the Implementing Regulation. When the technical achievement is implemented by the employer itself, 5% of the operating profits shall be awarded to the contributing employees in the first three to five years.

Although the mandatory minimum amounts are rather high, the Amended Technology Commercialization Law allows a private company to negotiate the amount, manner, and timing of reward and remuneration with contributing employees by way of an agreement or to specify it in a company policy. Article 44 requires that the company solicit the opinions of its technical personnel and then publish the policy in the company. The Amended Technology Commercialization Law seems to make this procedural process an important requirement for a company policy to be upheld by courts. However, the Amended Technology Commercialization Law is silent on whether courts can invalidate an agreement or company policy on reward and remuneration if the amounts are far below the above mandatory minimum amounts, even if the agreement is validly formed or the company policy is promulgated pursuant to Article 44. The question will not be answered until Article 44 is litigated.

It is interesting to note that it is mandatory for China's state-owned enterprises and national R&D institutions and universities to meet the above mandatory minimum amount requirement.

Concluding thoughts

There still is no certainty on what inventor remuneration policy will ultimately be respected by Chinese courts. One can get some clues by reading the tea leaves of the above cases and legislative updates. To reduce inventor remuneration risks, it is highly recommended that companies promulgate and implement a company policy with clear and definite remuneration amounts. More importantly, there must be procedural fairness in formulating and rolling out the policy. For example, there should be employee consultation and employees' input should be considered. Preferably, there should be employee buy-in of the policy before it is promulgated. Finally, the policy should be widely publicized in the company so that all employees are aware of its contents.

An ideal inventor policy should have the following characteristics:

– All employee-inventors are eligible;

– There is remuneration for both licensing/assignment and commercialization of a patented invention;

– For commercialization, there are some milestone payments;

– The remuneration is linked to the economic benefits brought by the invention;

– Exceptional inventions may be eligible for additional remuneration; and

– Separate remuneration should be available for technologies that are not subject to patenting, such as trade secrets, computer software, IC layout designs, etc.

As illustrated by the Liang case, fixed amounts can pass muster if it is specified in a legally promulgated company policy. Companies should document the process by which they formulate and roll out their inventor remuneration policies. It would be even better if the participating employees sign a written statement, acknowledging the reasonableness of the policy.

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