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§ 206:43. Executive summary for clients regarding intellectual property rights

CLIENT EXECUTIVE SUMMARY OF INTELLECTUAL PROPERTY RIGHTS

§ 1. Introduction

The ability of any commercial enterprise to achieve its economic objectives, in the form of a fair return to all of its stakeholders on their invested capital and other dedicated resources, is a function of a number of variables. For many years, “capital,” in the form of machinery, land, buildings, and other tangible assets, and “labor,” in the form of human resources measured on both a quantitative and qualitative basis, were perceived to be the most important factors of production in the economic analysis of a given business enterprise. However, particularly in light of the literal “globalization” of business activity over the last several decades, it is clear that a new set of assets, denominated as “knowledge” and “innovation,” have now moved to the forefront of business strategy for both large and small enterprises around the world.

This new factor of production, often referred to as “intellectual property” or “IP,” has competitive significance. The use of this term connotes a set of tangible assets which can be used by their owner and, like any other type of asset, may be susceptible to obsolescence, misappropriation, and duplication. However, the legal framework that has been constructed to contain, define, and allocate ownership and control of these technological assets, in the form of patent, trade secrets, copyrights, and trademarks and other types of intellectual property, provides an owner with far more than a set of property rights. Instead, intellectual property rights provide a tool that permits the owner to forge and maintain an overall competitive advantage based, in part, on its ability to use, and prevent others from using, the valuable innovations and ideas which meet the requirements of law around the world. The importance of IP has been demonstrated in the investment preferences of venture capitalists, fund managers, and other sophisticated investors for financing the creative efforts of scientists, engineers, and entrepreneurs involved in markets and industries in which product characteristics and competitive forces are driven by factors of technology.

§ 2. Types of intellectual property rights

The major types of IP rights that are recognized around the world are patents, which are used to protect *new inventions*; trade secrets, which recognize the value of *proprietary business information*; copyrights, which are used to protect books, records, and other *tangible forms of creative work* from unauthorized copying and misappropriation; and trademarks, which protect the *distinguishing words and symbols* developed by firms to identify their goods and services in the eyes of consumers. The importance of the different forms of IP rights to a business enterprise will vary depending upon its activities and the markets in which it operates. For example, the essential value of many “technology-based” firms lies in their portfolio of patents, trade secrets, and copyrights, while “creative” firms, such as movie studios and software companies, will tend to rely on copyrights and trademarks. Companies dealing in information, such as pollsters or firms offering financial services, must compete on the quality and sources of their databases, as well as their ability to analyze and present the data. As such, trade secret and copyright protection tend to be more important in this area. Finally, even when the firm is not involved in producing and selling “high tech” goods or services, it will still place great importance upon its trademarks, as well as its production “know-how” and marketing information, which can be protected as trade secrets.

§ 3. —Patents

A patent is a legal right issued by the national government that allows the holder to exclude others from making, using, or selling the patented subject matter in the granting jurisdiction during the term of the patent. While the scope of items that are eligible for patent protection will vary from country to country, a patent usually will be granted for new and useful products and for processes for the manufacture of new or existing products, as well as for methods of use of new or existing products. Some nations, such as the United States, extend patent protection to designs and plants. Any person who makes, uses, or sells an invention in violation of the rights of a patent holder is said to have infringed the patent, and the holder may be entitled to injunctive relief and damages in the event of infringement.

§ 4. —Trade secrets

A trade secret, sometimes referred to as “know-how” or “proprietary information,” is information that is utilized in the business and that affords the user a competitive advantage over others without access to the information, due to the fact that the information is neither generally known nor readily ascertainable by proper means. In order for information to qualify as a trade secret, it must be the subject of reasonable efforts to maintain its secrecy. However, trade secret status is not necessarily lost by disclosing the information to others, provided that they are under a duty to treat the information as confidential and to limit its use. Trade secrets are protected as a matter of statutory or contractual law in many countries and the owner generally has a cause of action against any person who acquires the secret by improper means or uses or discloses it in violation of a duty to limit its use or maintain its secrecy.

§ 5. —Copyrights

Copyright protection is available to authors of original literary, dramatic, musical, artistic, and other intellectual works. The owner of a copyright has the right, for a specified period of time, to exclude others from reprinting, publishing, distributing, copying, publicly performing, or publicly displaying the work, and from preparing derivative works based on the copyrighted work. A copyright does not, however, prevent others from using any of the knowledge set forth in the work to make, use, or sell the idea or invention. Copyright protection does not extend to any idea, procedure, process, system, method or operation, concept, principle, or discovery. Any violations of the exclusive rights of the copyright owner are referred to as infringement or piracy.

§ 6. —Trademarks

A trademark is a word, name, symbol, or other similar means used by a manufacturer or merchant to identify his or her goods and distinguish their source from those manufactured or sold by others. A service mark is a mark or device used to identify a service, such as transportation or insurance, offered to customers. The owner of a trademark or service mark has a right of

action against counterfeiters (*i.e.*, those persons who use a representation or copy of the mark without authorization from the owner). Moreover, a trademark owner may prevent others from offering for sale or distribution, or from advertising, goods or services using a copy or colorable imitation of a mark that is so similar to the original mark that deception or confusion is likely to result.

§ 7. —Special types of intellectual property rights

Certain types of technology may be eligible for protection under special laws and regulations designed to take into account some of the attributes of the subject matter that may not lend themselves to traditional forms of IP rights. For example, the United States and other developed countries have implemented systems for the protection of semiconductor chips; however, the laws of many developing countries often expressly or effectively deny mask work protection. In such countries, *sui generis* protection is the only available means of protection, although it is usually ineffective. Other problems in those countries include inadequate civil and criminal penalties, no preliminary or final injunctive relief, lack of seizure and impoundment, and lack of exclusion of imports.

Industrial design rights are another form of recognized intellectual property right that can be used to protect the visual design of objects that are not purely utilitarian. The Geneva Act of the Hague Agreement Concerning the International Registration of Industrial Designs was adopted under the auspices of the World Intellectual Property Organization (“WIPO”), a specialized agency of the United Nations, to simplify the process of seeking protection for industrial designs in multiple countries.

There are certain end products of innovative activity that warrant special mention since their protection has raised challenging issues for courts and regulators. Perhaps the most well-known example is software, which can now be readily protected under the copyright laws in the United States and in other developed countries; however, substantial variations continue to exist in the content of local copyright protections for software. In 1981, the United States Supreme Court opened the door for software patents by declaring that a patent would be available for a process for curing synthetic rubber that used a mathematical formula in a programmed digital computer. Since that decision, the number of applications for software patents has increased dramatically, and United States patents have been issued on a wide range of programs, including a method for seismic exploration using a summing algorithm; a CAT scan imaging technique using a mathematical algorithm; and a method for smoothing oscilloscope waveforms based on a mathematical algorithm. However, companies have claimed that software patents are often overly broad and invalid, largely because patent examiners lack the experience to determine whether a program is sufficiently novel to merit a patent; and companies often challenge the breadth of issued patents rather than pay exorbitant licensing fees. Moreover, the availability and strength of international patent protection of computer software is much less clear. For example, not too long ago, computer programs were excluded from patent protection in many industrial countries; however, this does not mean that inventions relying on or incorporating a computer program will not be eligible for patent protection in those countries.

The growing popularity of the Internet has raised interesting IP issues. For example, the ability to use the Internet as a publication medium has created serious issues regarding potential copyright infringement. Part of the problem, of course, is the fact that basic viewing of images on the Internet usually requires copying and storing of content that would normally be protected under traditional principles of copyright law. In addition, common Internet activities such as linking and framing may, depending on the circumstances, constitute copyright infringement. Whether current copyright laws are adequate for these is still an open question. Tension exists between the promise of the Internet for increasing the flow of information within the society and the legitimate rights of authors. Since global companies will engage in online marketing and establish websites that can be viewed in multiple countries around the world, careful attention must be paid to how specific countries are dealing with intellectual property issues in the online environment. Another area of interest is whether or not national patent registrars will be willing to grant patent protection for Internet business methods. Other evolving and challenging areas with respect to international IP rights include “geographical indications,” biotechnology, reprography, and communication technologies (e.g., satellites, cable distribution, digital distribution systems, and e-commerce).

§ 8. Comparison of different types of intellectual property rights

The various types of IP rights can be distinguished by the subject matter covered by the right, the requirements for obtaining protection, the procedures to be followed for perfecting and maintaining the rights, and the rights that are acquired by the owner of the particular type of intellectual property.

Patent protection is available for new inventions, but not for the laws of nature, physical phenomena, or abstract ideas. A trade secret can be almost any information, including information that might qualify for patent or other protection, which derives competitive value from not being generally known by others. The subject matter of a copyright may include any original work of authorship fixed in a tangible medium, but does not extend to the ideas or thoughts underlying the expression itself. The law of trademarks and service marks covers words or symbols used to identify and distinguish goods and services placed in commerce.

The standards for obtaining patent protection are fairly strict, requiring utility, novelty, non-obviousness, and full disclosure to the public. In contrast, trade secret protection does not require novelty, as does patent protection, or any degree of originality, as does copyright protection. Instead, trade secret protection is predicated upon economic value and secrecy. Copyright protection requires a tangible expression of a work of authorship that is original, rather than merely copied from an existing work. Trademark protection requires that the word, symbol, or mark be distinctive enough to identify the goods or services in the minds of the consumer.

A patent is obtained by filing an application with the governmental authority in the country in which the inventor seeks protection and will be issued after review of the application in light of the standards for patent protection. Trade secret protection, on the other hand, does not require any filings or registration, but the trade secret owner must take precautions to maintain the secrecy of the protectable information. Copyrights and trademarks can be protected from the moment of creation or first use, as the case may be; however, registration is typically a precondition to the assertion of certain rights against third party infringers.

A patent owner is given the right to exclude others, during the term of the patent, from making, using, or selling the patented invention, even if another independently conceives the invention without reference to the information included in the patent application. However, once the patent expires, any person can produce or use the invention without authorization of the original inventor. Trade secret protection is not arbitrarily limited in duration and may last for as long as the information continues to have the requisite economic value and remains secret. However, the owner may proceed only against persons who may misappropriate a secret and cannot prevent others from independently developing and using the information. Copyright owners are given a limited monopoly that extends beyond that of a patent; however, the author will not be able to prevent others from using the ideas expressed or embodied in the copyrighted work. Trademark registration extends for a fixed term and includes the right to prevent others from using the same or similar mark, or from copying the goods or services.

§ 9. Differences among international intellectual property laws

Each of the various types of IP rights extends only to the border of the country in which the right has been granted. Thus, for example, the holder of a United States patent can preclude others from using, making, or selling the invention only in the United States because protection in foreign countries may not be derived from a United States patent grant. Accordingly, when products and/or technology are exported outside of the United States to a foreign country for use in that country by the U.S. party or as part of a strategic business relationship with a foreign partner, the intellectual property associated therewith will not be protected against infringement or misappropriation in the applicable foreign country unless and until the U.S. exporter fulfills the requirements for protection in the importing country. With respect to patents and trademarks, this generally means registration with the appropriate local government agencies. Copyright protection depends on national laws, but registration is typically not required. Trade secret rights still vary substantially around the world and will depend, in large part, on the content and enforcement of local laws pertaining to unfair competition and business ethics and practices in the importing country.

While substantial progress has been made toward harmonizing intellectual property laws around the world, including implementation of procedures to facilitate preparation and filing of patent and trademark applications in a number of

countries without duplication of effort, intellectual property laws remain far from uniform in actual practice and enforcement. This inconsistency reflects the fundamental schism that exists between developed and developing countries regarding the benefits and perceived dangers of property rights in technologies and related items. An inventor in a developed country will seek strong intellectual property protection to prevent those located in developing countries from “free riding” on his or her work and to establish additional markets through which to recover the costs of development. On the other hand, governments in many poor and developing countries are reluctant to provide any strong degree of protection to foreign inventors and firms, since protection of this sort may work as a disincentive to local innovators to build their own research and marketing capabilities and, perhaps more importantly, allow foreign firms to exercise undue control over the availability and affordability of the protected items.

In spite of their fundamental discomfort with intellectual property rights, developing countries have been forced to begin adopting some rudimentary form of intellectual property law. This movement has been driven by multilateral negotiations on a variety of trade-related issues (e.g., the agreement on “Trade-Related Aspects of Intellectual Property Rights” (“TRIPs”) negotiated during the Uruguay Round of the General Agreement on Tariffs and Trade in the 1990s), as well as well-publicized concerns of many developed countries regarding various inadequacies in the content and enforcement of intellectual property laws in the developing countries, including no preliminary or final injunctive relief, lack of seizure and impoundment relief, lack of exclusion of infringing imports, inadequate civil remedies (i.e., monetary damages), and inadequate fines or other criminal penalties.

§ 10. —Patent laws

While there have been ongoing efforts to harmonize the patent laws of the world, significant variations can still be found in national patent laws. The scope and term of patent protection, as well as enforcement procedures, were long-time issues. Initial steps in harmonizing the patent laws of the various countries were taken with the adoption of the TRIPs Agreement; however, even with the changes endorsed at that time United States trade representatives have continued to pursue battles in large foreign markets relating to ongoing deficiencies in the word and enforcement of national patent laws outside of the United States. For example, each country remains free to establish its own definition of the types of products for which a patent may be granted. While the United States has argued that patent protection must be available for all products and processes which satisfy the criteria of novelty, utility, and non-obviousness, a number of countries have explicitly precluded patentability for products in specified areas, such as pharmaceuticals. Also, even if patent rights are available, the government may sometimes reserve the right to license the patented invention to others in the name of the “public interest,” thereby undercutting the utility of the monopoly usually associated with patent rights. In addition, patent protection for pharmaceuticals in foreign countries is often delayed by requirements that the health regulatory agency issue approval before pharmaceutical patents are granted by the patent office.

The ability of a patent holder to enforce the patent rights effectively varies substantially around the world. Among the factors that must be considered regarding the potential patent litigation in any foreign jurisdiction are the time limits for bringing an infringement action; how far back in time the patent owner can go in collecting past damages; whether or not injunctive relief is available; whether a bond must be posted by the plaintiff; the use of discovery proceedings; the amount of time that it takes to prosecute an infringement action; and the attitude of local courts toward patent holders, particularly when the patent is held by a foreigner. A number of countries have been criticized for weak patent enforcement and deficiencies in their judicial systems that make it almost impossible for foreign patent owners to pursue local infringers and companies from the U.S. and other developed countries have been forced to contend with a continuous stream of exports of counterfeit goods by firms in foreign countries.

§ 11. —Copyright laws

Material substantive variations among national laws have been noted in a number of areas with respect to copyrights. For example, even though foreign copyright laws cover some types of works, they may fail to cover others, such as sound recordings, computer programs, or other print or electronic compilations (e.g., databases), or may not encompass certain media in which the work may now be embodied, such as videocassettes or computer programs in read-only memory (“ROM”). The TRIPs agreement addressed computer programs by requiring that they must be treated as literary works for

purposes of copyright protection. In addition, some foreign laws grant only a portion of the exclusive rights enjoyed by authors in the United States and in some foreign countries copyright owners may be denied exclusive rights to cable retransmissions, public performances or displays, or electronic distribution. In other cases, the exclusive rights of the copyright owner may be subject to compulsory licensing or restricted by broad exceptions for public performances in hotels or film clips and educational photocopying. The term of copyright protection in developing countries has often been much shorter than in the major developed countries and in some countries the basic term of a copyright may extend only for the life of the author and the term of protection for certain works, including sound recordings or computer programs, is set at a fixed number of years (e.g., 20 or 30 years) without regard to the life of the author. Finally, the limitations placed upon the exclusive rights of the copyright owner in many foreign companies are often accompanied by perceived deficiencies in the enforcement of the remaining rights to prevent infringement. In a number of countries, specifically where public performances of copyrighted works were permitted without permission of the foreign producers, enforcement efforts and sanctions have been perceived as ineffective.

§ 12. —Trade secret laws

In contrast to patents and copyrights, the legal protections for trade secrets, often referred to as “know how,” are far from uniform around the world. While trade secret protection is well established in the United States and many other common law countries, trade secrets are not recognized in many countries, and no international convention or treaty exists with respect to the subject matter. Even in those cases where trade secrets are recognized, the scope of the subject matter that qualifies for protection can vary significantly from country to country. For example, some countries do not include techniques of a nonindustrial nature in the definition of trade secrets. In other countries, different levels of trade secret protection are provided for manufacturing (or industrial) information, including information that is of a purely technical nature such as production methods, chemical formulae, blueprints or prototypes, and commercial information, a category which generally includes sales methods, distribution methods, contract forms, business schedules, details of price agreements, consumer profiles, advertising strategies, and lists of suppliers or customers.

It is not surprising to find that the subject matter of trade secrets is broadly defined and many countries tend to leave the final determination of what information can be a trade secret to the courts and decisions made by the courts are based on the specific circumstances of each individual case. Among the factors that are typically considered are: the extent to which the information is known to the public or within a particular trade or industry, the amount of effort and money expended by the trader in developing the secret information, the value of that information to the trader and to his competitors, the extent of measures taken by the trader to guard the secrecy of the information and the ease or difficulty with which the information could be properly acquired by others. In countries such as the United States and Japan, the efforts made by the owner of the information to keep it secret are considered by courts to be of primary importance in determining whether the information constitutes a trade secret at all.

In large part, variations in the treatment of confidential information in foreign countries are a function of fundamental differences in cultural attitudes regarding ownership and use of valuable business information, as well as economic and political objectives of the local governments with respect to diffusion of technical information and ensuring free mobility of labor. For example, in many Asian countries, employees do not expect to transfer to their employer ownership of inventions and new technical information which the employees might create during the term of their employment. Accordingly, assignment of inventions and nondisclosure agreements are rarely used in those countries. In addition, in many countries it is generally accepted that employees have a basic right to use and exploit, for the purpose of earning their living, all skills, experience, and knowledge that they may have acquired in the course of previous periods of employment, even with the help of trade secrets; however, employees do have a duty, during the period of employment, to act with good faith towards their employer and, after the employment has come to an end, not to use or disclose any confidential information about their employer's affairs that may have come to the employee's notice during his employment. The problem, of course, is that the distinction between using the skills, knowledge and experience legitimately acquired during employment and the prohibition on the use or disclosure of the former employer's industrial or commercial secrets is often difficult to make. While many countries recognize the validity of nondisclosure agreements, such an agreement may be set aside if its effect is to unreasonably restrict the employee's right to choose his or her future occupation.

Differences between countries exist with respect to the duration of trade secret protection. For example, while trade secret protection can be extended indefinitely in the United States and many other countries, there are other countries that still

explicitly limit the period of time that a recipient of trade secret information can be required to maintain the secrecy of the information. In some countries nondisclosure obligations cannot extend beyond a fixed period, generally ranging from three to five years, after the delivery of the confidential information to the party to which the obligation is applicable, and other countries impose restrictions on the duration of confidentiality agreements in the context of governmental review of inbound technology transfer agreements.

Finally, while trade secret owners in the United States have a right of action against third parties who benefit from a breach or other circumvention of a confidentiality agreement, there are still some countries that do not permit trade secret owners to proceed against persons who are not in privity of contract with the owner. Therefore, a trade secret owner might have no remedy against a third party that acquires the secret without authority or induces another to breach an agreement with respect to confidentiality of the trade secret. One continuing issue around the world is weaknesses in the enforcement of trade secret program due, in part, to the lack of familiarity with trade secrets among judges in many jurisdictions and the fact that statutory provisions that might provide protection are often widely dispersed among different legislative acts. Protection of trade secrets during legal proceedings is also a concern for owners seeking to protect their rights.

The lack of effective trade secret protection in a foreign market can impair commerce and trade, not to mention the possible substantial detriment impact on the owner of the secret. Obviously, when confidential information can be disseminated, by operation of local law or otherwise, to actual or potential competitors in the foreign market, the owner's ability to maintain market share in that country is threatened. Moreover, the disclosure of the information into the public domain in the foreign jurisdiction will likely destroy any protection which the owner may enjoy in the United States or other markets where, absent such general public knowledge, the trade secret owner would otherwise enjoy some rights.

The lack of uniformity in the trade secrets area means that disclosure of proprietary information into any new foreign market must be preceded by a careful analysis of a number of factors. In particular, the trade secret owner must examine the statutory and, if relevant, case law relating to trade secrets in the foreign country; the restrictions which might be imposed on clauses which may be included in contractual agreements with respect to the use and protection of trade secrets; cultural factors which might lead to the unwanted dissemination of trade secrets, whether or not the disclosures are prescribed by local law; any other local government regulations impacting the technology transfer; and the enforcement history in the country with respect to any laws which do exist regarding trade secret protection.

§ 13. —Trademark laws

Material substantive variations among national laws have been noted in a number of areas with respect to trademarks, including registration policies, use requirements, compulsory licensing and licensing restrictions and enforcement of well-known trademarks and service marks. For example, unregistered, but internationally well-known, trademarks are often not protected against use or registration by unauthorized local parties. In other cases, applications for use of a trademark are approved, usually to "national companies," even though the mark is very similar to a preexisting mark of a foreign company. Many countries require, as a condition of renewal for existing registrations, that the owner present proof that the mark has actually been "used." In many cases, use in commerce must be demonstrated within what is considered to be an unduly short period of time, particularly when use has actually been delayed by governmental action without a corresponding "tolling" period. Some countries will only recognize use by the owner of the mark, as distinguished from its licensees and/or distributors. When trademarks are licensed to local firms, governmental authorities may impose unreasonable restrictions on the terms of the license, such as limitations on the amount of royalties that may be charged by the licensor and requirements that the licensor actually enter into some form of joint venture relationship with the licensee.

As with copyrights, infringement and misappropriation of well-known trademarks and service marks have been permitted in many foreign countries. Counterfeiting remains a significant problem in large foreign markets, including Brazil, China, India and Russia; and trade officials from countries such as the United States continue to press these countries to take stronger measures to protect the value of trademarks used and licensed by U.S. firms. Another growing problem in the United States is so-called "rogue sites," which are websites launched and managed in foreign countries devoted to the sale of counterfeit goods or the distribution of pirated content in the U.S. Such sites often promote and sell poor quality pharmaceuticals that have caused significant health problems for confused purchasers believing such products have been vetted by regulators and distributed by reputable manufacturers.

§ 14. International intellectual property conventions

There are several international conventions, agreements, and treaties relating to IP rights. In general, the major treaties relating to IP rights attempt to harmonize the laws of the various Member States and reconcile procedural differences among the many national legal systems around the world. The treaties do not unify the national laws of the Member States, and there obviously remains a good deal of controversy with respect to many issues in this area. A variety of regional conventions and treaties also have been structured to harmonize the practice and filing procedures that must be adhered to in situations in which a person or firm is seeking statutory protection in more than one country. Among the most well-known international conventions and agreements relating to IP are the following:

- The International Convention for the Protection of Industrial Property, originally enacted in Paris in 1883 (“Paris Convention”), is a comprehensive treaty administered by the WIPO which covers a wide variety of matters, including inventions, trade names, trademarks, service marks, industrial designs, utility models, indications of source, appellations of origin, and the repression of unfair competition.
- The terms of the Paris Convention have been supplemented by the Patent Cooperative Treaty (“PCT”) which permits an applicant to make a single filing in one nation of an international application. In addition, the Patent Law Treaty (“PLT”) attempts to harmonize and streamline formal procedures in respect of national and regional patent applications and patents by imposing mandatory rules on patent registry offices of Contracting Parties relating to the maximum requirements that they can impose on applicants or owners.
- The most important international treaty on the protection of works of authorship is the Berne Convention for the Protection of Literary and Artistic Works (“Berne Convention”), which was established in 1886 and is also administered by the WIPO. As with the Paris Convention, the Berne Convention is fundamentally based on the concept of “national treatment,” and is intended to ensure that all authors of works published in Member States are treated in the same way as nationals would be under the national laws of the Member State with respect to the grant of copyright protection. While the Berne Convention does not purport to regulate all of the standards for copyright protection that might be imposed within a Member State, it does require that members adhere to certain minimum requirements in formulating their own national copyright laws.
- The Universal Copyright Convention was created as an alternative to the Berne Convention for use by countries that either did not believe they could adhere to the standards set out in the Berne Convention or believed that certain formalities not otherwise permitted under the Berne Convention should be created and maintained as a condition to copyright protection. The Universal Convention also is based on the notion of “national treatment,” and includes a general requirement that Member States provide “adequate and effective protection” for the rights of authors and copyright owners with regard to literary, scientific, and artistic works. The exact nature of these rights is not specifically defined, although reference is made to reproduction, broadcasting, public performance, and translation rights, but not to moral rights.
- The major international agreement on trademarks is the Madrid Agreement Concerning the International Registration of Marks (“Madrid Agreement”), which is a special union within the Paris Convention. The Madrid Agreement entered into force in 1892 and has been revised several times since then. In general, the purpose of the Madrid Agreement was to establish a system of international registration and protection of marks based on centralized registration with the Central Registration Bureau (“CRB”), which is located in Geneva and administered by the WIPO. The Madrid Agreement was intended to extend the general principles regarding trademark protection included as part of the Paris Convention through the CRB; international registration has not been widely accepted and the CRB merely forwards the universal applications that it receives to each of the Member States, rather than actually registering the marks on their national registers. Accordingly, while applications filed under the Madrid Agreement are “deemed” to be registered in all of the Member States, the record is not the same as it would be if individual registrations were completed in each country.
- In an effort to broaden the support for, and membership in, the Madrid Agreement, a protocol, titled “Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks” and generally referred to as the “Madrid

Protocol” was adopted in 1989. Among other things, the Madrid Protocol provides that an application for an international registration could be based on an application, as well as a registration, in the country of origin. This allows the applicant to file an application nationally and, thus, establish an early priority date for the international registration. If the national application is refused during the time that the international application is pending, then the applicant would have the option to file individual applications in each jurisdiction, and each of these applications would be given the original international filing priority date.

In addition to the conventions and treaties mentioned above, WIPO administers the Rome Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations; the Geneva Convention for the Protection of Producers of Phonograms Against Unauthorized Duplication of Their Phonograms; the Nairobi Treaty on the Protection of the Olympic Symbol; the Madrid Agreement for the Repression of False or Deceptive Indications of Source on Goods; the Trademark Law Treaty; the Brussels Convention Relating to the Distribution of Programme-Carrying Signals Transmitted by Satellite; the WIPO Copyright Treaty; and, the WIPO Performances and Phonograms Treaty. WIPO carries out a number of other tasks related to the protection of IP rights, such as assisting governments, organizations, and the private sector, monitoring developments in the field, and harmonizing and simplifying relevant rules and practices. WIPO makes available, both in print and through its web site, various sources of treaties and national laws on intellectual property rights.

§ 15. Value and uses of intellectual property rights

As with any form of property right, the value of a firm’s IP rights will generally depend upon a number of different factors. For example, the value of a patent as a device for excluding others from practicing a specified process or invention will depend upon the breadth of its claims. Also, the strength, and attendant value, of a trademark varies with the type of mark and the perceptions regarding the product or service to which the mark is related that are created in the minds of consumers. Moreover, as with other property rights, there may be “clouds” on the firm’s title to a specific IP right, particularly in those cases where the underlying invention or work was created by more than one person.

Intellectual property rights can be put to a variety of uses. The rights can be sold or assigned to a third party in return for cash or other consideration or can be used as a capital contribution to a new business venture which might be formed to exploit the rights. Intellectual property rights can be pledged as security for the obligations of the owner, such as when a loan is needed to finance the machinery necessary for the owner of a patent to manufacture the products that are covered by the patent rights. Finally, and perhaps most importantly, an intellectual property right can be loaned, or “licensed,” to one or more third parties, thereby, giving the third party a limited right to use the “property” for purposes determined by the owner of the rights. The potential business uses of intellectual property rights can be illustrated by the following examples:

- The owner of a patent can grant licenses to others which allow them to make, use, or sell the patented invention in specified markets. The patent owner will receive compensation, in the form of “royalties,” based on the efforts of the licensees in using the rights embodied in the patent.
- The owner of patents and trade secrets covering the products of basic research can use the intellectual property rights as an inducement to secure funding from third parties to permit further research on the basic technology in order to develop commercial products. The owner may then license the products to the funding party in return for royalties.
- Intellectual property rights can be licensed to third parties for use in the manufacture of products that can then be sold by the licensor. This strategy can be very effective when the licensee is able to produce the products at costs which are significantly lower than those that would be incurred by the licensor.
- A manufacturer can license third-party distributors in various markets to facilitate the sale of the products through the licensee’s established marketing channels. This strategy allows the manufacturer to penetrate new markets without the expense of building its own direct sales and marketing functions.
- IP rights can be assigned, sold, or licensed to a joint venture or other separate business entity for use in building a

multifunctional firm that is capable of developing, producing, and distributing products embodying the technology that is covered by the rights.

In order to harvest the most value from the company's intellectual property rights, steps must be taken to develop an overall intellectual property rights strategy and establish a compliance program that ensures that valuable technology and the associated intellectual property rights are identified, protected, maintained and enforced. Key principles that need to be understood in putting together intellectual property rights strategies and compliance programs include the following:

- Establish the “tone at the top” by having the board of directors and members of the executive team prepare, discuss and approve an overall technology and intellectual property rights strategy for the company.
- Identify the role that intellectual property rights are expected to play in the company's overall business strategies and ensure that the priorities of the intellectual property rights strategy are aligned with that role. For example, a business strategy based on excluding competitors will generally need to be supported by a robust portfolio of patents covering the company's products.
- Establish an intellectual property compliance committee to oversee the company's intellectual property compliance program, make day-to-day decisions about intellectual property issues, implement the company's intellectual property rights strategy and provide guidance to managers and employees throughout the organization.
- Identify the intellectual property that the company develops or otherwise uses in order to create and market its products and services and carefully analyze each step of the product development and commercialization process for intellectual property issues: submission and consideration of ideas, basic research and development, potential influences of technology and products owned by competitors, manufacturing processes and sales and marketing activities.
- Consider technological trends in the industries and markets in which the company competes and the intellectual property portfolios of the company's current and projected competitors. Market and competitive factors, including product life cycles and existing intellectual property rights of competitors, will determine the investment that the company will need to make in perfecting and protecting its intellectual property rights and can also be a predictor of the likelihood of protracted and expensive intellectual property litigation.
- Conduct an intellectual property rights audit to understand how the company is already protecting its intellectual property rights and areas where there are significant shortcomings in the company's compliance activities. Key areas include employee agreements, nondisclosure agreements with third parties, procedures for identifying and analyzing potential intellectual property rights and security procedures.
- Determine how the company intends to use its intellectual property rights to compete effectively in the marketplace. Possibilities include excluding others from the market in order to secure market share, generating a steady stream of royalty revenues from licensing arrangements and licensing, entering new markets in foreign countries and building the value of the company to attract investors or potential buyers.
- Build awareness throughout the company of the benefits of intellectual property and the dangers of not paying attention to the steps that should be taken to protect those rights. It is important to have the active support of everyone in the company for the program and this means integrating training and education into the program, beginning with the board of directors and senior executives and then going beyond to include everyone whose assistance will be needed.
- Create an intellectual property management structure, including a compliance committee overseen by a person designated as the chief compliance official, that ensures that all existing intellectual property rights are identified, all potential intellectual property rights are brought to the attention of the legal department and others in order to make decisions about how best to protect them and audits of the effectiveness of the compliance program are performed regularly.

- Set aside resources to proactively enforce their rights in the event a third party is engaged in activities that are infringing on the company's statutory intellectual property rights (i.e., patents, copyrights or trademarks) or which involve misappropriation of the company's trade secrets. Enforcement, which often involves litigation, can be a costly activity and procedures should be put in place to carefully weigh the benefits and costs.
- Recognize that the intellectual property compliance program is as important part of the company's overall risk management system. One very important risk to consider is avoiding intentional or inadvertent infringement of the intellectual property rights of third parties and the program should incorporate procedures such as monitoring patent activities of competitors; carefully analyzing the elements of proposed products before substantial time is spent on development and marketing to determine if any infringement issues are likely to be encountered; and conducting a similar search for potential trademark and copyright issues before launching marketing and advertising campaigns.
- Extend the principles implemented in the intellectual property compliance program to proposed acquisitions in order to assess of the value of the intellectual property rights of the target and the risks that the target's products or services infringe the rights of third parties (a potential liability that the company would succeed to if the transaction is completed).

§ 16. Challenges of intellectual property in the global marketplace

Dealing with international IP laws, including local enforcement practices, has become a commonplace challenge for most companies these days since opportunities for growth and efficiency can be found all over the world and companies are increasingly required to license their technology, trademarks, and copyrights to business partners overseas. While some progress has been made, it remains extremely difficult for companies based in the United States and other developed countries to feel comfortable about the level of protection for their IP portfolio when elements are licensed to partners overseas. Countries like China and India present special problems given the strategic business advantages of shifting manufacturing activities to firms in those countries and selling goods into their large consumer and industrial markets. U.S. companies realize that Asian manufacturers have the resources and technical skills to quickly create and mass-produce derivative products that can turn up in markets all over the world at prices significantly lower than those at which "name brands" are being sold. Another issue is the "transfer" of technology as foreign employees who have worked in the United States and other developed countries return to firms in their home countries.

While companies continue to push for stronger enforcement of IP laws in foreign countries they are also taking other steps to manage and maintain the value of their IP rights. For example, companies are attempting to avoid stagnation in the features associated with their products that would allow copycats to catch up quickly by implementing product development and management strategies that anticipate rapid versioning coupled with aggressive pricing strategies. Another strategy is focusing on other ways to provide value to customers that cannot be replicated by competitors that simply copy the product or technology—value-added services and/or expanded distribution channels to simplifying the purchasing process. Finally, United States companies have become more amenable to considering investing in, or even acquiring, foreign firms that have proven themselves ready to serve as key players in their overall global supply or distribution chain.