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2



IP FINANCING
putting assets
to work

14



**CHINA'S
CLEAN COAL
TECHNOLOGIES**



21

**CLAMPING DOWN
ON PIRACY
IN NIGERIA**

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CONTENTS

- 2 **IP FINANCING**
INTELLECTUAL PROPERTY FINANCING -
AN INTRODUCTION
- 5 **THE TEN COMMANDMENTS**
- 7 IMPLICATIONS OF THE **UNCITRAL** PROCESS
- 9 **THE CHALLENGE OF IP FINANCING**
- 12 **IN THE COURTS**
JOHNSON & JOHNSON VS THE **AMERICAN RED CROSS**
- 14 **CLIMATE CHANGE**
CHINA INNOVATING IN THE **CLEAN COAL TECHNOLOGY**
MARKET
- 17 **IP OUTREACH**
EFFECTIVE OUTREACH CAMPAIGNS: WIPO'S NEW TOOLS
AT YOUR FINGERTIPS
- 18 TARGETING BUYERS OF **COUNTERFEIT GOODS**
- 21 **COUNTRY FOCUS**
STRAP AND CLAMP - NIGERIA COPYRIGHT COMMISSION
IN ACTION
- 23 **DIGITAL PRESERVATION** AND COPYRIGHT
- 25 **GHOSTWRITERS**, CREATORS, CHEATS
- 27 **LETTERS** AND COMMENT
- 28 **CALENDAR** OF MEETINGS

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INTELLECTUAL PROPERTY FINANCING AN INTRODUCTION

IP financing, or the use of IP assets (trademarks, design rights, patents and copyright) to gain access to credit, is gaining increasing attention in IP circles. Multinational corporations as well as small and medium-sized enterprises are leveraging their IP assets in exchange for finance, and lending institutions around the world are increasingly extending their business to provide loans on the basis of IP. At the same time, a UN institution is currently working with its member states to modernize secured financing practices and make it easier for IP owners to gain access to affordable credit. This article by an IP specialist at **IP CONSULT 4U** GmbH, Switzerland, introduces the topic of IP financing, which is further developed by Jeremy Phillips' article "10 Commandments for IP Finance" and the articles by Lorin Brennan and Ben Goodger which look into current activities in international policy development relating to IP financing at the UN Commission on International Trade Law (UNCITRAL).

Why should corporate top management and policymakers care about IP assets? Or be interested in the latest trends in financing IP assets? Because they cannot afford to do otherwise. IP rights are not only valuable assets but can also be important sources of financing. The desire to enhance innovation is a very important issue for all nations and access to financing is critical for start-up companies and innovative SMEs.¹

Intangible assets, including IP rights, can increase a company's asset value, and understanding and valuing these assets will help top management to make informed investment and marketing decisions. Higher asset values may also help in negotiations with a company's bank and facilitate access to credit or help to negotiate cheaper interest rates on credits.

Financing practices

Most readers are familiar with traditional IP financing tools such as licensing (royalties) and direct sales of patents or trademarks. Recently, however, companies have found new ways to raise funds using intangible assets: one is by auctioning their IP. Auction houses specialized in this field



Current IP valuation methodologies for securitization are more readily accepted by big banks when major patent or brands are involved.

hold live and online auction events several times a year. An auction enables owners to sell their intangible assets faster to gain access to rapid liquidity and also creates a market for potential buyers of intangible assets which might otherwise not exist. IP auctions are conducted by companies such as Ocean Tomo, IP Bewertungs AG and IP Auctions Inc. In addition, there are online exchanges for IP such as the technology marketplace run by *Yet2.com* and the technology trading exchange run by Tynax.

Another method for utilizing the value of IP is to use it as collateral. Normally, tangible assets such as real estate, equipment

and inventory are used to secure asset-based loans, however, the collateralization of IP can also increase the amount of available credit. In cases where borrowers pledge their patents, trademarks or copyrighted works, the collateral pool increases in value and the potential for a successful loan is increased. Some banks also use IP assets as a credit enhancer. The number of such IP-backed transactions is growing, and the increased cash flow associated with the licensing of IP is attracting attention on Wall Street and financial markets around the world.

¹ See Intellectual Property and Access to Finance for High Growth SMEs, European Commission Directorate-General for Enterprise and Industry, Discussion Paper, Brussels, November 14, 2006.

Intangible asset classes

Management interested in using their IP as a source of collateral should gain familiarity with the following intangible asset classes before discussions with the credit grantor:

Cash flow assets

- Licensed IP rights where royalty payments are directly attributable to the licensed assets (e.g. patents, trademarks, copyright). This is the preferred asset category for investors looking for sufficiently valuable collateral with sufficient cash flow for repayment.

Assets with implicit value

- Non-licensed IP rights or IP rights exclusively used internally (e.g. customer lists and database rights). Investors will want to understand the value of the IP used by the owner and its potential liquidation value.

A legal mortgage is probably the safest form of security transaction, but it also requires that the IP be assigned to the lender with a license being granted back to the debtor. The problem that arises in this context is that the lender becomes the IP owner, and has control over the IP rights. This poses a potential risk for the ongoing business of the debtor, and also for the sub-licensees.

Deals involving the securitization of intangible assets have enabled owners of IP rights to borrow money more easily and safely from adequately secured lenders. IP asset-backed securitizations are most common in the film and music industries, but the practice is increasing in the biotechnology and software industries. Some high profile examples of such transactions include the securitized royalty streams on the copyrights owned by famous musicians. For example:

- In 1997, David Bowie issued 10-year asset-backed bonds on the basis of future royalties on publishing rights and master recordings from 25 pre-recorded albums, and raised US\$55 million. The purchaser of the bonds gained the right to receive future royalties from Bowie's albums until the principal plus 8% annual interest was repaid.
- Nickolas Ashford and Valerie Simpson, songwriters and producers of hit songs including "Ain't No Mountain High Enough" used the copyright on 247 of their songs as assets to back bonds, raising US\$25 million.

These types of deals have been put together by David Pullman of the Pullman Group, a boutique investment firm, that created similar deals for James Brown, the Isley Brothers and the estate of Marvin Gaye. For his role in creating and selling the bonds, Pullman was rewarded with a fee of 10 percent of the deals' value. The main purchasers of the bonds were institutional investors such as pension funds and insurance companies as part of their diversified investment portfolios.

While it is widely agreed that music asset-backed securitization has a great deal of potential, the volatility of the market and a lack of understanding of the music business by the investment community are still challenges to be overcome before the practice becomes widespread.

Asset-backed securitization is also well recognized in the field of patents, where the patent can be treated as a commercial asset on the basis of the exclusive legal rights it represents. There are numerous players in this marketplace, ranging from licensing entities composed of single inventors (such as Fergason Patent Properties LLC, an IP licensing and development company founded by Dr. James Fergason, an inventor in the field of liquid crystal displays) to patent brokers such as Pluritas, iPotential and IP Value and institutional patent aggregators such as the US-based company Intellectual Ventures.² In addition, IP is increasingly implicated in investment fund activities.

For example, Altitude Capital Partners is a US\$250 million private investment fund which invests in IP assets and IP-focused companies, covering patents, trademarks, copyright and royalty streams. The company works with individual IP owners as well as small and large IP-holding companies. In February 2007, Altitude invested in DeepNines, a network security solutions provider with returns linked to repayment from DeepNines' IP proceeds and secured by the company assets. In April 2008, Altitude paired with Goldman Sachs & Co. to invest US\$11 million in Intrinsity, Inc., a Texas-based IP technology company designing processor cores.

Can a sound valuation be achieved?

Valuation is a key tool in the process of financing based on IP assets. Technical valuations are required of intangible assets to give a point in time value of the IP for the purpose of securitization. The available methodologies for IP valuation work best with individual major patents³

² See Art Monk and Ron Laurie, Inflexion Point, "Business Opportunity Alternatives to Assertion-Based Patent Monetization."

³ See, for example, "Patent Valuation from a Practical View Point, and Some Interesting Patent Value Statistics From the Patent-valuepredictor Model" by Rick Neifeld, April 24, 2008.



and brands.⁴ So far, no standard methodologies have been developed that are generally applicable to all IP big or small, however company reporting requirements and assessments for taxation may require valuations.

Recent efforts to develop general market-based approaches to valuation include the American Stock Exchange Equity Index based on the value of corporate IP rights and plans for an IP exchange in Chicago to enable investor and company participation in a broad spectrum of IP-related financial products such as qualified equity listing/co-listing, IP-related indexes,

futures and options, IP-backed debt instruments, patent rich company initial public offerings (IPOs) and new IP-based exchange-traded products.

In 2007, the German Institute for Standardization (DIN) published its "General Principles of Proper Patent Valuation" (PAS 1070 (SAB)) to assess the quality of valuation reports and expert appraisals. DIN then formed a working committee and initiated an international

standardization project on patent valuation at the International Organization for Standardization (ISO), which will appoint a committee to develop an ISO-standard for patent valuation if all relevant and concerned groups express interest to ISO through their national standardization bodies.

Legal framework

From a legal perspective, it is interesting to note that most jurisdictions still do not offer adequate legal means for financing intangible assets, including IP. While some sectors of academia are aware of these shortcomings, it appears that there is not yet sufficient political pressure to modernize these legal systems. That said, the issue of IP financing is currently the subject of policy development at the international level. An overview of business and government action has been published by the International Chamber of Commerce in Section B-V of the IP Roadmap (www.iccwbo.org/policy/ip/id2950/index.html).

In 2000, the United Nations Commission on International Trade Law (UNCITRAL) established a Working Group to address security rights in personal property, including intangible assets. The Working Group was given the mandate to develop recommendations for an efficient legal regime for security rights in goods involved in commercial activity and to identify the issues to be addressed, including the form of the instrument and the exact scope of assets that could serve as security.⁵

The decision to undertake work in the area of secured credit law was taken in response to the need for an efficient legal regime that would remove legal obstacles to secured credit and could thus have a beneficial impact on the availability and the cost of credit. In 2007, UNCITRAL concluded a Legislative Guide that contains recommendations for a uniform legal regime for secured financing, which also covers IP financing. This Legislative Guide must be regarded in the context of earlier policies by UNCITRAL, including the UN Convention on the Assignment of Receivables in International Trade and the Model Law on Cross-Border Insolvency.

The Vision for IP Financing

A successful future for IP financing is a significant step in further development of the IP-based economy:

Enhancement of a company's credit basis

- As inventories, receivables and IP become more marketable and more useful to increase access to credit and to lower the cost of accessing credit.

Transparency in the credit system and trust in capital markets

- If implemented, a general credit registration system (such as that envisaged by the UNCITRAL Legislative Guide on Secured Transactions) will provide legal certainty for lenders, by giving transparency as regards the debtor's credit structure, and giving visibility to secured transactions.

For market participants, IP financing will be of key importance to achieve their economic goals.



Photo: Jorge Barros

In 1997, David Bowie issued 10-year asset-backed bonds on the basis of future royalties on publishing rights and master recordings from 25 pre-recorded albums, and raised US\$55 million.

⁴ See, for example, "Brand Valuation: what it means and why it matters" by David Haigh in Brands in the Boardroom, IAM supplement No.1.

⁵ Official Records of the General Assembly, Fifty-sixth Session, Supplement No. 17 (A/56/17), para. 346 ff, www.un.org/documents/ga/docs/56/a5617.pdf.

THE TEN COMMANDMENTS

This is Professor **JEREMY PHILLIPS'** second article for the *WIPO Magazine* (see *A Day in the Life of an IP Blog-Meister*, Issue 2/2008). In this article he lends a biblical cast to the "dos and don'ts" of IP Financing.

What does finance have to do with IP?

In a word, everything. It costs money to develop new products, to prototype new gadgets, to get professional help and to pay official fees. Depressingly, while the IP owner only gets his reward if his creation results in a profitable venture, everyone else – banks, accountants, lawyers, market consultants, advertising agencies, patent and trademark registries – gets paid regardless of whether an IP-backed project hits the jackpot or sinks without a trace.

Innovation and creativity are bugs that afflict almost everyone, but most of us are born without money. So for those of us who are in the majority, we have to raise the money we need if we are to promote our creative talents to the full. This might mean a bank loan or mortgage (often in return for a share of any IP profits, or with the lender holding the IP right as security for repayment), a grant from public funds or even earning extra money by taking on a night job.

In each case, where an IP creator needs to raise that money, he also needs some guidance. Below are listed the 'Ten Commandments' that are applicable in almost every case. The advice they offer is only the beginning, though: they are no substitute for careful thought, strategic financial planning or professional advice.

Incidentally, where a creative individual is employed by someone else, the same Commandments still apply, but it is the employer who has to bear them in mind rather than the creative employee.

Thou shalt...

1. **Identify your IP clearly.** Inventors make inventions. Designers create designs. But it's the lawyers who create IP rights when they examine a newly-created concept and proclaim it to be comprised of various different intellectual properties. Thus an inventor may come up with a new torch, but to a legal specialist there's a patent for the functionality, a design for the shape, a possible trademark again for the shape, and so on. If you are pledging IP to a lender or licensing it to a manufacturer, be sure to know what exactly it is that you are dealing with.



Read the small print. Banks and commercial lenders include terms in contracts for their own protection. Make sure these are terms you can live with.

2. **Read the small print in finance documents.** Not just banks but all commercial lenders are sensitive about their money. They are as excited about their money, which is their principal asset, as the IP innovator is excited by his new creation. This is why they include terms in a contract for the financing of IP development that are for their own protection. So read the details of the contract and, if need be, have them explained to you. If consumers refuse to buy the exciting new widget for which a bank has advanced cash on the security of some patents, and the borrower defaults, does the bank just get to keep the patents, or can it collect on your work-tools, your car or anything else?

3. **Keep proper records.** Particularly if you have received public funding – or if you are called to account for not having used investment cash for the purposes for which it was lent. Proper records may be a pain to prepare but they can protect you from untold annoyance and embarrassment later.

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4. **Recognize your limitations.** The modern creator rarely has all the plant, equipment, know-how and management skills to take a project from drawing board (or computer screen) to market-place. Don't spend time and money learning what you can buy from or outsource to others, unless it makes business sense to do so.
5. **Make contingency plans.** Even the best plans can go wrong; this is certainly the case with business plans for innovative products and services. By definition, no one has ever done what the IP owner hopes to do, so the past gives few clues as to how the future will turn out. That's why it's wise to have a Plan B. Keep asking "what if...?" questions and see what answers emerge. If there is no realistic Plan B, ask if it's worth taking the financial risk of developing the IP in the first place.

Thou shalt not...

6. **Don't be greedy.** Most IP rights generate little or no profit on their own, but they can prove valuable when combined with the products or services of others. A chef's new pizza recipe will earn him more if he licenses its use to a chain of franchised outlets – even if the chain makes more from each pizza than he does – than if he opens his own pizzeria and spends his days policing competitors in case they copy his delicious product.
7. **Don't overlook other people's IP rights.** The value of an IP right might be entirely contingent on receiving permission from other IP owners to use their IP. For example, a patented lubricant that cannot be made without infringing a patent for the original version of it. Payments to other IP owners can be substantial – and their existence must always be disclosed to potential lenders on security, since they will sue the borrower if a secured IP turns out to be unusable in this way.
8. **Don't forget the dynamics of the marketplace.** It is easy to view the commercialization of an innovation as being literally the 'last word', the

dawn of a halcyon era in which a new product is manufactured, distributed, purchased and profitably marketed until the end of time. This rarely happens. Competitors rise to the challenge of innovating around any successful new product in order to share, or improve upon, its money-earning ability (who still uses portable cassette players?); fashions and tastes change (how much revenue would a new Bing Crosby song generate in 2008?); even the environment takes its toll, as dazzling new contrivances are rejected for their carbon footprint. The moral is clear: when computing how many years of income you may enjoy, during which you hope to pay off a loan or redeem a mortgaged IP right, be realistic: you may have far less time than you think.

9. **Don't overlook the effect of 'leakage'.** Copyright in works such as sound recordings can be difficult to police and enforce in a world inhabited by private copying devices, even though those works are hugely profitable at launch. If IP rights cannot plug infringement leakage, works may remain hugely popular, but the stream of income from them may diminish to a trickle.
10. **Don't borrow more than you need.** Public funding usually doesn't have to be paid back, but the private sector does – and the lender gets his profit by charging interest or its equivalent. This means that, over the period of the loan, you may have to repay far more than you borrowed. To reduce the risk of doing this, (i) only borrow as much as your budget suggests you need, and (ii) don't borrow it until you really need it, or you'll be paying interest on the loan before you've been able to put it to use.

Epilogue

Innovation is a brain disease for which there is no effective cure. Money may alleviate the symptoms, but only when it's properly administered and the patient follows the instructions for its use. But for first aid, just remember the Ten Commandments and you won't go far wrong.

IMPLICATIONS OF THE UNCITRAL PROCESS

BEN GOODGER, International Head of IP Commercialization, *Rouse & Co International*, has many years experience in different areas of commercial law, including IP strategy and value maximization, high-technology, trademark protection/brand management and computer and Internet related law. His focus in this article is on the concerns of IP owners in the UNCITRAL process.

The little-noticed UNCITRAL process may have a significant effect on businesses which rely on commercializing IP assets, from the movie industry to franchisors to pharmaceutical companies. Liberalizing the ability of enterprises to acquire finance is a worthy aim. The concern is that this initiative will have the unintended consequence of severely impacting IP commerce – now one of the most economically significant global business activities, worth an estimated US\$300 billion worldwide annually. The complexities arise from the fact that IP activities, which essentially involve intangible assets, are being forced into an approach and language based on tangible asset concepts.

UNCITRAL Legislative Guide – Highlights of IP financing issues

Should the secured creditor be permitted to acquire the benefit of a license on default with no further documentation required?

An IP owner who has licensed an IP asset to a licensee expects to receive a royalty income stream from that transaction. The licensee may in turn sub-license the IP and thus receive royalty from the sub-licensee. The licensee may also wish to raise finance by using the future income to be received from sub-licensing as collateral for security. Commonly, the original IP owner will provide in its head license that the licensee may not do this without the IP owner's prior consent. This gives the owner some control over the situation, for example where it is suspected that the licensee is in a fragile financial position. The Legislative Guide appears to remove that right from the IP owner, granting the lender 'the benefit' of the license automatically, notwithstanding any contrary terms in the license. This could impact on sub-



The value of more and more businesses lies in intangible IP assets. The Nike trademark – valued over US\$12 billion – is worth more than any land, property or equipment owned by the company. Such intangibles can be used as collateral for financing.

licensees as well as IP owners since the lender could dictate to sub-licensees courses of action which might result in a short-term increase in revenue but which might over the long term devalue the licensed IP. For example, forcing the sub-licensee to apply a trademark to down-market, high volume goods or authorizing disposition of goods outside the licensed territory, thus interfering with other rights granted by the IP owner.

Should the law of location of the party securitizing its royalties apply in determining priority whatever the parties' choice of law?

The Legislative Guide states that, irrespective of what the parties in their contracts may have chosen, where there is a dispute between competing claimants over the 'receivable', the *law of the location of the Licensee*, which granted a security interest over its rights or royalty stream, will apply.

Here is an example of how this might have applied in practice: German Co. licenses Indian Co. to manufacture goods protected by registered design and trademarks in India and the United States. Indian Co. sub-licenses the manufacture to various other entities in India and the United States. India Co. also mortgages its income from all such sub-licensing to US lender. India Co becomes insolvent. German Co.'s license to Indian Co. was under German law. India Co.'s mortgage to U.S. lender was under U.S. law. There is a dispute between German Co. and US lender as to who is entitled to all or any of the income from sub-licensing, which is continuing to be paid by the sub-licensees. Which law would apply to determine priority in terms of claims? According to the Legislative Guide, it would have been Indian law.



A single worldwide registry for security interests over IP rights and receivables?

The Legislative Guide envisages establishing a 'general security rights registry'. The aim is a good one: to establish a framework to create a simple and cost effective public registry system for the registration of notices with respect to security rights. However, in practice this simple idea raises a multitude of problems:

- It does not provide adequate information about precisely what rights have been secured. IP rights can be subject to many differing types of rights, for example, in the case of a film, the TV rights may be separately licensed to one party and the movie rights to another party.
- Registration would be recorded against the name of the party granting the security rights, not against the rights themselves. Thus if one wanted to find out if a particular trademark in relation to which one was looking to do a commercial deal had pre-existing security rights, you could not search by that trademark. How would you know which party had claimed interests in that trademark without knowing the name of all possible parties?
- The registry has no verification system and no procedure to remove false filings. Thus, it could be used to create fraudulent but very plausible-looking security interests which would be difficult to remove. This is very inviting for pirates and counterfeiters.
- The registry system is separate from national IP registry systems and therefore would give rise to the requirement for multiple searches. There is no rule for resolving conflicts in the filings such as when a good faith transferee using the national IP system conflicts with a secured creditor who claims priority under the rules in the debtor's home country using the UNCITRAL system.
- Finally, and perhaps most fundamentally, the registry system is not mandatory so would not, in fact, be reliable in any event to cover all security interests.

Should the Lender, on default, have a free right to deal in goods embodying IP?

IP licenses commonly grant a right to manufacture and deal in goods that embody the IP such as DVDs, fashion apparel, drugs, etc. If the licensee grants security over its licensed rights and the

goods made under those rights, what happens if the licensee defaults? The Guide allows a lender freely to re-license the rights or dispose of the goods without reference to the license. Thus the Guide allows a secured lender upon a licensee's default to take and resell the goods, to re-license the rights and to collect all royalties from sub-licensees, and in so doing to "select the method, manner, time, place and other aspects of the disposition, lease or license."

Sometimes the sub-licensee may pay the royalties in kind, or simply return goods of value relating to the IP in lieu of payment, for example, the masters of films or sound recordings, object code for computer programs, or trademarked goods that are unsold. The Legislative Guide also allows a lender to take complete possession of these assets. There would be greater motivation for the Lender to sell/exploit them quickly to the highest bidder than to consider responsibilities towards the IP owner. This could also hurt other licensees and sub-licensees of the brand.

Where do things currently stand?

The UNCITRAL Legislative Guide, finalized and adopted in December 2007, was adopted explicitly on the understanding that a separate IP Annex would be prepared to advise States on how the concepts behind the Legislative Guide should be adapted in the context of transactions involving IP when modernizing their secured transactions laws. An Expert Group of representatives from the banking and IP sectors has been set up to assist in preparing the Annex, and discussions are ongoing at the time of writing.

However, those involved from the IP community remain concerned that, despite extensive discussions, the text of the IP Annex does not yet address the difficulties in application of the Legislative Guide to the world of IP. Government representatives from the IP ministries of WIPO Member States as well as other IP stakeholders are strongly encouraged to take an active interest in this initiative and, if possible, participate in the UNCITRAL process so as to positively reflect the needs of the IP community in this important legal reform.

THE CHALLENGE OF IP FINANCING

LORIN BRENNAN is a U.S. attorney specializing in international IP licensing and financing. He is currently Special Counsel to the Independent Film and Television Alliance and a member of the UNCITRAL Expert Committee on Intellectual Property Secured Financing. Mr. Brennan is a principal in the software firm, Gray Matter LLC, which develops rights management software for international intellectual property licensing.

A growing share of commerce in today's global information economy revolves around IP assets rather than the physical commodities that dominated the industrial age. IP represents an important source of commerce in its own right, for example online content licensing, and is also an increasing component of traditional merchandise, from trademarked fashion apparel to patented drugs. While these developments offer exciting opportunities for increased trade, they also present profound challenges to many established legal practices.

IP law has traditionally focused on protecting the *property* right. Commercial law, by contrast, deals with making and enforcing *contracts* in the course of trade. Much of traditional commercial law, however, developed for transactions in tangible goods, and IP is, of course, different. As IP becomes more prevalent in modern commerce, it is becoming imperative to harmonize these different bodies of law.

One area where this process is occurring is secured financing. In December 2007, the U.N. Commission on International Trade Law (UNCITRAL) promulgated a long awaited Legislative Guide on Secured Transactions to help states modernize their laws and increase the availability of low-cost credit. However, the Guide was primarily focused on financing practices for tangible goods and related trade receivables, and it was recognized that the Guide could require asset-specific adjustments for IP. Thus, the Guide does not apply "to the extent [that it is] inconsistent with intellectual property law." Instead, UNCITRAL is preparing an Annex on how to adjust the Guide for IP.



Efforts to develop general market-based approaches to valuation include the American Stock Exchange Equity Index based on the value of corporate IP rights and plans for an IP exchange in Chicago.

The discussions at UNCITRAL have been remarkably fruitful in indentifying the varying expectations of commercial lenders and IP right holders but much work needs to be done for effective harmonization. Professionals from all sectors have expressed a strong desire to develop modern rules for IP financing, and the UNCITRAL Secretariat has been a tireless supporter of the process. While

many issues are still open, the following are some major areas under discussion:

Effectiveness: Many commercial laws require public notice of a security right before it can be effective against third parties. The UNCITRAL Guide thus proposes a personal property registry for filing notices of security rights, which could include IP. In many states, typically those whose financing law derives from pledge concepts, the lack of a registration system for some types of IP, e.g. copyrights or trade secrets, makes them in practice unfinanceable. The UNCITRAL Guide would open up these assets to secured financing, a welcome improvement. However, in some states, primarily those whose financing law developed from mortgage notions, the lack of registration is not seen as an impediment, and a security right in IP takes effect when the contract is concluded like just like any other transfer. In these states, adopting a security right filing requirement would require additional formalities for third party effectiveness, potentially including against infringers.

Co-ordination of registries: Many countries maintain IP registries, especially for patents and trademarks, which often allow recording of security rights. How should existing IP registries harmonize with the personal property registry proposed in the UNCITRAL Guide? This raises questions of priority and efficiency.





Photo: Herbert Ottner

UNCITRAL discussions in Vienna have been fruitful in identifying the varying expectations of commercial lenders and IP right holders but much work needs to be done for effective harmonization.

As to priority, the Guide defers to existing IP registries by proposing that a security right recorded in an IP registry takes priority over any security right: (i) registered in the Guide's general personal property registry at any time; or (ii) later registered in the IP registry. However, priority is based on "pure race" or first to file rule that applies regardless of knowledge of the prior transfer. Many IP registries use different priority rules. For example, many countries use a "pure notice" rule in which a later transfer to a bona fide purchaser for value and without knowledge (BFP) prevails. Under this rule, filing is encouraged since it gives constructive notice sufficient to defeat a later BFP, but it is not strictly necessary. Other states use a "race notice" rule under which, between competing BFPs, the first to file prevail. Still other states provide that registration creates an evidentiary presumption of priority which is rebuttable by an earlier filer. For reconciling these priority rules the "first to file" rule in the Guide requires further study.

The related issue of efficiency and the problems raised by the Guide's registry requiring only a simple notice with a general description of the collateral (e.g., "all intellectual property now or later owned") indexed against the debtor have already been discussed in the previous article.

Ordinary Course Transfers: Another issue is whether the "ordinary course" concept should apply to IP. The concept reduces transaction costs where parties reasonably expect a security right to be

released upon a sale of the goods. A purchaser buying goods from inventory would not expect the seller's inventory lender to retain a lien that allowed repossession of the goods if the seller defaulted. If that were the case, the purchaser would certainly demand a lien release, to which the lender would readily agree since it was looking to generate proceeds to retire the loan. The Guide accommodates this commercial expectation by providing that a security right does not continue in goods after "ordinary course" sales. There is a discussion on whether this concept should also apply to non-exclusive IP licenses on the theory that commercial expectations are similar. However, that is not always so. In many cases parties expect and require a prior security right to continue against licensees, e.g., motion picture or franchise lending. The licensees know they must exercise due diligence, find prior lenders and negotiate "non-disturbance" agreements if they want their licenses to continue after a foreclosure. Thus, IP professionals maintain that the situation is more analogous to leases in an office building subject to the master property mortgage than to sales of goods from inventory, so that an ordinary course rule would be an "exception and limitation" to rights in conflict with normal exploitation.

Intellectual Property and Goods: Consider a digital camera that has copyrighted software to operate the mechanism and is sold under a trademark. How should a secured creditor describe collateral consisting of 100 such cameras: "all digital cameras" or "all digital cameras plus IP rights"? There is some thought that the second description is unnatural or cumbersome. Thus, a collateral description of tangible goods should include what is sometimes called "embedded" or "related" IP, allowing the lender to dispose of the goods in case of default without need to reference to IP rights. A concern, however, is that what starts as a convenient collateral description may become a kind of compulsory license. If the cameras were acquired in a legitimate transaction by authority of the IP owner, relevant IP rights were satisfied (e.g. "exhausted") so the lender is not exercising them in case of a foreclosure. If the goods are pirated, a lender should not have a right to dispose of them free of the IP

Join a Blog - read & share thoughts on IP finance issues

Readers of this magazine might like to know that there is a small but growing community of IP enthusiasts who have taken an interest in those areas in which IP skills interface with financial issues. These areas include IP valuation, fixing royalty rates, calculating damages, using IP as security for loans, funding IP start-ups and creating new business models for licensing and protecting rights. This group was galvanized into action following a UNCITRAL meeting in Vienna in 2007 on the establishment of a Legislative Guide on Secured Transactions in Intangibles, at which it was realized that the expertise of the financial sector greatly exceeded that of the IP representatives present. This group, which has received support and encouragement from organizations including MARQUES, the International Trademark Association and the IFPI, seeks to raise awareness of these issues within and outside the IP industries and professions.

An informal weblog covering these issues, IP Finance (<http://ipfinance.blogspot.com>), welcomes both readers who would like to know more about the topic and contributors who have something to share.

right. If the goods were made under a limited license, it would seem appropriate for the collateral description to so state. This is an area where traditional IP law seems to address the issue already but a better explanation of how it works could be helpful.

Applicable law: What law should apply to the creation, effectiveness, priority and enforcement of a security right in IP, especially one covering multiple countries? From a commercial law perspective, one would like a single law to resolve all of these issues, such as the law of the country where the grantor is located. On the other hand, rules for effectiveness against third parties and priority directly impact who can assert and own the IP, matters which affect the means of redress and therefore implicate the traditional territorial principle and the "law of the protecting state." It would be anomalous if the law of Country A determined whether IP was owned and effective against third party infringers in Country B.

These are a few of the issues that have arisen in UNCITRAL's effort to prepare its IP Annex. The process has helped raise awareness about the variety of commercial needs and expectations of parties who deal with IP. Lenders who provide working capital financing would like an "enterprise lien" that can easily encumber existing and future assets of a debtor, including IP, with a simple notice filing. The Guide's approach is well-suited to these practices. IP lenders, such as movie



Photo: istockphotos

IP owners are lost in a maze of financing guidelines developed from a tangible asset perspective.

financiers or franchise lenders, want an asset specific device that provides priority over licenses and royalty income streams with an easy filing in a system they know. Both perspectives are important, and both can be accommodated. But it will take diligent efforts to do so. Participation in the process by IP experts in governments and professional organizations would be both welcome and conducive to a successful conclusion.

JOHNSON & JOHNSON VS THE **AMERICAN RED CROSS**

Red Cross organizations use as their symbol a reversal of the colors of the Swiss national flag, in tribute to Henri Dunant and the other founders of the original organization in Geneva. It is an evocative symbol: medical aid on a basis of neutrality to warring sides on battlefields, visits to and

monitoring of prisoners in camps and jails, distribution of parcels and letters to prisoners, exchange of prisoners and special missions bringing medical, nutritional and other emergency aid to both combatants and civilian populations in war zones, are some of the things that come to mind. The symbol suggests a humanitarian, non-profit-making image.

But it can also be a profit-making trademark, as for the company Johnson & Johnson (J&J). In the U.S. the company filed a lawsuit against the American Red Cross in August 2007, alleging trademark infringement. How was it possible for both parties to have used the

same symbol from the late nineteenth century to 2007, apparently without effective challenge?

J&J began using the symbol in 1887, after it was first formally adopted in Switzerland in 1864. The American Red Cross was founded in 1881, receiving a Congressional Charter in 1900 which prohibited use of the symbol by others. Since J&J had been using it for thirteen years before this prohibition, the company was allowed to retain it, and claimed that in 1895 Clara Barton, founder of the American Red Cross, had agreed to the company's exclusive right to its use for its products (the "promissory estoppel" claim).

What changed the situation for J&J was that the Red Cross came to use the symbol on products it sold to consumers and that in 2004 it began to license other companies to use the symbol for products such as hand sanitizers, emergency and first aid kits which were in direct competition with J&J products. The objectives of the lawsuit were to prevent the Red Cross from using and licensing the symbol on first aid kits, safety gear and related products, to ensure the destruction of such products still in existence, and to obtain punitive damages and payment of J&J's legal costs.

U.S. District Judge J. Rakoff dismissed the "promissory estoppel" claim in November 2007, by ruling that the Red Cross never agreed to refrain from using the symbol for first aid, health, safety and emergency preparedness products. What remained was J&J's claim that the Red Cross violated federal law by licensing the symbol to other companies. Judge Rakoff ruled against this, too, in May 2008. He seems to have been much influenced by the continuing charitable, non-profit-making nature of the Red Cross: he noted that the Congressional Charter logically covered use of the symbol for business purposes which served its charitable aims and that ultimately its licensing activities raised funds for the non-profit-making work of the Red Cross. He also pointed out the irony of J&J itself having entered into just this type of licensing agreement with the Red Cross!

There is another irony in Judge Rakoff's dismissal of the Red Cross counterclaim that J&J misused the symbol and committed trademark infringement. He found it absurd that, if the Red Cross were correct that J&J could only sell kits containing exactly the same products as those sold up to the early 1900s, "J&J would be constrained to continue forever selling kits that contain such antiquated products as cat gut ligatures and kidney plasters."

In the final outcome, the passage of time also went against J&J. As Judge Rakoff said in his May 2008 ruling, since the American Red Cross "has



The Red Cross on white background was the original protection symbol declared at the 1864 Geneva Convention. During the Russo-Turkish War (1876-78), the Ottoman Empire used a Red Crescent because its government believed that the cross would alienate its Muslim soldiers.

International protection of the Red Cross

Article 6ter of the Paris Convention for the Protection of Industrial Property provides the principal legal basis for the international protection of the names and acronyms of intergovernmental organizations (IGOs). A number of designations, while not falling under the ambit of Article 6ter, are nonetheless also protected by international law on the basis of other treaty provisions – this is the case for the emblems and designations of the **Red Cross Movement**. Such possibility is explicitly recognized by Article 6ter, which states that the protection which it offers does not apply to “armorial bearings, flags, other emblems, abbreviations, and names, that are already the subject of international agreements in force, intended to ensure their protection.”

The **International Committee of the Red Cross (ICRC)** was founded in Geneva in 1863 as a private humanitarian organization which proposed:

- the foundation of national relief societies for wounded soldiers;
- neutrality and protection for wounded soldiers;
- the utilization of volunteer forces for relief assistance on the battlefield;
- the utilization of additional conferences to enact these concepts in legally binding international treaties; and
- the introduction of a common distinctive protection symbol for medical personnel in the field, namely a white armlet bearing a red cross.

The Geneva Convention of 1864 – the first treaty of international humanitarian law – granted official international recognition of the Red Cross and its ideals. The Geneva Convention has since been amended to cover other categories of victims as well as to recognize other symbols such as the Red Crescent.

National Red Cross and Red Crescent Societies, such as the American Red Cross, are recognized by the ICRC and are members of the **International Federation of Red Cross and Red Crescent Societies**, founded in 1919 to coordinate activities between the national societies and the Red Cross Movement.

used the name and emblem for over 100 years and has been granted exclusive use of the name and emblem by Congress, J&J cannot seriously argue that the words “Red Cross” and the red cross emblem serve as an exclusive designation of J&J products.”

Remaining issues were J&J's claim that the Red Cross deliberately interfered with J&J's relationship with two companies and its breach of contract claims against four companies that sold items bearing the symbol. But by this time, J&J's prospects for a successful lawsuit had so far receded as to bring about a settlement between the two parties in June 2008 without further legal process. The parties reached an agreement that allowed them both to continue using the symbol.



The Johnson & Johnson logo on some of their earliest products.

Damage to its reputation may have been a factor in J&J's decision to settle out of court. Is a victory of profit over philanthropy worthwhile? For that was the perception of some of the media and members of the public. Whereas the CEO of J&J stated that the lawsuit was undertaken, albeit reluctantly, to protect the firm's trademarks, the Red Cross affirmed in the proceedings that the profits from the sale of products bearing the symbol went into its relief efforts. The public image of corporate power can hardly compete with that of an institution which has demonstrably served and continues to serve among the most powerless on earth.

stitution which has demonstrably served and continues to serve among the most powerless on earth.

CHINA INNOVATING IN THE CLEAN COAL TECHNOLOGY MARKET

While coal is the number one source of energy for a great number of countries, it is highly polluting and generally vilified as a dirty form of power. Many efforts to clean up coal feature innovations in air pollution control and energy waste reduction. In this article **SARAH JESSUP**, PhD, Director of the China Program at the Creative and Innovative Economy Center (CIEC), George Washington University Law School, focuses attention on China's initiatives to develop clean coal and alternative energy technologies. Ms. Jessup lived for 18 months in coal-intensive Shanxi province conducting field research on the Chinese economic reform process and its impact on political, economic and cultural institutions.

China is regarded as one of the world's leading emitters of greenhouse gas (GHG). It is reported that some 70 percent of China's energy comes from coal, the greatest part of which is burned in outdated power plants that are primary contributors to GHG.¹ Coal is still used in most home stoves for cooking and heating as well as by big power companies for generating electricity, using processes that produce high levels of wasted heat. About 86 percent of coal is burned with limited pollution controlling measures; flues are poorly maintained on the few homes that have them.²

The situation is dire, as reportedly respiratory diseases from air pollution cause more than a million deaths a year, while more than 400,000 avoidable deaths are from indoor air pollution that leads to illnesses such as lung cancer, weakened immune systems and chronic obstructive pulmonary disease.³ But there is a potential conflict between environmental protection and economic growth. The country has a population of over one billion and a growth rate of a staggering nine percent a year; however, at least 135 million Chinese survive on less than US\$1 a day, and millions more on barely more than that. The Chinese government is making an effort to figure out ways to balance economic progress with cleaner energy.



One of the most serious challenges to alternative energy is in the cement production industry, which has to keep pace with high demand for construction projects.

Are there solutions to tackle the problem without sacrificing economic growth? What kinds of research and development (R&D) are under way to assure a greener future?

Chinese Academy of Sciences (CAS)

Despite the serious problems caused by its use, coal is cheap and plentiful and will not be abandoned as an energy source any time soon. It is mined on all continents except for Antarctica. China

has recognized the economic potential in developing clean coal technologies for both the foreign and local market. Creating a clean coal technology (CCT) market could possibly balance China's dual efforts to reduce pollution and maintain economic growth. China's one-billion strong market would allow a fast learning curve for CCT manufacturing and marketing, which would reduce production costs. China would be in a position to control the market on clean coal technologies if it could invent the right clean coal solutions. Its scientists are already making strides in that direction.

The search for alternative and renewable energy sources drives much science and technology research in China today. The Chinese Academy of Science (CAS), a government research administration that maintains numerous research institutes

1 Xin Lu, Zhufang Yu, Linxin Wu, Jie Yu, Guifeng Chen, Maohong Fan. 2008. "Policy Study on Development and Utilization of Clean Coal Technology in China." *Fuel Processing Technology* 89:474-484. Yu Dawei. "China Holds Its Breath for Clean Coal Power," April 30, 2008, *Caijing*, accessed July 7, 2008.

2 Lu Zhi, Michael Totten, and Philip Chou. 2006. "Spurring Innovations for Clean Energy and Water Protection: An Opportunity to Advance Security and Harmonious Development." *China Environment Series*. China Environment Forum. Washington DC: Woodrow Wilson International Center for Scholars: 61-84, p. 62; Junfeng (Jim) Zhang and Kirk R. Smith. "Household Air Pollution from Coal and Biomass Fuels in China: Measurements, Health Impacts, and Interventions." *Environmental Health Perspectives* Vol. 115, No. 6, June 2007; Minchener, Andrew J. "Coal in China." *Energeia*. Vol. 16. No. 5, 2005. University of Kentucky, Center for Applied Energy Research, p. 2.

3 Zhang and Smith. 2007.

Photo: CIEC



Dr. Li Jinghai holds seven patents in clean coal technology.

and has partnerships with local and foreign non-governmental organizations and companies, has a strong focus in this area. The push towards clean coal technologies is not driven by environmental regulations as elsewhere but by the promotion of technical policies tied to numerous state incentives. Since 1979, there have been 41 Chinese

patents for clean coal technologies. There are 18 locally-developed clean coal technologies presently in use. They range from advanced power generation to pollution control.⁴

One example is the process for reducing nitrogen oxides (NO_x), carbon dioxide (CO₂) and soot pollution in small facilities developed in 1995 by Dr. Li Jinghai, a CAS chemical engineer at the Institute of Process Engineering (IPE). The NO_x-suppressing smokeless coal combustion technique, called Jieou-Technology, received a patent, one of seven patents Dr. Li holds in clean coal technology. The Beijing GW Process Technology Company Ltd. was founded in 2003 to develop and manufacture Dr. Li's process. The company produces small and medium sized coal-firing boilers for industrial as well as domestic heat and hot water needs.

One of the most serious challenges to alternative energy is in the cement production industry, which has to keep pace with high demand for construction projects. In the cement production process, one ingredient, clinker, must be heated to 1450 degrees Celsius (2642 degrees Fahrenheit). Until recently this was done in outdated kilns which had massive energy loss, but this is changing thanks to Tang Jinqun, an engineer and now CEO of Dalian East Energy Development (DEED). He holds five patents in co-generation systems for cement kilns, a procedure he developed which diverts waste heat and redirects it to create power that fuels turbines in the factory. These co-generation systems cut energy used in cement production by 60 percent, most of which is from coal. In 2004, Tang and two partners formed DEED, which now sells co-generation systems throughout China as well as in other countries including Vietnam, India, and Pakistan.⁵

Forming partnerships

The U.S. has the largest known coal reserves, providing 50 percent of the country's electricity, more than twice as much as the next highest

source, nuclear power. U.S. power plants emit 40 percent of all CO₂ emissions in the country. A quarter of the world's coal is in the U.S. The U.S. Environmental Protection Agency's (EPA) recognized this year that GHG emissions harm human health, on the basis of a study completed last year. So what better place could the CAS find to form research alliances in CCT?

The University of California in Berkley, Stanford University and numerous other U.S. schools have joint projects with different Chinese institutes. The Western Kentucky University (WKU) has had a long-term partnership with ten different Chinese universities; Chinese scholars come to the U.S. to train for one to five years and return home with exposure to advanced techniques not yet in practice in China.

Professor Pan Weiping, a Taiwanese national, has worked at WKU for 23 years. His emissions control research focuses on several of the many components of coal pollution. Coal pollution contains sulfur dioxide (SO₂), NO_x (which combine to form particle matter pollution or soot), mercury, air toxins and CO₂, a greenhouse gas and the primary global warming pollutant.⁶ The WKU team's research on pollution focuses on controlling NO_x and SO₂, or acid rain, through three existing types of pollution control devices – Selective Catalytic Reduction (SCR) for NO_x emissions, electrostatic precipitators (ESP) for particulate matter emissions and Wet Flue Gas Desulphurization (WFGD), which uses limestone to control SO₂. Mercury control research is only just starting in the U.S., as also in China.

In China the focus is on controlling SO₂, for which ESP is the only process used at present. According to Professor Pan, in many cases factories have WFGD (to control SO₂), but are not using it because adding the limestone is expensive. But now environmental regulations will oblige them to do so. China is catching up in SO₂ control, and power plants are now required to have WFGD.

Importing technology

Chinese energy and environmental policymakers also know the value of importing clean coal technologies as a means of quickly improving local technology. In late 2005, General Electric (GE) Energy invented a coal mine gas engine with a patented process that collects methane gas and



Photo: Brian Kelley

A coal delivery bike. Coal is still used in most home stoves for cooking and heating.

- 4 Xin Lu et al. 2008.
- 5 James Fallows. "China's Silver Lining." *Atlantic Monthly*. June 2008. Jung-Myung Cho and Suzanne Giannini Spohn. "Environmental and Health Threats from Cement Production in China." China Environmental Forum. A China Environmental Health Research Brief. August 30, 2007
- 6 Sierra Club, "Dirty Coal Power." www.sierraclub.org/cleanair/factsheets/power.asp.



China Award Winner for Sustainable Energy Inventions

There are many individual inventors and innovators in China working on a smaller scale and successfully patenting environmental products such as biomass stoves. Three of these inventors have won the Ashden Awards for Sustainable Energy, the U.K.'s green energy awards given to an invention by an individual or institution that helps reduce GHGs.

In 2006 an award went to the Shaanxi Mother's Environmental Protection Volunteer Association, a group that developed a biogas stove using pig and human waste for cooking and lighting. Led by Wang Mingying, the group was set up in 1997 by the Shaanxi Women's Federation. Professor Qiu Ling at Northwest Forest and Agriculture University developed the stove. Over 1,294 have been sold since 1999.

Other Ashden Awards-winning inventions include the 2007 crop waste and wood stove, developed by Pan Shijiao. Research was started in 2000, and the Beijing Shenzhou Daxu Bio-energy Technology Company Ltd. was established in 2005 to commercialize the stove. In 2008, a solar powered system from the "Renewable Energy Development Project" (REDP), led by Luo Xinlian and Wang Wei, won an award. Established in 2001, REDP aimed to set up off-the-grid solar power in rural areas in west and northwest China where there are few people, most of whom are engaged in animal herding work. The project, a combined effort of the state planning agency, the National Development and Reform Commission, and the World Bank, installed 400,000 systems between 2004 and 2008, many subsidized to customers through an REDP program.

turns it into energy. In January 2006, a Chinese mining company bought two of these engines

for its mines in Anhui province. Made operational a few months later, the engines enable the Anhui mines to reduce by 85 percent their methane gas emissions, as well as to produce energy. International inventors of clean coal technology sell their products in China with the expectation

that they have the exclusive rights to distribute the technology in all countries.

The future is bright

Market demands are progressively being incorporated into the Chinese process of research and innovation. In China's emerging politico-economic system, efficient financing and a correspondingly efficient patent system are continuing to develop. Better investment policies will help Chinese public and university researchers to collaborate with the international and domestic private sector, while effective patent rights can facilitate R&D collaboration agreements. China's expanding patent system is playing an important role in encouraging the deployment and development of innovative CCT, especially as intellectual property rights are strengthened. The technologies that emerge from these partnerships can one day be an important part of reducing the pollution problems of coal-based energy.



Fossil fuels will not be abandoned as an energy source any time soon, especially not cheap and plentiful coal.

EFFECTIVE OUTREACH CAMPAIGNS

WIPO's new tools at your fingertips

Big public relations outfits have a rough time at it. Budget rich IP offices have had soaring success stories as well as frustrating defeats. Small national offices beg for assistance in doing it. What is it?

The creation of effective intellectual property outreach campaigns. Just look back at a few issues of the *WIPO Magazine*. The U.S. advertising campaign aimed at stimulating young people to be inventive, which produced the award winning "Cat Magnet" commercial, was a big success, and so was Brazil's "Pirates Out!" counterfeiting campaign. But there was also the short life of Canada's "Captain Copyright". A campaign created by a public relations outfit for the Philippines ended up shelved. Marketing IP is not an easy job.

Depending on the IP outreach message, be it promoting innovation or use of the IP system, tackling counterfeiting, or targeting a key audience – young people, IP stakeholders, or SMEs – there will always be many diverse questions that will need answering:

- What do teenagers think about their ability to invent?
- Why do some SMEs not register their IP?
- What would deter consumers from buying counterfeit goods?
- What types of outreach initiatives to encourage innovation have been successful?
- Have any Spanish patent guides for inventors been made available?
- Which outreach tools are most often used in anti-piracy campaigns?

Database solutions



Easy to use search interfaces allow users to find a wealth of studies and outreach examples used to promote the creation, use and respect of IP.

To help those involved in IP outreach activities find answers to these and other important questions, WIPO's Communication and Public Outreach Division has created two new databases complementing the *WIPO Guide to Intellectual Property Outreach* released in 2007. The first database contains empirical studies relating to the awareness, attitudes and behaviour of different audiences – students, teachers, inventors, artistic creators, consumers, SMEs, researchers and others – towards intellectual property. The second database contains practical examples of outreach initiatives – public service announcements, websites, awards, guides, curriculum materials, special events, etc – that have been used to communicate with such audiences.

These databases are intended to serve as a source of background information and inspiration. They can also be used to find potential partners for new studies and IP outreach activities. Easy to use basic search interfaces allow users to find relevant information quickly by specifying the outreach category in which they are interested: IP creation, IP use and awareness, and IP crime. An advanced search option allows users to search by country, target group, focus or other variables.

While the search interfaces are currently available in English only, the studies and outreach initiatives in the databases cover over 90 countries and refer to outreach resources in more than 20 different languages. The database tools will soon be enhanced by case studies focusing on specific outreach efforts from around the world.

The WIPO Outreach Databases:
www.wipo.int/ip-outreach/en/research and
www.wipo.int/ip-outreach/en/practice
 The WIPO Guide to Intellectual Property Outreach
 (available in English, French and Spanish):
www.wipo.int/ip-outreach/en/guides/

To provide feedback and/or to recommend studies and outreach initiatives for the databases, please contact us at: outreach@wipo.int.

TARGETING BUYERS OF COUNTERFEIT GOODS

This article is a condensed version of the research paper, "Cost-Benefit Models of Stakeholders in the Global Counterfeiting Industry and Marketing Response Strategies," by LYN S. AMINE and PETER MAGNUSSON, which appeared in the *Multinational Business Review*, 15(2): 1-23 (2007). The authors prepared this version specifically for the *WIPO Magazine*.

Governments, international policymakers and corporate intellectual property (IP) owners wage constant war against global counterfeiting. However, there are those with a clear interest in promoting this illegal trade, including the counterfeiters themselves and many consumers. Resistance on the supply side alone is inadequate to control or

even curb the counterfeit trade. The *demand side* of the market, composed of consumers, must also be addressed. A framework is outlined to assist international marketing managers and other business people in understanding the important role of creative and proactive marketing in resisting both counterfeiters and consumers of their goods.

Most initiatives to thwart counterfeiting fail because consumer attitudes and behaviors are factored inadequately, if at all, into the analysis. This is surprising, given consumers' ex-

pectation that it is up to their governments to protect them against dangers from counterfeit medicines, car parts, airplane components and other potentially fatal products. Paradoxically, these same consumers defend their right to choose between expensive, genuine brand-name products and much cheaper but inferior counterfeits.

Most consumers believe that they can recognize counterfeit products. Many view these as a source of enjoyment, especially in the case of fashion items which are knowingly purchased at a lower price regardless of quality. Such consumer attitudes are at odds with legal standards, moral values, publicly stated corporate codes of conduct and even the consumers' own well-being. Even if consumers suspect potentially negative consequences, their desire to be fashionable and to keep up with friends and peers lead them to ignore these. If such attitudes are not factored into the

analysis of consumer involvement in the counterfeit market, then initiatives to dissuade consumers from these purchases will remain ineffective.

Success in fighting counterfeits requires targeted actions involving *all* stakeholders on both the supply and the demand sides of the market as well as a clear-sighted evaluation of respective costs, benefits and trade-offs. Hence consumers are at the center of a complex global market in which several parties pursue their own interests, each involving conflicting cost-benefit analyses.

Consumer accomplices: the naive and the cynical

Consumer accomplices – the buyers of counterfeit goods – promote illegal trade through their willingness to perpetuate demand for counterfeit products and services. Some of these consumers, notably young people, are naïve: they enjoy hunting for good deals and believe that they can easily tell the difference between legitimate and illegitimate goods, regarding counterfeit fashion goods as harmless fun. They trust their government to take steps to protect them from the invisible dangers of illegitimate counterfeit products, all the while believing that they themselves do little harm by buying counterfeit fashion goods. Other consumer accomplices, however, are cynical in their complicity. They freely admit to having bought counterfeit goods knowingly; they see no moral wrong and do not mind colluding with counterfeiters in order to get a good deal. It is not surprising, then, that efforts by governments, international agencies and companies to curb counterfeiting have not worked: *global demand is too strong and persistent*.

Our research leads to several conclusions illustrating fundamental differences between consumer accomplices and official resisters:

1. *Many consumers consider most or all counterfeit products to be non-deceptive, and believe that they can make a conscious choice between a genuine and fake product.*

Photo: Canadian Anti-Counterfeiting Network



One in a series of posters by the Canadian Anti-Counterfeiting Network.

Analysis of cost-benefit trade-offs



This figure presents an analysis of cost-benefit trade-offs by IP owners, global consumers and counterfeiters.

2. Many consumers are actually unaware of the dangerous nature of **deceptive** counterfeit products.
3. Governments, international agencies and corporate IP owners, though aware of the complexity of the problem, often group all counterfeit products together as **deceptive** and as potentially, if not actually, harmful to consumers in particular and to business and society in general.

The role of marketing

If consumer accomplices are not deterred either by the fear of harming themselves or others or by the threat of legal consequences or punishments, and if they are willing to trade off lower quality for lower prices, then which marketing strategies will effectively change their attitudes? We begin by first categorizing consumers and types of products; then we propose four marketing strategies tailored to meet each type of demand.

This framework highlights the fundamental contradictions between three sets of stakeholders: counterfeiters, corporate IP owners and consumers. The multi-layered design of the framework draws

attention to the complexity and multi-dimensionality of interfaces between stakeholders; it also promotes consideration of *multiple simultaneous* frames of reference.

Consumer points of view

Four types of consumers who buy, use or are exposed to the different types of products are identified and named in each quadrant. Counterfeit products run from the non-deceptive to the deceptive along the x-axis and the y-axis represents consumers' degree of awareness of deception and the risk of danger from counterfeit products.

Victims are consumers who are unaware that their purchases are counterfeit because these items are highly deceptive (for example heart valves, prescription drugs airplane parts) and suffer actual physical harm. In contrast, cynical consumer accomplices, who knowingly buy highly deceptive fake designer handbags, jewelry, apparel, etc. for the simple purpose of impressing others and do not suffer any ill effects, are called **Fashionistas**. In the category of non-deceptive products, cynical





Photo:AFP
Governments, customs, police agencies and corporate IP owners wage constant war against global counterfeiting.

consumer accomplices who are aware that the quality is poor and that items – convenience and shopping products such as foodstuffs, household equipment and supplies – are counterfeit, are called **Opportunists**. **Vulnerable** consumers are unaware that products – brand-name staples such as household products, cosmetics, auto parts, over-the-counter drugs – are fake, despite visible poor quality, and often run a high risk of harm. This group includes the very young, the elderly, the poorly educated and illiterate consumers, none of whom may be able to make an informed choice.

Counterfeiter points of view

From the counterfeit producers' point of view, non-deceptive products offer only low levels of sales and profits, because consumers easily perceive the poor quality and make only opportunistic one-time purchases. Consequently, counterfeiters only operate in this entry-level type of business for a short period of time. In contrast, deceptive high-quality counterfeits offer high profit potential to counterfeiters. Thus, the higher the degree of deceptiveness, the greater the products' perceived market value and the greater the profit potential for counterfeiters.

IP owners

All counterfeits – even the non-deceptive shopping goods bought by **Opportunists** – are perceived by IP owners as damaging to their brand image. IP owners may feel less of a sense of urgency when dealing with non-deceptive counterfeits as **Opportunists** can easily tell them apart from genuine goods; however, **Vulnerable** consumers run a high risk of harm, so non-deceptive counterfeits cannot be ignored even though IP owners run the risk of small liability or loss.

In contrast, the high-quality and sophisticated appearance of deceptive products constitutes a serious concern to IP owners, due to the high risk of harm even for alert buyers and users. **Fashionistas** may risk nothing themselves, but the corporate IP, revenues and reputation are all put in jeopardy. There are also risks that **Victims** who suffer harm due to counterfeit medical devices or industrial equipments will sue and that negative publicity will harm the IP owner's business.

Marketing responses

The four proposed strategies go beyond curbing illicit supply to reduce or eliminate consumer demand for counterfeits. These strategies will also increase awareness among specific sectors of the population, change their attitudes, modify behaviors on the consumer demand side and can be immediately implemented by international marketers.

Fashionistas – educate and redirect demand: Publicize criminal prosecutions of illegal consumer behavior; use "buzz marketing" to spread the word among peer groups that buying counterfeit goods is no longer acceptable; promote social disapproval of ownership of counterfeit items. PETA's "Fur is Dead" buzz marketing campaign* provides an excellent example of how to do this.

Opportunists – report, ignore or co-opt the source: Report counterfeiters; co-opt suppliers; ignore illegal businesses which will eventually fail due to lack of profit potential; consider extending product lines or introduce new products; position brands and set prices appropriately for the income levels of Opportunists.

Vulnerable consumers – apply bottom-of-the-pyramid (BOP) marketing: Co-create products and services appropriate to the needs of consumers with very limited economic resources. Low prices will allow BOP consumers to purchase basic necessities and achieve improved quality of life.

Victims – identify, attack and remove threats: Joint actions by IP owners with other companies, national governments, international agencies, legal institutions and security forces are needed in order to identify and prosecute criminals. Imposition of the heaviest penalties available through the systems along with widespread publicity about these actions, will serve as deterrents for other illegal operators.

In future, marketers should publish case studies of their company's success stories and best practices, demonstrating results from these strategies. Government leaders and international policymakers must also share results of their action plans (through WIPO and WTO) so that the most effective response strategies can be implemented worldwide. Adoption of these perspectives, approaches and strategies will diminish counterfeiting by controlling both supply and demand, and will create legitimate new market opportunities for consumers of all types.

* People for the Ethical Treatment of Animals 2006

STRAP AND CLAMP

Nigeria Copyright Commission in Action

STRAP and CLAMP – strong words that rightfully conjure up images of police enforcement and punishment as the acronyms for the Nigeria Copyright Commission's (NCC) anti-piracy initiatives: the Strategic Action Against Piracy launched in 2005 and the Copyright Litigation and Mediation Programme, the alternative dispute resolution arm of STRAP, followed a year later. In the war against piracy, the NCC is on the attack and achieving measurable results.

Dynamics of piracy in Nigeria

Ten years back, there was not much of a market for CDs in Nigeria. Popular local music came out on cassettes and foreign content on CDs that few could afford. There were one or two CD production plants. Today there are 15 plants and a distorted distribution network that cannot keep up with market demands. The daily output of 100,000 legitimate CDs is easily absorbed by Nigeria's 140,000,000 plus population, leaving a lot of room for pirates. Legitimate lines of production must be set up, making affordable products legally available. But the problems caused by the vastness and informality of Nigeria's internal marketplace are not the only complications when it comes to fighting piracy:

- cross-borders issues arise with Nigeria's four neighbors: Benin, Chad, Cameroon and Niger;
- limited resources must be optimized and field work targeted for the best results;
- there is a general lack of awareness of IP laws and regulations.

Under the Nigerian legislation, the NCC is responsible for administering, regulating and enforcing copyright in Nigeria. The NCC had its work cut out to gradually overcome attitudes ingrained in society from youth up to the policymakers themselves. How to achieve all of that while building capacity across government institutions, especially in the area of enforcement? The STRAP anti-piracy initiative was implemented on three strategic platforms, namely: public enlightenment and education; enforcement; and rights administration.

The strategy

Enlightenment is aimed at providing stakeholders with knowledge of their IP rights and how to defend them, promoting respect for IP among users, and en-

couraging creativity. Enforcement, initiated by rights holders' complaints, entails the seizure of counterfeit products as well as prosecution of suspected infringers. Rights administration covers collective management, the notification and management of IP rights, and assuring that production plants operate within the law. STRAP covers all copyright areas from the movie industry to music, from software and books to broadcasting.

In its first year of operation, the enforcement arm of STRAP arrested a number of infringers who claimed that they were not aware of the need for a license to reproduce material or of the information about where and how to obtain one; they claimed they operated outside the law due to ignorance. At the same time, many small rights holders could not afford the legal fees related to bringing these counterfeiters to court. CLAMP, an integral component of STRAP, was created to give small rights owners the opportunity to negotiate out-of-court settlements and licenses with these infringers. In one year, CLAMP mediators successfully settled eleven cases out-of-court.

Outcome of the first years

From May 2005 to May 2007, STRAP activities resulted in the inspections of plants and outlets for CD, optical disc and video productions and rentals all over the country to verify that they operated within the law. In addition, over 115 operations were carried out against book, music, film, software and broadcast counterfeiters. Here are the outcomes:

- 373 suspects arrested;
- seizure of 8,346,815 pirated works;
- 15 new copyright cases brought to court, resulting, so far, in four convictions: two in the Federal High Court of Maiduguri for counterfeiting books and two in Federal High Court of Calabar for broadcast piracy;
- the public destruction (burning) of seized counterfeit products with an estimated market value in Nigerian Naira 1,263,000,000 (US\$10,710,000); and



NCC Director General Adebambo Adewopo inspecting CDs, DVD and VCDs from the Wuse market in Abuja.

Photo: NCC



D'banj, R&B/Hip-Hop Star and STRAP Ambassador

D'banj's main concern on June 9, the day he turned 28, was with piracy. So for his birthday Koko Master – as his fans nicknamed him – headed down to the Nigerian Copyright Commission. It was a strange way to celebrate a birthday, but since the award-winning Nigerian singer-songwriter and harmonica player broke onto the global music scene, he had become more than cognizant with counterfeiting and wanted to do something about it.



"I've seen what the NCC has done for other entertainers, and it encouraged me to come down here to give support to the STRAP program," he said. "Piracy is bedeviling the entertainment industry. Proper strategies have to be put in place so artists can make money from record sales. In other countries, artists make money by accruing royalties. But only a few of us in Nigeria are getting our dues." D'banj wants to work with the NCC to resolve the problem.

The award-winning D'banj – Koko Master – celebrated his birthday at the Nigeria Copyright Commission.

D'banj studied mechanical engineering in university. He won the Best African Act at the 2007 MTV Europe Music Awards, Hip Hop World Revelation at the 2006 Hip Hop World Awards, Most Promising Male Artist at the 2005 KORA All African Awards; and the list goes on. He recently signed a deal with Akon, the Senegalese-American R&B/hip-hop singer, songwriter and record producer.

- 15 optical disc plants were brought under regulation through the new Optical Discs Plant Regulation issued in December 2006.

STRAP attributes a huge part of its success to co-ordinated inter-agency collaboration among enforcement agencies such as the police, customs service, the Standards Organisation of Nigeria, the National Food & Drug Administration & Control (NAFDAC) and the Economic & Financial Crimes Commission as well as the industry players.

Outreach: lawyers, teachers, children

The NCC determined that IP education in Nigeria was in need of a serious upgrade. With assistance from the WIPO Academy, STRAP created a training point for IP lawyers. First they trained the trainers, then the IP lawyers, and now they are assisting other African countries by organizing study visits. STRAP developed its own material to teach IP local perspective with local examples and cases.

STRAP also targeted young people by creating Copyright Clubs in schools. So far ten schools have engaged in the program, two in the Federal Capital territory and eight in southwest Nigeria. The Club provides students with bite-size bits of information at a time on copyright and the dangers of infringement, so that they feel concerned with copyright issues. But its principal goal is to encourage young people to be creative and aware of the ideals of copyright and IP.

Call for collaboration

The *Survey of Copyright Piracy in Nigeria*, conducted by the NCC in collaboration with the Ford Foundation, shows that the level of piracy is 58 percent of all copyrighted works in Nigeria. Despite the efforts and achievements of the STRAP initiative, the *Survey* enumerated poverty, high cost of originals, greed and profitability and weak law enforcement as the causes.

NCC Director General Adebambo Adewopo, who commissioned the report to provide baseline information and statistics on piracy in Nigeria to drive the STRAP initiative, expressed surprise at "the high level of ignorance about the copyright system amongst right owners, enforcement agencies and other officials who were hitherto presumed to be sufficiently informed." He noted that this realization "suggests the need for the commission to step up its public enlightenment and right owner education program in order to sensitize stakeholders on their right and the best methods of addressing the copyright piracy."

Mr. Adewopo used the Survey's release on August 28 as an opportunity to call out to stakeholders to join the STRAP initiative. He acknowledges that NCC does need more resources to administer, popularize and enforce the copyright law but that community collaboration is the key to fight piracy.

DIGITAL PRESERVATION AND COPYRIGHT

This article, written by **JUNE M. BESEK**, Executive Director, Kernochan Center for Law, Media and the Arts, Columbia University Law School, New York, highlights the difficulties in preserving digital works, created today and gone tomorrow, for future generations. Both their nature and current copyright laws create a challenging task for preservationists.

Can you imagine a world without Homer's *Iliad* and the *Odyssey*? Beethoven's Ninth Symphony? Twain's *Huckleberry Finn*? Van Gogh's *Irises*? Books and letters, photographs and drawings, music and movies are windows on history and culture. They inform and entertain us, aid in understanding the past and serve as a basis for future scholarship and creativity. Such works of authorship have remained



Before the digital era, preservationists acted on perceptible evidence of deterioration such as a fold test to detect brittle pages or the smell of vinegar signaling acidifying film. Digital material is often deleted or replaced before a preservationist can even get to it.

available over centuries thanks to the preservation efforts of libraries, archives and museums. But now, many books, letters, photographs and other works are born digital, and the Internet has fostered new forms of authorship like blogs and personal web pages. Unfortunately, many digital works disappear every day. They are removed, replaced or superseded and are thus forever lost to future generations.

Systematic efforts to preserve digital materials are lacking in part because of copyright laws. Digital preservation inevitably entails copying. Many countries have exceptions from copyright to enable preservation activities of libraries, archives and other preservation institutions, but those exceptions have not kept pace with digital technology.

Copyright issues

How does digital preservation create copyright issues? In the past, preservation of analog works was generally a passive activity, requiring only occasional interventions to repair or restore hard copies of books, films, sketches, drawings, photographs, etc. Such actions were triggered by perceptible evidence of deterioration: a fold test can detect brittle pages, the smell of vinegar signals

acidifying film. Digital works, however, are often short-lived because they can be deleted, written over or corrupted rapidly and without advance warning. Preservation efforts must begin soon after they are created or acquired. The problem arises in that any contact with a digital work – cataloging, maintenance, migrating the works to new formats – involves making copies. In addition, digital preservation

practices require creation of multiple redundant copies for retention in different locations to protect against losses due to fire, flood or other catastrophe. Use of works in preservation archives can implicate the reproduction right as well as the rights of distribution, making available, public performance or public display.

Most national laws that provide exceptions for libraries, archives and other preservation institutions were created in the analog era, and often have limitations that are unworkable when applied to digital works. For example, some national laws allow libraries and archives to make up to three copies of a work for preservation and replacement, but three copies are insufficient to ensure digital preservation. National laws may require a library to wait until there is perceptible degradation of a work before making replacement or preservation copies, but in the case of digital works, by the time the damage is perceptible, the work may be irretrievably lost.

Copyright exceptions in many cases only allow preservation institutions to copy and preserve those works already in their collections. But works once distributed in hard copy form are now created and marketed electronically, and some are avail-



able only for viewing or streaming, but not in copies that can be retained. Websites, blogs and other forms of user-generated content reflect current culture, but if preservation institutions cannot acquire these materials for preservation, the opportunity to study and enjoy them will be lost forever.

WIPO addresses the problem

On July 15 WIPO held a workshop on digital preservation and copyright to draw attention to the critical need for digital preservation and the ways in which copyright issues might be addressed. (See www.wipo.int/meetings/en/2008/cr_wk_ge/.) The workshop brought together librarians, digital preservationists and copyright experts from around the world to address the intersection of copyright laws and digital preservation. Panel discussions focused on preservation activities in three areas: e-journals, the Internet and newspapers. The *International Study on the Impact of Copyright Law on Digital Preservation* (see www.digitalpreservation.gov/partners/resources/pubs/digital_preservation_final_report2008.pdf), an independent report which focuses on the copyright and related laws of Australia, the Netherlands, the U.K. and the U.S., served as a backdrop for the discussions.

The workshop highlighted a number of different preservation projects around the world and the ways in which they address copyright concerns. Some simply focus on public domain materials to avoid copyright problems. Others such as the Internet Archive take advantage of existing exceptions like fair use. Still others such as Portico and Koninklijke Bibliotheek's e-Depot rely on cooperative arrangements with rights holders. The existing preservation programs are very valuable: they not only save important cultural material but also lay the groundwork for developing digital preservation best practices. But the inevitable conclusion is that they are incomplete solutions that address only a fraction of born digital works.

Legal reform for digital preservation

Legal reform may be necessary to give preservation institutions the ability to undertake comprehensive digital preservation. The *International Study* suggests allowing preservation institutions to copy all categories of works in digital form proactively rather than waiting for demonstrable evidence of deterioration, and eliminating the three-copy limit. It also recommends that national laws enable comprehensive preservation through some combination of legal authorization

to preservation institutions to harvest publicly available Internet content, incentives for contractual arrangements to support preservation and legal deposit mechanisms.

Such legal reform, however, will require a careful balancing of competing interests. While it is important that preservation institutions have copyright exceptions sufficient to enable digital preservation, it is equally critical to retain limitations necessary to protect rights holders. The three-step test of the Berne Convention, the WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty allows exceptions and limitations only in "certain special cases" that do not "conflict with a normal exploitation of the work" and do not "unreasonably prejudice the legitimate interests" of the rights holder. Appropriate security and limitations on access will be necessary to ensure that preservation institution activities will not unreasonably prejudice rights holders' interests or undermine their markets. In addition, requiring the implementation of best practices for digital preservation is fundamental to ensuring long term societal benefit from preservation exceptions. Carefully crafted library exceptions can meet the requirements of the three-step test, but creating the right balance is a challenging task.

Some countries are already working on legal reform for digital preservation. The workshop discussed the U.K. Gowers review, the U.S. Section 108 Study Group Report and recent changes to Australian copyright laws. In addition to questions regarding security and the scope of access, workshop participants also cited the role of contracts and of technical protection measures in creating potential obstacles to digital preservation.

Legal reform is only one piece of the puzzle. Cooperative arrangements among preservation institutions and rights holders remain essential. They have played an important role in preservation initiatives to date and it would be counterproductive if legal reforms were to undermine rather than encourage such efforts.

Copyright laws are not the only obstacle to digital preservation. Adequate funding is necessary, as are technical tools and a consensus as to best practices. Policymakers must be persuaded of the critical need to dedicate resources to digital preservation programs. Addressing the copyright issues would be an important step toward ensuring comprehensive digital preservation.

GHOSTWRITERS, CREATORS, CHEATS

Ghost writers can do a good business these days. There are firms of them as well as individuals offering their services to those who are too busy (such as political celebrities), too lacking in the necessary skills or too prolific to go without assistance in research and preparatory drafts. Alexandre Dumas was in the last category.

Although Dumas died in 1870, it was not until 2002 that his remains were removed to the *Panthéon* in Paris, to join other literary giants of his age, among them Emile Zola and Victor Hugo. This seems to set the seal on his authorship of some of literature's best-loved works, such as "The Three Musketeers" and its sequels, "The Count of Monte Cristo" and "The Black Tulip." He used a large number of collaborators for both his plays and his novels, the most outstanding of whom, Auguste Maquet, having helped him to write the books mentioned above among others, took him to court in the 1850s to claim unpaid fees and also to recover his literary property as a co-author. The outcome was that Dumas retained his right to sole authorship but as a debtor was required to pay Maquet 145,200 francs within a period of eleven years. Even if ghost writers contractually agree not to enforce their right of attribution, against payment, there can be circumstances in which they may seek to have their contribution acknowledged. Maquet vs. Dumas illustrates the difficulty of clearly delimiting the value of each person's contribution.

Dumas, when attacked, was perfectly frank about the contributions of collaborators – his open letter to the *Société des Gens de Lettres* of 1845 named Maquet and the works with which he had assisted – as he was about the factual and literary sources that inspired his work. Several of his novels were serialized in various journals virtually simultaneously over many months, requiring constant copy-writing to tight deadlines. Both Dumas and Maquet (who was a trained historian) found subjects, discussed plot outlines and made detailed suggestions; Dumas constantly asked for



Alexandre Dumas and Auguste Maquet by the famous French caricaturist Gill.

preliminary copy, which he then revised into final form. The final manuscript was almost always in Dumas' hand, but as Matharel de Fiennes confirmed to Maquet for use in the court case, when an installment of *Le Vicomte de Bragelonne* was lost on the eve of publication in *Le Siècle*, Maquet was summoned to the journal's premises to re-write his own text from memory: de Fiennes observed that his subsequent comparison of the retrieved Dumas text with Maquet's showed that Dumas had only changed about thirty words in 500 lines.

But a comparison of manuscripts, whether handwritten or typed using the same or different computers, is inconclusive evidence: who can irrefutably assign ideas and words even to the person who wrote them, when collaboration involves so much oral communication and exchange of views? Perhaps Dumas' vindication comes not only from the confirmation in court of his overall mastery and control, as distinct from the physical act of voluminous writing, but also from the course of history: it was Dumas who transformed Maquet's first novel, by expanding and improving it and publishing it under his own name (this was *Le Chevalier d'Harmental*) and although Maquet finally broke with Dumas and published novels in *his* own name, these long ago fell into oblivion.

Fame and recognition

Publication under Dumas' name raises the issue of the advantage that name recognition confers. IP experts¹ have indicated an analogy between copyright and trademark law: an author's name can be seen as the author's trademark, attracting public identification and "consumption" of certain goods on the market, and similarly, a literary collaborator can be seen as a licensee who does not, however, exercise decisive control over the end-product. Dumas' publishers in his high period must have seen his name as the most marketable. In the fine arts painters and sculptors use assis-

¹ Professor Jane C. Ginsburg, basing herself on an article by Victor Nabhan (2004)



tants in the same way, a notable example being Rubens, who was thus served by Van Dyck, Teniers and Jan Breughel.

The trademark analogy is also useful in considering copyright infringements similar to “passing off” or “counterfeiting.” Plagiarism is a willfully false

could have lent her manuscript to Wells, she was dismissed as an angry spinster whose assertions could not be satisfactorily proved.

The world of fine arts has also acquired advanced techniques to verify authenticity, such as carbon-dating, X-rays and improved chemical tests.

The Dutch master forger of Vermeer paintings, Han van Meegeren (1889-1947), might have a rougher passage now. But there are also *bona fide* copies of art works, which are commissioned and made with no element of deception in view. The situation is further complicated by the

deliberate acts of artists arising from generosity or greed – a Jean-Baptiste Corot (1796-1875) who occasionally signed his students’ paintings, or an ageing Salvador Dali who signed blank paper or canvas for others’ use.

Ultimately, we consider the degree of intentional deception and the harm done to any society. Of course an IP-conscious world will take the line that “passing off” is morally unacceptable, and that reputations fall in the interests of culture, quality and intellectual integrity. But the moral argument can be strengthened greatly by the seriousness of the practical consequences. Severe sanctions (exclusion, loss of credits) against student plagiarists can be more strongly justified by the devaluation of graduates’ qualifications on the job market which results from unsanctioned plagiarism. Perhaps a more pointed example would be articles written by ghost writers in the pay of drug companies in medical journals, which are falsely attributed to medical specialists—acts that may endanger life and limb worldwide. On the other hand, a lone Ms Deeks lost her initial case and appeals through a decade (gaining only some posthumous sympathy) and Wells’ book sold profitably, enhancing his reputation.

Sometimes the worm turns: Maquet, though he failed in his bid to be legally recognized as co-author, lived and died well-off, while Dumas, retaining both contemporary and posthumous glory, died poor, even if by his own fecklessness.



Illustration of *Les Trois Mousquetaires* (The Three Musketeers) by Maurice Leloir (1851-1940).



The Château d'If served as setting for *Le Comte de Monte-Cristo* (The Count of Monte Cristo).

attribution of authorship to oneself, or can be a use of another’s text without any or with insufficient acknowledgement of source. In the arts world, forgery is also the willfully false attribution of an artistic creation, usually to an artist with name recognition and value on the market.

Students used “cribs” and model essays in book form long before computerization. The Internet has expanded possibilities for plagiarism, which in turn has generated technology for detection, including special software and even machines for precise text comparison. But apart from the obvious copying of significant quantities of text, cases of certain similarities found between texts raise age-old problems, requiring appeals to human judgment, however sophisticated the technological “evidence.” Is the use of identical phrases accidental, or if willful, how extensive? Are textual differences minimal enough to indicate plagiarism? Should quotation marks have been used? Should the source have been acknowledged throughout the text instead of only at the end?

Suing a celebrity can swing the full weight of fame, establishment power and money against the plaintiff. Through the 1920s and 1930s, although Florence Deeks could show that outlines, omissions, even factual errors in her work, recurred in H.G. Wells’ “The History of the World” and that their common publishing house, Macmillan,

LETTERS AND COMMENT

Threats on French IP protection for perfumes!

Courtesy of Lancôme



Further to the article *In the Courts: Perfumes as Artistic Expression?*, here are updates on the situation following two recent decisions in France.

Perfumes have been in the spotlights of French IP practice since a decision by the Paris Penal Court of First Instance dated February 15, 2008. *Kenzo Parfums, Lancôme, L'Oreal, Christian Dior Parfums, Yves Saint Laurent Parfums* and many other perfume companies had sued several natural persons for trademark infringement for having offered fragrances shown as equivalent to their perfumes for sale. The fragrances were presented with announcements such as "If you like the X perfume, you will like my Y perfume" or "Ask for our list of similar perfumes with well-known perfumes." The Paris Penal Court decision in February considered that the sole reference made to well-known perfumes was insufficient to demonstrate the material element of trademark infringement.

This decision is in complete contradiction with the French Intellectual Property Code which prohibits unauthorized use, reproduction or affixing of a trademark even with the adjunction of wordings such as "formula, style, system, imitation, genre, method". The Court position also goes against established case law denying the concordance practice. So we hope this will remain an isolated case and that the appeal lodged by the plaintiffs will succeed.

The protection of perfumes under French copyright is also once again under debate. On June 13, 2006, the French High Court had decided that the creator of a perfume could not receive remuneration under copyright law. Since then, French case law had been ambivalent on whether copyright applies to perfumes. But on July 1, 2008, the French High Court reiterated its past position. The Court ruled that a fragrance only resulted from know-how and was not a creation eligible to copyright protection.

Excluding perfumes from copyright generates high risks in terms of defense policies. Fragrances are also very hard to protect through trademarks, therefore there is increased risk of counterfeiting, especially if, as a result of the above mentioned case law, the concordance practices is permitted. Hopefully, other French legal tools, such as unfair competition and specific protection for well-known trademarks, will remain enforceable.

From Franck Soutoul and Jean-Philippe Bresson, European Trademark Attorneys, INLEX IP Expertise, and reporters for IP TALK, France

Protecting the NERICA® trademark

Photo: Africa Rice Center (WARDA)



I am writing to comment on one, perhaps minor but possibly important, detail regarding your wonderful article on NERICA®, a product of the West Africa Rice Development Association's (WARDA)

research. I wanted to let you know that the name NERICA® is a registered trademark in the U.S. We are assisting WARDA in several issues dealing with the use of IP management to increase the use of NERICA® rice varieties and to bring quality assur-

ance to the distribution of NERICA® seeds. In this light, I want to ask that you indicate that NERICA® is a registered trademark, as it is important that WARDA protect their trademark so that resource poor farmers will know that they are planting genuine NERICA® seed.

I would be happy to talk with you about additional ongoing research in the Consultative Group on International Agricultural Research (CGIAR) to address the effects of climate change on poor farmers in developing countries.

From Victoria Henson-Apollonio, PhD, Senior Scientist, Project Manager, Central Advisory Service on Intellectual Property, CGIAR System Office Unit, Italy



Response from the editor:

The *WIPO Magazine* article did note that “Nerica was registered as a trademark with the USPTO in 2004”. As concerns use of the ® symbol the *WIPO Magazine* article “Trademark Usage: Getting the Basics Right” states: “Use of the ® symbol is not compulsory since it does not provide any legal protection. It is used to alert the public that the mark is registered and therefore may discourage others from illegally using the mark. If the trademark registration notice is used, it should appear with the first and most prominent use of the mark in an advertisement or on a label. It is not necessary to repeat the notice each time the mark is mentioned. (...) When referring to a trademark in printed material, always distinguish the mark from the rest of the text by using either capital letters, bold, color, italics, underline or quotation marks. This will reduce the chance of the mark being seen as a generic term.”

Calendar of Meetings

OCTOBER 6 TO 10 ■ GENEVA

- *Preparatory Working Group of the Committee of Experts of the Nice Union for the International Classification of Goods and Services for the Purposes of the Registration of Marks (Twenty-seventh session)*

The Preparatory Working Group will continue its work of revision of the ninth edition of the Nice Classification. Its recommendations will be submitted for adoption at the twenty-first session of the Committee of Experts of the Nice Union in 2010.

Invitations: As members, the States members of the Preparatory Working Group of the Committee of Experts of the Nice Union; as observers, the States members of the Paris Union, which are not members of the Preparatory Working Group, and certain organizations.

OCTOBER 21 AND 22 ■ GENEVA

- *WIPO Arbitration Workshop*

An annual event for all persons interested in WIPO arbitration procedures, both as potential arbitrators and as potential party representatives.

Invitations: Open to interested parties, against payment of a fee.

OCTOBER 23 AND 24 ■ GENEVA

- *WIPO Advanced Workshop on Domain Name Dispute Resolution: Update on Practices and Precedents*

An event for all persons interested in receiving up-to-date information about the trends in WIPO domain name panel decisions.

Invitations: Open to interested parties, against payment of a fee.

NOVEMBER 24 TO 28 ■ GENEVA

- *Working Group on the Legal Development of the Madrid System for the International Registration of Marks (Sixth Session)*

The Working Group will continue its work on the legal development of the system.

Invitations: As members, the States members of the Madrid Union and the European Community; as observers, other States members of WIPO and/or the Paris Union and certain organizations.

DECEMBER 1 TO 5 ■ GENEVA

- *Standing Committee on the Law of Trademarks, Industrial Designs and Geographical Indications (SCT) (Twentieth session)*

The Committee will continue to work on areas of convergence relating to non-traditional marks and trademark opposition procedures, based on the outcome of SCT/19. The Committee will pursue its work on topical issues such as formalities for design registration and Trademarks and Nonproprietary Names for Pharmaceutical Substances (INNs).

Invitations: As members, the States members of WIPO and/or the Paris Union and the European Community; as observers, other States and certain organizations.

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