

## Copyright of Work for Hire

The work made for hire (sometimes abbreviated to work for hire or “WFH”) doctrine is an exception to the general copyright rule that the person who actually creates a work is the legally-recognized author of that work. There are a couple of distinct ways that a work will be classified as “made for hire.” The typical type of WFH is the work created by an employee within the scope of employment.

## Ownership of Copyright

With a work for hire, the author and copyright owner of a work is the person who pays for it, not the person who creates it. This rule is true in many countries, including the United States. In the United States, unless otherwise agreed, the **employer** is the copyright owner of a WFH.

However, Chinese law takes a different position in this regard. According to China’s Copyright Law, subject to a couple of exemptions and some limitations, the copyright of a WFH belongs to the **employee**.

## Limitations on Employee’s Copyright

The employer has the priority right to use its employee’s WFH within its normal business scope, even though the copyright of such WFH belongs to the employee. Within 2 years of the completion of the WFH, the employee cannot authorize any third party to use such WFH in the same way as the employer does without the employer’s consent. Even if the employer allows the employee to license the WFH to a third party within such 2-year period, the employee has to share the license fee with the employer according to the agreement between them.

## Exemptions

Under the following circumstances, the copyright of a WFH, except for the moral right, shall belong to the **employer**:

1. engineering design drawings, product design drawings, maps and computer software, etc. created by the employee mainly with the employer’s funds, equipment, materials and other technical resources, and the employer is responsible for such WFHs;
2. computer software developed by the employee in accordance with the clearly stipulated development objective assigned to his position or such computer software is the predictable or natural result of work assigned to his position; or
3. WFHs the copyright of which belong to the employer according to the law, regulation and the agreement between the employer and employee.

Under 1 and 2, above, the copyright of such WFH belongs to the employer, regardless of whether or not there is an agreement between the employer and employee. However, in practice, the employee has the chance to challenge the employer’s copyright by arguing that the WFH was not created with the employer’s funds and technical resources and that will cause unnecessary trouble and cost for the employer. So, an agreement specifying employer’s copyright at the outset of employment is **advisable**.

For other WFHs, in order for the employer to own the copyright, it is **necessary** to have the employee sign an agreement at the outset of employment.

## Patent of Invention for Hire

Under the Chinese law, the WFH doctrine may also be applied to the patent area to decide the patent right of the “invention for hire.” But the rule is completely opposite. The general patent rule is that the person (*i.e.* **employee**, in the employment context) who actually creates an invention has the right to apply patent for such invention, and if approved, is the patent owner of such invention. But for the “invention for hire,” the **employer** shall own the patent application right, and if approved, the patent right.

According to China’s Patent Law, the following inventions are qualified for “invention for hire:”

1. Invention created within the employee’s scope of employment;

2. Invention created out of the employee's scope of employment but according to other work assigned to him by the employer;
3. Invention created by the employee within 1 year of his termination of employment with the employer and related to his scope of employment at or other work assigned to him by such employer;
4. Invention created by the employee mainly with the employer's funds, equipment, raw materials and confidential technical materials, etc.

This rule is quite favorable to the employer and the employer does not need to sign an agreement with its employees at the outset of employment to own the patent application right and patent right of "invention for hire." But still, an agreement is **advisable** to avoid potential disputes and unnecessary cost.

#### **Know-How**

In the real world, in order to maintain its competitive position in the market, a company may not want to patent all its technologies and may keep its core technologies confidential. These technologies are also called "know-how" in practice. Since "know-how" is usually valuable to the company, yet not covered by patent protection, it is very important for the company to understand the legal status of unpatented technologies and take proper measures to protect them.

In China, "know-how" can be protected as a "trade secret" provided that certain requirements are met.

To qualify as a "trade secret," a technology must be (i) unknown to the public, (ii) able to create economic interest for its owner, (iii) practical, and (iv) protected by its owner by taking actions to keep it confidential. There is no specific requirement on what action should be taken by the company, but usually such action may include formulating an internal confidentiality rule and signing a confidentiality agreement with its employees or business partners, etc.

Emphasis should be drawn on a tricky point in the trade secret protection system, *i.e.* the ownership of a trade secret. The law only recognizes the owner's rights to a trade secret, but in most cases, the first question that should be asked is "who owns the trade secret." The law does address this so the company better sign an agreement with relevant

persons clarifying the company's ownership and related rights pertaining to such property.

#### **Conclusion**

In the United States, it has become a routine for companies to sign a confidentiality and assignment agreement, as part of the employment documents, with all of their employees. We recommend that companies interested in doing business in China do the same with their Chinese employees. Furthermore, the provisions of such confidentiality and assignment agreement should be tailored according to Chinese law to accommodate the different needs of various companies.

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