

China IP Developments in Biotech / Pharma

Foreign companies transferring IP out of China: things to know

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Inventions made in China

Most foreign companies with R&D sites in China are aware of the fact that inventors having inventions made in China have to obtain permission before they can file patent applications outside of China for these Chinese inventions. It doesn't matter if the owner of the business is a foreign entity. Patent applications covering inventions "made in China" (on Chinese soil) must first be filed in China or the inventor must obtain permission from the Chinese government to file abroad first.

Inventors from China

All inventors for inventions made in China (including partially made in China) are entitled to be fairly compensated for their work (Article 76 of the Implementation Rules of the Chinese Patent Law). The minimum payment by law is 2% of the business profits unless if an internal policy or employment contract is in place. Rewards can vary, but the final compensation must be fair, with certain minimum requirements (e.g., 3000 RMB for an invention patent).

Additionally, current law stipulates that inventions made by employers (1) during the course of employment or (2) mainly using the employer's materials and technical means automatically belong to the employer. However, the reach of this ownership goes one year beyond an employee's resignation, retirement, or change in work. This means that an employer can "claw back" an invention from an employee's future employer if the employee is working in an area that relates to his responsibilities at the previous employer.

Proposed changes to the law will change this. Under the proposed changes, inventions made

(1) mainly using the employer's materials and technical means; but

(2) not during the course of employment

will no longer automatically belong to the employers (i.e. these inventions are not categorized as service inventions). Instead, inventors will own these inventions provided there are no contracts stipulating otherwise. The proposed changes also dramatically increase the default

inventor remuneration amounts, e.g., to at least 20% of the net income generated through an assignment or licensing deal.

Heightened Scrutiny for IPR Transfers from China to Foreign Parties

Effective as of March 29, 2018, the State Council in China will need to review and approve all transfers of technical intellectual property assets (e.g., patents, registered integrated circuit layout designs, computer software copyrights, plant varieties) from Chinese companies to foreign companies. Transfers include exclusive licenses and transfer of ownership or controlling party. This only applies to Chinese entities, not people. Therefore, it does not include Chinese employees transferring IP rights to their foreign employers.

Eagle Thoughts

In view of the changes in the laws, we think it is essential to put into place strong employment agreements and company policies governing invention ownership and remuneration, especially if the company has R&D in China or is working with collaborators in China. Companies should especially take care when setting up agreements that relate to research done in China (e.g., with a Chinese contract research organization) and consider whether employees at these companies previously worked at another “similar-enough” company where their inventions may be “clawed back” by the previous company.

Companies need to be vigilant when considering the creation and transfer of IP out of China. Not having the right contracts in place or not setting up the proper structures could result in critical issues with a company’s IP assets and could result in future complicated litigations.

We will keep you updated for further development. Stay tuned for more important updates on IP law in China.

Please contact us with any questions: eip@eipgroup.asia.

Eagle IP are experts in patent law and we offer a one-stop service for your global IP needs.