

System of Reward and Remuneration for Service Inventors and Implementation Thereof

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The third amendment to the Patent Law and the Implementing Regulations of the Patent Law has brought about great changes with regard to entities liable for paying reward and remuneration, manner and amount of reward and remuneration within the framework of the system of reward and remuneration for service inventors¹ in China, which has drawn wide attention. This article is meant to present a tentative analysis, on the basis of the current laws and regulations in China, of the possible practice of the courts in establishing jurisdiction and application of law when foreign entities are sued in the courts in China for disputes over service inventors' reward and remuneration, and, through case study, give an account of the ways courts make their decisions in relation to determination of entities liable for paying reward and remuneration and the amount of reward and remuneration to be paid and distribution of burden of proof to the parties. In addition, as a reference, an overview is given of the several lawsuits of great impact directed to disputes over reward and remuneration for inventors in foreign nations in the recent years.

I. Provisions concerning reward and remuneration for service inventors as set forth in the Patent Law and Implementing Regulations of the Patent Law

In Article 16 of the Patent Law as of 2009 (the new Patent Law) has been set forth the general provision on the system of reward and remuneration for inventors that "the entity that is granted a patent right shall award to the inventor or creator of a service invention-creation a reward and, upon exploitation of the patented invention-creation, shall pay the inventor or creator a reasonable remuneration on the basis of the extent of spreading and application and the economic benefits yielded".

Rules 76-78 of the Implementing Regulations of the Patent Law as of 2010 (the new Implementing Regulations) have spelt out more specific provisions regarding the system.

Rule 76: "The entity to which a patent right is granted may, on the manner and amount of the reward and remuneration as prescribed in Article 16 of the Patent Law, enter into a contract with the inventor or creator, or provide it in its rules and regulations formulated in accordance with the laws.

The reward and remuneration awarded to the inventor or creator by any enterprise or institution shall be handled in accordance with the relevant provisions of the State on financial and accounting systems."

Rule 77: "Where the entity to which a patent right is granted has not entered into a contract with the inventor or creator on the manner and amount of the reward as prescribed in Article 16 of the Patent Law, nor has the entity pro-

vided for it in its rules and regulations formulated in accordance with the laws, it shall, within three months from the date of the announcement of the grant of the patent right, award to the inventor or creator of a service invention-creation a sum of money as prize. The sum of money as prize for a patent for invention shall not be less than RMB 3,000 yuan; the sum of money prize for a patent for utility model or design shall not be less than RMB 1,000 yuan.

Where an invention-creation is made on the basis of an inventor's or creator's proposal adopted by the entity to which he belongs, the entity to which a patent right is granted shall award to him a money prize on favorable terms."

Rule 78: "Where the entity to which a patent right is granted has not entered into a contract with the inventor or creator on the manner and amount of the remuneration as prescribed in Article 16 of the Patent law, nor has the entity provided for it in its rules and regulations in accordance with the laws, it shall, after exploiting the patent for invention-creation within the duration of the patent right, draw each year from the profits from exploitation of the invention or utility model a percentage of not less than 2%, or from the profits from exploitation of the design a percentage of not less than 0.2%, and award it to the inventor or creator as remuneration. The entity may, as an alternative, by making reference to the said percentage, award a lump sum of money to the inventor or creator as remuneration once and for all. Where any entity to which a patent right is granted authorises any other entity or individual to exploit its patent, it shall draw from the exploitation fee it receives a percentage of not less than 10% and award it to the inventor or creator as remuneration."

II. Major issues of the Implementing Regulations of the Patent Law that are worth our attention

Compared with the former Implementing Regulations of the Patent Law, the new Implementing Regulations have broadened the scope of entities to pay reward and remuneration from the former applicable state-owned enterprises to any entities that are granted the patent right; as for the manner and amount of reward and remuneration for service inventions, the new Implementing Regulations not only provide for the minimum amount, but also allow determination of the manner and amount of reward and remuneration through contracts between entities and service inventors or through

corporate rules and regulations, which ensures that service inventors may enjoy their basic economic rights and interests, and, to an extent, urges entities to safeguard their own rights and interests by virtue of conclusion of agreements in advance and improvement of their internal rules and regulations, and averts potential risks of claim for enormous reward or remuneration. To be specific, the new Implementing Regulations have these major issues that are worth our attention as follows.

1. Entities to pay reward and remuneration

Provisions of the former Implementing Regulations of the Patent Law concerning reward and remuneration for service inventions were applicable to state-owned entities, and could apply to other entities in China by way of reference, without mentioning foreign entities. The new Implementing Regulations provide that entities to pay reward and remuneration are entities which have been granted the Chinese patent rights, without specially defining the nationality and form of ownership of such entities.

After promulgation of the new Implementing Regulations, many believe that "the entity to which a patent right is granted" under the new Implementing Regulations refer to enterprises, institutions set up under the Chinese laws, including state-owned entities, enterprises of collective ownership, private businesses and the "three types of foreign funded (i.e. contractual joint ventures, cooperative ventures and solely foreign funded enterprises) enterprises". This view seems to conform to the legislative aim of "encouraging our own innovation and improving international competitiveness". Meanwhile, according to the general understanding, the Patent Law and its Implementing Regulations are domestic law and regulations having no extra-territorial force, and foreign entities granted the Chinese patent are not obliged to award or remunerate inventors of their own countries under the Chinese patent law and regulations.

However, literal analysis shows that the provision on entities having been granted the Chinese patent right that should pay reward and remuneration does not rule out its applicability to "foreign entities". Besides, where it is necessary to specify nationality, the Patent Law provisions make specific distinction using the expression of "Chinese entities" in other situations². But in the provision regarding entities for paying reward and remuneration for inventors is not specified the nationality of entities having been granted the Chinese patent right, which means that both the Chinese and foreign entities that file applications for and are granted the

patent right are entities that should pay reward or remuneration. Reading of the view of the relevant law makers³ does not make it easier to determine whether the entities for paying reward and remuneration also include foreign entities. It may be assumed, however, that, along with the implementation of the new Patent Law and its Implementing Regulations, foreign entities, especially those that have filed applications for, and been granted patents for the inventions-creations obtained from development of Chinese and foreign joint investment, commissioned development, or through technical transfer, are possible to be sued in the courts in China for disputes over reward or remuneration for inventors. In future lawsuit against foreign entities granted the patent right in China relating to service inventor reward or remuneration, complicated situation would occur during resolution of such dispute.

In terms of jurisdiction, under the general provisions of the Chinese Civil Procedure Law, the lawsuit is under the jurisdiction of the court of the place where the defendant is domiciled, with that of the place where the plaintiff is domiciled or the right or obligation is enforced as the exception. Jurisdiction over patent cases generally rests with the intermediate courts. As for special cases involving foreign parties, Article 241 of the Civil Procedure Law provides for the rudimental rules of jurisdiction, namely, “in the case of an action concerning ... other disputes over property rights and interests brought against a defendant who has no domicile within the territory of the People’s Republic of China, if ... the object of the action is located within the territory of the People’s Republic of China, or if the defendant has detainable property within the territory of the People’s Republic of China, or if the defendant has its representative office within the territory of the People’s Republic of China, the People’s Court of the place where ... the object of the action is located, or where the defendant’s detainable property is located, or where the infringements took place, or where the defendant’s representative office is located, shall have jurisdiction”. With reference to the provision, as for foreign entities setting up their representative office or having property in China, the courts of the place where it has their representative office or property have the jurisdiction over dispute over reward or remuneration for service inventors. As for those having no representative office, nor property in China, due to the practice of taking the patent right as property for detention, it is a matter worth in-depth theoretical exploration and further attention in practice that the intermediate court of the place

where the State Intellectual Property Office is located, namely the Beijing No.1 Intermediate People’s court, is the forum to sue for dispute over reward or remuneration for service inventions according to the above provision that “where the defendant’s detainable property is located” or with reference to the provision on jurisdiction over patent right ownership as well as inventorship dispute.

On the matter of application of law, the Law of the People’s Republic of China on Application of Law Regarding Foreign-related Civil Relationship which will come into force on April 1, 2011 specifically provides for the issue of application of law to five categories of disputes over the ownership attribution, content, assignment, license and infringement of foreign-related IP rights, without mentioning disputes over reward and remuneration for service invention. If a party having no domicile in China is sued in a court in China, the court, when handling the dispute over service invention, needs to find out the law through conflicting rules and interpret it according to the specific circumstances, and finally apply the law found out and the interpretation thereof to the case; therefore, there is the possibility for finding out and applying the foreign laws by using conflict rules. Of course, when determination is made as to the issues that relate only to the patent right *per se*, such as the validity, content of the right, it is natural to directly apply the provisions of the Chinese Patent Law, a practice conforming to the view of the guiding opinions on local jurisdiction.⁴

2. Manner for determining reward and remuneration, and amount thereof

(1) Statutory mode

As for the manner for determining reward and remuneration, and the amount thereof, the new Implementing Regulations provide that “the entity to which a patent right is granted may enter into a contract with the inventor or creator on , or provide in its rules and regulations for the manner and amount of the reward or remuneration, and in the absence of such agreement, or rules and regulations to this effect, the amount of reward or remuneration needs to be determined according to the statutory standards, that is, the reward for an invention patent should not be less than RMB 3,000 Yuan, that for a utility model or design should not be less than RMB 1,000 Yuan; as for the remuneration, it is provided that an inventor or creator should be annually remunerated no less than 2% of the business profit made from exploitation of an invention, or utility model, or no less than 0.2% in case of design, or pays him a lump sum according to this standard;

where an entity to which a patent right is granted licenses the patent to another party, the service inventor should be remunerated no less than 10% of the royalties.

(2) Agreement

The new Implementing Regulations allow an entity and service inventor to conclude an agreement on the manner and amount of reward or remuneration. Under the provision, an entity granted a Chinese patent right may enter into an agreement with a service inventor before or after completion of a service invention on the specific manner of payment and amount of reward or remuneration; absence of such an agreement or in cases of unclear agreement (including agreements concluded against the provisions on place of conclusion and on selection of law and those that are obviously unfair), would result in the application of the statutory mode. Where a patented technology is put to practical use, the amount of the reward or remuneration of the statutory mode is usually larger than what has been agreed between parties in favour of the inventors. For that matter, the entity may use the mechanism of priority of agreement, and reach, beforehand, a legitimate, fair agreement on matter of reward and remuneration.

(3) Mode of internal regulations formulated under law

As Rules 77 and 78 of the new Implementing Regulations provide, the rules and regulations of an entity can be used for determining the manner and amount of reward or remuneration on the premise that the entity needs to formulate regulations in accordance with the laws. Accordingly, if its rules and regulations are contrary to the laws, it is possible that the rules and regulations are not applicable and the statutory mode has to be directly applied. Since the rules and regulations are formulated by an employer under the laws of the place where it is domiciled, any Chinese entity's rules and regulations and the procedure for formulating them should conform to the provisions of the laws, including the Contract Law and Labour Law; and a foreign entity's rules and regulations may be determined with reference to the laws of the country where it is domiciled.

In conclusion, since the civil legal relationship is based on the autonomous will of the parties, it is the best for the parties to be able to come up with a general arrangement with regard to the important matters of a service invention by way of prior agreement and regulations, and set, in a lawful and fair manner, the manner and amount of reward and remuneration, and the way for resolving disputes.

III. Analysis of two cases involving reward and remuneration for service inventors in China

As mentioned above, the former Patent Law and its Implementing Regulations merely limited the entities paying reward and remuneration to state-owned enterprises and institutions that had been granted the patent right. Besides, many local governments promulgated local regulations and opinions⁵ for the purpose of encouraging patent application, and formulated stipulations and gave guidance with regard to the manner and amount of reward and remuneration, with the amount of the prescribed reward and remuneration larger than that in the statutory standard and with the interested parties being allowed to conclude contract on the matter of reward and remuneration. Under the impact of the above and other factors, lawsuits filed by inventors in the courts for reward or remuneration dispute were not many. As the search of the website www.chinalawinfo.com⁶ shows, before the new Patent Law and its Implementing Regulations went into force, all the released lawsuits of the courts in China involving service inventors' reward and remuneration were those filed by service inventors of the Chinese nationals against Chinese entities because, in many of these disputes, the interested parties failed, in advance, to conclude contract or formulate rules on the manner and amount of reward and remuneration, or their agreements were not clear. In the presence of prior contracts between the interested parties on matters of reward and remuneration, the courts respected them as shown in the search of the cases. In such cases, most of the results were in favor of the inventors, but the average amount of compensation is rather low.

1. Weng Like v. Shanghai Pudong EV Fuel Injection Co., Ltd. (EV) and Shanghai Diesel Engine Co., Ltd. (SDE), a case of dispute over remuneration for the service inventor⁷

Weng Like, plaintiff, had long been General Engineer of EV, and was retired in March 2005. SDE was one of the share holders of EV, and its investment took up 90% of EV's registered capital. In April 2001, SDE filed two patent applications for the utility models of fuel injection pumps with, and was granted the patents by, the SIPO, with Weng Like indicated as the inventor on the Patent Certificates. In September 2003, the two patents were assigned to EV free. In November 2003, EV, licensed them to the Shanghai Dianzhuang Fuel Injection Co., Ltd. (SDFI), and the latter, as the licensee, paid

EV the agreed fee for using said patents and the royalties for the years from 2003 to 2007. After he was retired, Weng Like sued the two defendants in the court, claiming a remuneration at the amount of RMB two million yuan. The court at first instance ordered EV to pay Weng Like RMB 270,000 yuan out of the royalties it had received for exploiting the two patents in suit, and the court at second instance supported the decision.

There are two issues in the case that are worth our attention: one is, after the patents are assigned, how to determine “the entity having been granted the patent right” that should pay the inventor reward and remuneration, and whether the former patentee should be severally and jointly liable; and the other is what factors the court would consider in calculating the reward and remuneration due to the service inventor.

(1) As for whether the former patentee should be severally and jointly liable. In the case, SDE was the parent corporation holding 90% of EV's share, and former patentee. Weng Like was an employer of EV when he made the service inventions in suit. He requested EV and SDE to be severally and jointly liable when he filed the lawsuit in the court. The court at first instance made the decision that EV was the sole entity that should pay for the claimed reward or remuneration while SDE needed not to bear the several and joint liability based on the following two considerations. One, the said service invention was made by the plaintiff during his service to EV, and the free assignment concluded between SDE and EV was essentially to address the matter of ownership of the patents; two, during the follow-up exploitation of the patents, it was EV that was the licensor and the party to which the royalties were paid. It was then decided that EV was the sole entity that should pay for the claimed reward and remuneration, and SDE did not need to bear the several and joint liability. The court at second instance maintained the decision.

The decision on the service inventor's claim that both EV and SDE be severally and jointly liable triggered the issue that if SDE, as the parent corporation, obtained the right to file application for the patents free, and benefited from concluding a technology license with another party in connection with the patents after granting of the rights, was it possible for the plaintiff to claim reward and remuneration from it? Under this circumstance, the one making invention was employed by EV, a subsidiary corporation, and the entity that was the patentee and benefited from the license was the parent corporation. Some scholars believe that where an en-

tity assigns a technology to a parent or subsidiary corporation, since the two corporations were related to each other, the service inventor or creator was entitled to reward and remuneration from the entity or the related two corporations that had exploited the patent⁸. This involves the interpretation of Article 16 of the Patent Law: whether the service inventor's claim to reward and remuneration is based on the employment of the claimant and the respondent. Is it possible to make a special arrangement to satisfy the inventor's claim to the reward and remuneration under the above circumstance?

Another more complicated situation is: when SDE and EV concluded a technology development contract, the former paid some fees to the latter as commission for it to develop the technology, and they agreed that the right to apply for a patent for the technology developed was to be owned by the former. Later, the plaintiff, an employee of EV undertook the development and came up with the service invention. Under the circumstance, the plaintiff may, under Article 326 of the Contract Law⁹, claim reward or remuneration from EV. But in the provision of the Contract Law concerning payment of reward or remuneration is used the word “or”, and it is not clear whether the provision fully corresponds to the provision of the Patent Law on paying reward after grant of the patent right and remuneration after exploitation of the patent.

(2) What factors would the court consider in calculating the reward and remuneration? The case was heard under Rule 76 of the former Implementing Regulations of the Patent Law that “where any state-owned enterprise or institution to which a patent right is granted authorises any other entity or individual to exploit its patent, it shall draw from the profits it receives for exploitation of the said patent after taxation a percentage of not less than 10% and award it to the inventor or creator as remuneration.” According to the patent license concluded between EV and SDFI and other circumstances of the case, the court considered the time frame, base and percentage deducted for calculating remuneration as the factors for computing reward and remuneration.

As for the timeframe, the plaintiff argued that he should be remunerated from the time of execution of the patent license up to April 2007. Regarding this, the court took the view that the two patents in suit were invalidated in December 2005, so the patentee could only ask EV to pay him the corresponding remuneration based on the patent royalties before the invalidation of the patents.

As for the base: the court believed, according to the

patent license and the appraisal made by the judicial appraising organisation, that the patented products took up about 70% of all the royalties received by EV (the management system took up the remaining 30%), and calculated the rate of contribution the patents made in the products. Accordingly, the basic amount should be the after-tax amount the defendant received from the license royalties times 70%, and then multiplied by the rate of technical contribution of the patent to the products.

As for the percentage drawn, the former Implementing Regulations of the Patent Law specified that the minimum was 10%. But the court noted that soon after the plaintiff sued, SDFI, the licensee, requested the PRB to have invalidated the patents in suit, and the evidence on which the request was based was held by the two defendants. The court took the view that as EV failed to take effective measures to save the patents within three months after receipt of the PRB's invalidation decision, there were obviously reasons for the fact of invalidation to have arisen, and it directly made it impossible for the plaintiff to claim reward and remuneration from the economic benefits generated from the further spread and exploitation of the patents in suit before they expired. Hence, the court increased the percentage of the reward and remuneration to 30%.

2. Zhu Ruizhen v. Dongguan Viper Cleaning Equipment Co.,Ltd. (Viper), another case of a dispute over remuneration for service invention¹⁰

Zhu, the plaintiff, began to work for Viper in July 1998, and served as manager of its Engineering Department for a time. In February 2006, he left Viper. When he worked for Viper, he participated in R&D of 16 technical achievements, for which 8 utility model patents and 8 design patents were granted. Zhu signed his name on the 16 patents as a joint inventor or creator. In the case, Zhu presented to the court the evidence of material of advertisement on Viper's website, its product brochure, and technological data and photographs of the utility models and designs to show that Viper had exploited the patents. He also furnished Viper's 2004 Annual Inspection Report to claim that the Viper's after-tax profits of RMB 14.5471 million yuan in total in 2004 should be the profits on the basis of which to calculate the remuneration due to the service inventors and/or creators. He also asked that the remuneration should be calculated from two years earlier under the provision on limitation of action of the General Principles of the Civil Law. On the basis of the evidence from the plaintiff, the court at first instance decided that Viper had ex-

ploited 7 design patents in suit, and it failed to reasonably remunerate Zhu after its exploitation; hence it should pay Zhu RMB 101,829.7 yuan as remuneration (the after-tax profits of RMB 14.5471 million yuan times 0.2% times 7 design patents times 2 years and divided by 4 persons amount to RMB 101,829.7 yuan); the court at second instance confirmed the facts as ascertained by the former court, and upheld its decision.

There are three key issues as follows.

(1) Whether Viper exploited the patents in suit. In the case, the evidence from Zhu included material of advertisement on Viper's website, its product brochure, and photographs of the utility model and design technologies, and Viper raised no objection to the truthfulness of the evidence. The court compared the relevant photographs, and found that the defendant exploited 7 design patents of the 16 patents. Viper denied the exploitation of the 7 patents, without basing any rebuttal on effective evidence.

(2) Whether it remunerated Zhu for the service inventions. For the court, Viper should be under the burden of proof. While Viper said that it paid Zhu RMB 100,000 Yuan as economic compensation when he left, and said that the money had covered the remuneration due for the service inventions. But the receipt and evidence of remittance from Viper did not show that its payment to Zhu covered the remuneration due for the service inventions, nor prove the nature or purpose of the payment. Therefore, the court decided that Viper did not pay Zhu the reasonable the remuneration due for the service inventions.

(3) How much its after-tax profits made from the exploitation was. As regards Zhu's claim based on the Viper's 2004 Annual Inspection Report that the profits for the one-year exploitation of the patents amounted to RMB 14.5471 million yuan, Viper argued that it was not based on the facts and law for the plaintiff to have requested to calculate the after-tax benefits on the basis of the corporate's overall benefits. The court at first instance took the view that Viper, as a business of practical manufacture and sales, controlled all the production and sales of its various products; hence it should meet its burden to prove its after-tax profits from the patented products. It should bear the consequence of its failure to meet the burden of proof. The court supported Zhu's claim that the Viper's after-tax profits of RMB 14.5471 million yuan be the after-tax benefits on the basis of which to calculate the remuneration due for the service inventions under Article 75 of the Supreme People's Court's Several Provisions

Relating to Evidence in Civil Procedure¹¹. The court at second instance held that while the calculation was contrary to the relevant administrative regulations, in a case where the defendant could not present to the court any other evidence or date for its reference, under the fairness doctrine set forth in Article 4 of the General Principles of Civil Law, it was justifiable for the former court to have decided that Viper pay Zhu RMB 100,000 Yuan, and the court of appeal supported the decision.

As the distribution of burden of proof in connection with the important issues involved in the case shows, once a dispute arises over reward or remuneration for service invention, an employer will be under more burden of proof. For that matter, any employer should set up good internal or corporate system of reward and remuneration for service inventions, and be proactive in performing its statutory obligations, to avoid possible lawsuits. The matter requiring specially attention is that an employer should not only conclude an agreement with its employees on reasonable reward and remuneration, but also make efforts to keep relevant evidence to support its argument or defence when a lawsuit is brought. Meanwhile, it should be given attention to the fact that with the defendant's failure to produce evidence in the present case, the court presumed that all the annual after-tax profits shown in the plaintiff's valid evidence as the profits made from the exploitation of the patents in suit by citing the Supreme People's Court's Several Provisions Relating to Evidence in Civil Procedure.

IV. Changes in the system of reward and remuneration for service inventions and cases in recent years in other countries and regions

1. Japan

The lawsuit involving remuneration for Shuji Nakamura's service invention of blue light luminescent diode had important impact on the system of reward and remuneration for service inventions in Japan.

Shuji Nakamura used to work for Nichia Corporation as a technician. In 1990, Shuji Nakamura made the invention of technology of blue light luminescent diode when working for the Nichia Corporation; in 1993, he developed blue light luminescent diode of double heterotypic structure on the basis of it. Before that, there had existed the relevant technology of

red and green luminescent diodes; but without bluelight luminescent diode, it was impossible for electronic screen to display full colours. This was exactly the technical problem Shuji Nakamura had resolved, allowing richer colours to be displayed on electronic screen, making it more durable, and in the meantime lowering power consumption. Shuji Nakamura's employer applied for, and was granted, a patent for his invention. Nichia began to exploit the technology of Shuji Nakamura's service invention, and made enormous profits, but Shuji Nakamura was not remunerated much. In August 2001, Shuji Nakamura sued in a local court in Tokyo, requesting the court to determine that Nichia's bluelight luminescent diode invention made when working for the Nichia Corporation was a non-service invention and claiming that he should be added as a joint patentee to share more profits. Besides, Shuji Nakamura argued that if the court found that said invention was a service invention, it should then decide, under the Japanese Patent Law, that Nichia Corporation would pay him the reasonable amount of 20 billion Japanese yen (approximately 180 million US dollars).

Under Article 35 (1) of the Japanese Patent Law in force at the time, an employee was entitled to the "reasonable remuneration" for a service invention. For the court, the "reasonable remuneration" should be calculated with account taken of the benefits made from the monopoly of the patent and the contribution made by a business and inventor during the R&D of the technology. The court made the evaluation of the technology in suit that from the exploitation to expiration of the patent, Nichia, the market dominator, made its sales turnover of 1.2085 trillion Japanese yen (approximately 11 billion US dollars). Besides, after licensing the patent to other businesses, Nichia received the royalties amounting to 120.8 billion Japanese yen (approximately 1.1 billion US dollars). Accordingly, finding it a service invention, the court concluded that the remuneration should be calculated with full account taken of "the amount of contribution Nichia and the inventor made to the making of the invention". Nichia paid 300 million Japanese yen needed for the equipment for making the invention and paid for the tuition for Shuji Nakamura to study in the United States. But Shuji Nakamura, working for a small business in a very hard R&D condition, relied on his own capability to have made the advanced invention"; hence the court decided that he made 50% of the contribution to the making of the invention, and was entitled to 60.4 billion Japanese yen as remuneration. But, since Shuji Nakamura only claimed 20 billion Japanese yen, the court decid-

ed that Nichia pay him 20 billion Japanese yen as his remuneration for the service invention. Believing that the amount of remuneration was too much, Nichia appealed to the Tokyo High Court. In 2005, both parties settled their dispute before the court, and Nichia paid Shuji Nakamura 840 million Japanese yen (approximately 7.67 million US dollars) as the compensation for the invention.

The case drew great attention in Japan and in the world. It may well be said that it is exactly because of this case that people have begun to be aware of the importance of the long-disregarded service inventors' reward and remuneration system. In Japan, the provisions of the Japanese Patent Law on inventors' reward and remuneration were changed under the impact of the case¹². Under Article 35 of the former Japanese Patent Law, an employee was entitled to the reasonable remuneration for a service invention. Many a business has found the term "reasonable remuneration" confusing, and asked the legislators to clarify it through amendment of law, so as to make R&D investment a matter of less uncertainty. The term was still used in the amendment of Japanese Patent Law, with a paragraph added to further define it. Article 35, paragraph four, of the Japanese Patent Law provides that where the reasonable remuneration is specified in an agreement, employment regulation or any other stipulation, following factors should be considered: a negotiation between the employer, etc. and the employee, etc. had taken place in order to set standards for the determination of the said value, the set standards had been disclosed, the opinions of the employee, etc. on the calculation of the amount of the value had been received and any other relevant circumstances. The payment of reasonable remuneration in accordance with the said provision(s) shall not be considered unreasonable. Paragraph five: where no provision setting forth the reasonable remuneration as provided in the preceding paragraph exists, or where it is recognised under the preceding paragraph that the amount of the remuneration to be paid in accordance with the relevant provision(s) is unreasonable, the amount of the remuneration shall be determined by taking into consideration the amount of profit to be received by the employer, etc. from the invention, an employer's burden, contribution, and treatment of the employee, etc. and any other circumstances relating to the invention. That is, it is first to determine whether the reward and remuneration standards of a business are reasonable. If not, they should be set under the law.

2. United Kingdom

The UK Patent Act provides for the element that a court evaluates the reasonable remuneration due to an employee to enable a service inventor to be remunerated at a given rate once his invention is commercially successful. Article 40 (1) of the UK Patent Act as of 1977 provides that: "Where it appears to the court or the comptroller on an application made by an employee within the prescribed period that the employee has made an invention belonging to the employer for which a patent has been granted, that the patent is (having regard among other things to the size and nature of the employer's undertaking) of outstanding benefit to the employer and that by reason of those facts it is just that the employee should be awarded compensation to be paid by the employer". Under the amendment as of 2005, patent application with which an employer makes notable benefits falls within the scope of those from which service inventors are entitled to be remunerated. In the presence of agreement between them regarding the matter, the Act further provides that: "Where it appears to the court or the comptroller on an application made by an employee within the prescribed period that — (c) the benefit derived by the employee from the contract of assignment, assignation or grant or any ancillary contract ("the relevant contract") is inadequate in relation to the benefit derived by the employer from the patent; and (d) by reason of those facts it is just that the employee should be awarded compensation to be paid by the employer in addition to the benefit derived from the relevant contract; the court or the comptroller may award him such compensation of an amount determined under section 41 below. As for the amount of remuneration, section 41 (1) of the UK Patent Act further provides: "An award of compensation to an employee under section 40(1) or (2) above shall be such as will secure for the employee a fair share (having regard to all the circumstances) of the benefit which the employer has derived, or may reasonably be expected to derive, from ... the patent for the invention". By virtue of these provisions, a law basis has been put in place for the system of reward and remuneration for service inventors in the United Kingdom.

On 11 February 2009, the UK High Court decided, in *Kelly and Chui v. GE Healthcare Limited*¹³, that GE Healthcare Limited (the employer) pay the inventor, 3%, namely 1.5 million pounds, out of the 50-million-pound revenue it had made from its patent of MYOVIEWTM (99Tcm-tetrofosmin injection). This was the first case in which the UK court awarded a large sum in favour of the service inventor on the ground that the plaintiffs were the service inventors of the

patented technology, and they had adduced evidence proving that their employer had derived significant and extraordinary benefits; and the patent for the invention they had made was one of the reasons, though not the sole one, for the employer's benefits. For example, the employer derived the benefits also for other reasons, which affected the amount the employees would obtain from their employer. Accordingly, the court considered the service inventors' amount of contribution to the making of the invention, and the technical assistance given and efforts made by others involved in the making of the invention, and the employer's contribution to the invention in suit, and decided that the remuneration due to the inventors was at the rate of 3%. As for the understanding of the "significant revenue" in the UK Patent Act, the judge noted that "significant" meant "special", "extraordinary"; hence, "significant revenue" should be revenue going beyond what is commonly expected, with the amount far more than the economic revenue in correspondence to which the employer had paid the inventors for their salary.

3. France

Within the French service invention reward and remuneration system, importance has been attached to the protection of service inventors' rights and interests. Article L 611-7 of the French Intellectual Property Code (IPC) sets forth that: "inventions by an employee under an employment contract where the employee has a specific duty to invent... belong to the employer. The conditions under which the employee who created the invention receives additional remuneration are determined one to three times the employees' salary by collective bargaining agreements, works council agreements and individual employment contracts." There were cases involving large amounts of remuneration for service inventions in France. In 2000, the owner of a service invention of an anti-cancer medicament was adjudged, as the employer, to pay the inventor 4 million Francs (approximately 830,000 US dollars) according to the benefits made after exploitation of the patent¹⁴. In another case as decided in May 2005, Ray, the inventor, was remunerated only 6,631 Euro from his employer for his service invention of a drug. After leaving his employer, he sued the former employer in the court claiming a larger amount of remuneration. The Paris High Court decided that Ray made 70% contribution to the making of the invention in suit, and ordered the former employer to pay him additional 600,000 Euro. After the employer appealed, the Paris Court of Appeals finally decided on additional remuneration of 300,000 Euro. In the decision, the

Paris Court of Appeals noted the additional remuneration should be calculated with full account taken of many factors, such as the economic benefits generated from the invention, the difficulty in making the invention and the contribution made by the inventor.

4. United States of America

Under the patent system in the United States of America, inventors' interests are accorded special protection, following the "doctrine that invention is owned by the inventor himself". Except that it is agreed in advance that an invention is to be owned by the employer or that one is employed solely for making inventions, a service invention is, in principle, owned by the inventor himself. As for a service invention, a patent should be applied for in the name of the employee, and then assigned to the employer. According to this doctrine and under the impact of the concept of free contract, most US businesses attach great importance to conclusion of agreement with its employees on matters of ownership of invention, working out detailed, complicated contracts, and stressing that the employment is solely for the purposes of making invention. On the whole, the amount of reward and remuneration for service inventions is not large in the U.S., and is usually fixed at several thousands a patent because employers think the salary paid to an employee is enough to cover the reward and remuneration for service inventions.

Conclusion

The provisions of the amended Patent Law and its Implementing Regulations for the system for reward and remuneration for service inventors are now in force, and entities having been granted the patent right in China are obliged to pay inventors reward and remuneration. The manner of payment and amount of reward and remuneration may be decided on by virtue of contract or under the corporate regulations, otherwise reward and remuneration are to be paid at the amount provided for in laws. While there have not been many cases where the courts awarded inventors in China, and the amount of reward and remuneration was not large, under the guidance of legislation to encourage invention and enhance protection of the rights and interests of inventors and the impact of foreign lawsuits awarding "large amount of reward and remuneration", it is expected that there will be increase in the number of such cases and in the amount of the reward and remuneration awarded. It is worth noting that in Japan, also an east Asian nation, there are more lawsuits in-

stituted by R&D employees for award of reward and remuneration for their invention made during their employment for to their employers when they leave their job or retire. This tendency signals a warning to enterprises having patent filings in China. ■

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¹ Without special indication otherwise, the “service inventors” here refer to “inventors or creators of service invention-creations”.

² For example, Article 45 of the new Patent Law provides that “any entity or individual” may request the Patent Reexamination Board to declare the patent right invalid, and Article 19: “where any Chinese entity or individual applies for a patent, may appoint a patent agency”.

³ See the speech by Li Xiaoxia, Deputy General Director of the Education, Science, Culture and Health Department of the Legal Affairs Office of the State Council at the press conference held by the Information Office of the State Council on Amendment of the Implementing Regulations of the Patent Law: “the scope of application of the standards for reward and remuneration have extended from all state-owned enterprises to all entities, including enterprises of all sorts”, http://www.chinataiwan.org/xwzx/xwfbh/gxbxwfbh/201002/t20100204_1247816.htm as last visited on 30 November 2010.

⁴ The Beijing Higher People’s Court’s Answers to Several Questions Regarding Application of Law to Civil IP Cases Involving Foreign Parties as of 2004 provide: “The relevant laws apply to the trial of civil cases where foreigners enforce their patent rights, trademark rights or copyrights. It is not possible to apply laws of any foreign country; hence there is no need to recite conflicting regulations.”

⁵ For example, the Beijing Municipality’s Regulations for Administration, Protection and Promotion of Patent; and the Shanghai Municipality’s Several Opinions on Further Enhancement of IP-related Work.

⁶ <http://vip.chinalawinfo.com/case/>, last visited on 21 November 2010.

⁷ See the Shanghai No.1 Intermediate People’s Court’s Civil Judgment No. Huyizhongminwu (zhi) chuzi 220/2005 and Shanghai Higher People’s Court’s Civil Judgment No. Hugaominsan(zhi)zhongzi 23/2008.

⁸ For details, see Tao Xinliang, Research Report of the IP School of Shanghai University: Attribution of the Ownership of Patent Application Right, Patent Right and System of Reward and Remuneration for Service Inventors or Creators, excerpts of Special Research Report on the Third Amendment to the Patent Law and Its Implementing Regulations, (Volume Two), compiled by the Legal Affairs Department of the State Intellectual Property Office, the Publishing House of Intellectual Property, 2006, P.928.

⁹ Article 326 (1) of the Contract Law: Where the right to use or transfer a service-related technological result belongs to a legal person or any other organisation, the legal person or that organisation may conclude a technology contract on the said service-related technological result. The legal person or that organisation shall deduct a certain percentage of the benefits from using and transferring the service-related technological result so as to award reward and remuneration to the person(s) achieving the service-related technological result. Where the legal person or organisation is to enter into a technology contract for the transfer of the service-related technology, the person(s) achieving the service-related technological result shall have the priority to be the transferee under the same conditions.

¹⁰ For details, see Guangdong Province Dongguan City Intermediate People’s Court’s Civil Judgment No. Dongzhongfaminsanchuzi 33/2006 and Guangdong Province Higher People’s Court’s Civil Judgment No. Yuegaofaminsanzhongzi 229/2007.

¹¹ Article 75 of the Supreme People’s Court’s Several Provisions on Evidence in Civil Procedure: Where a party having evidence refuses to present it without good reason, if the other party claims that the evidence is unfavourable to the holder of the evidence, the claim may be presumed tenable.

¹² The Japanese Patent Office: “The Case Studies of the Procedures under the New Employee Invention System”, <http://www.jpo.go.jp/index.htm>, last visited on 21 November 2010.

¹³ James Duncan Kelly and Kwok Wai Chiu v GE Healthcare Limited, [2009] EWHC 181 (Pat) (Floyd J), 11 February 2009.

¹⁴ Hoechst Marion Roussel/Raynaud, La Cour de Cassation, Chambre Commerciale, November 21, 2000; Arrêt n° 2086. Rejet.; Pourvoi n° 98-11.900; and GRUR Int. 2001, 785.