



**IP**  
**REVIEW**

issue nine

## **Eyeing up the options**

Experts reveal the pros and cons of moving IP offshore

## **The scent of change**

A guide to protecting your fragrant IP

## **Under one roof**

Maintain, protect, manage and unlock the potential of your IPR with CPA's integrated solutions

## **Rising to the challenge**

New Patent Office trademark dispute procedure explained

# IP REVIEW

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Welcome to the ninth issue of *IP Review*, CPA's quarterly magazine about the world of IP.

In this issue, we continue to celebrate the absorbing world of IP with a new series on how to protect the more unusual marks in your IP portfolio. Starting off on page 12 with an expert's insight into how to best protect fragrances and smells, this new series will look at unconventional IP, charting changes in legislation and new rules for registration, and defining the opportunity and risk that these new types of IP protection bring. Elsewhere in the magazine, we ask three specialists to discuss the pros and cons of moving IP into offshore holding companies. Does such an arrangement bring greater tax efficiency, help with the management of your licenses, and ensure central control over your global brands? You can eye up the options for your company by asking yourself the key questions we list on page 26.

Managing and extracting the maximum value from your IPR can often be a complex and time-consuming process, which is why CPA offers a comprehensive range of IP management solutions to help you maintain, protect, manage and unlock the potential of your IPR. To find out how one integrated solution can help you in your work, turn to page 10.

Finally, this issue also unveils a new book: *The Ideas Companion*, published in partnership with CPA. As anyone who works in IP knows, our industry is diverse and constantly evolving, and this new book tells the fascinating stories behind the world of patents, designs, trademarks, copyrights and domain names, celebrating everything that is inventive and outlandish about IP. A perfect read for anyone involved or interested in the world of IP, buy this book before it is even in the shops by taking up our reader offer on page 4.

I hope you enjoy the magazine.

Peter Sewell, chief executive officer, CPA

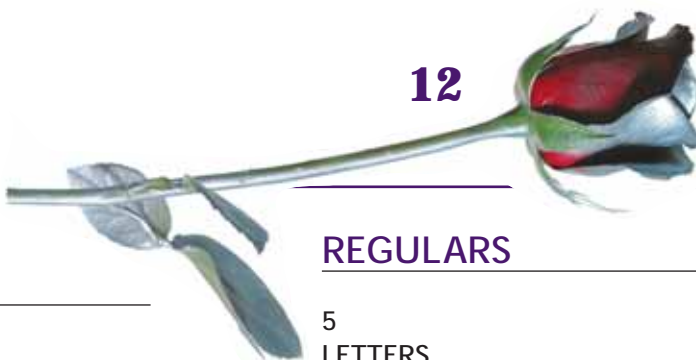
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## Is someone reading over your shoulder?

If you have a colleague or an associate who would like to receive a copy of *IP Review*, please let us know, and we'll send them one. E-mail Michaela Gosselin at [mgosselin@cpaglobal.com](mailto:mgosselin@cpaglobal.com), phone her on 01784 224557 or write to her at CPA, Ash House, Fairfield Avenue, Staines, Middlesex TW18 4AB, UK.

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# THE IDEAS COMPANION

Exclusive IP Review reader offer: save 20%!

Patents, brands, copyright, trademarks: everyone's interested in new ideas, and there's a fascinating industry working hard to protect them. At last, with the publication of *The Ideas Companion*, that industry takes centre stage.

*The Ideas Companion*, published in partnership with CPA, is a beautifully presented hardback book with dustjacket – 160 pages packed with information. It is available to readers of *IP Review* at the discounted price of £7.99 (rrp £9.99) plus p&p.



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To order *The Ideas Companion* (Chrysalis Books, ISBN 1-86105-885-3) before it is even in the shops, please call 0870 787 1613, Monday to Friday between 8.30am and 6pm, quoting CH241. Charges for p&p apply as follows: £1.50 per item in the UK, £2.50 per item in Europe, and £3.50 per item in the rest of the world.

**The *Ideas Companion* is the ideal book for anyone in the IP industry.**

## Just some of the info inside:

From Coca-Cola's slogans to Alan Shearer's goal scoring celebrations, DNA to John Deere tractors, atomic golf balls to Einstein's day job: *The Ideas Companion* tells the stories behind the ideas.

Which famous brand was known as the Mae West? Why did the 'Got Milk' ads offend the Spanish? What on earth is a face bra? *The Ideas Companion* has all the answers and so many more. You'll even discover the invention that warns about nuclear air strikes, and protects the owner's cat flap... both at the same time! And as a fascinating bonus, there's a magnificent piece of statistical trivia to match each page number.

'A man better have . . . anything happen to him in the world, short of losing all his family by influenza, than have a dispute about a patent'  
**Lord Esher**

The letter 'g' has been trademarked as a name by rap artist Warren g

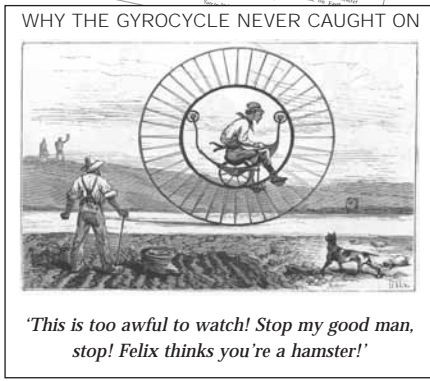
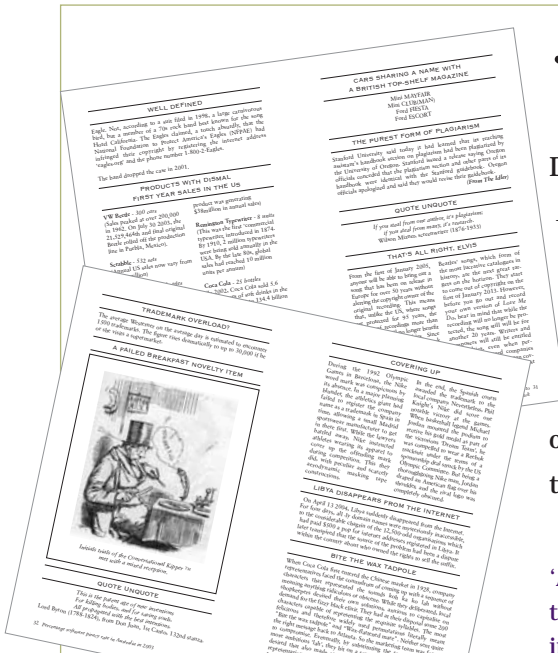
Inventor: A person who makes an ingenious arrangement of wheels, levers and springs, and believes it civilization  
**Ambrose Bierce**

Coca-Cola's first attempt at translating its name into Chinese emerged as 'Bite the Wax Tadpole'

### OBSCURE PATENTS



Long before it occurred to anyone to use this design for church roofs and castle battlements, King Athelwolf employed it in his Stay-Dry Crown.



# Letters

Letters written to the editor will be answered by relevant experts at CPA or the editor and may be published in future editions. Send your letters to The Editor, *IP Review*, Think Publishing, The Pall Mall Deposit, 124–128 Barlby Road, London W10 6BL or e-mail them to [ipreview@thinkpublishing.co.uk](mailto:ipreview@thinkpublishing.co.uk). Letters may be shortened or edited for clarity.

## EDITOR'S CHOICE

### EUROPEAN UNION?

More and more we are expanding our work into Europe, but it seems that although I am well versed in French IP legislation, I often find that it doesn't apply to the other member countries of the EU. Are European rules about IP strictly the same and, if so, why are they not always applied in the same way throughout the EU?

Mathieu Cotom, France  
 Franck Lancien, one of CPA's IP lawyers and IP consultants replies: *When the European Patent Convention came into force, the national laws of the member countries were amended where necessary to bring them into accordance with the Convention. While this should have resulted in a law of one member country being applied in the same way as the same law in another member country, this has not always happened, usually because each country has its own precedent history, and there have been cases where courts in different countries have reached different conclusions on the same patent. There are, however, a number of initiatives designed to give greater uniformity and these are gradually taking effect. It is important to take separate*



*" I want to register these as my trademark "*

*legal advice in each country and not to assume that the laws of all member countries of the Convention will be interpreted in the same way.*

### DOMAIN ISSUES

I read your articles on domain name registration (IPR8) with much interest. I am currently embroiled in a rights issue with an overseas company who have set up a domain name deliberately similar to our own. What procedures would you have followed to resolve this quickly?

Simon Scott, UK  
 Claire Morrissey, a domain name specialist at CPA, replies: *If the domain in question is a gTLD (Generic Top Level Domain), it may be possible to seek redress via the UDRP (Uniform Dispute Resolution Policy) as all ICANN-*

*accredited registrars adhere to this. Consult your trademark attorney who will investigate the case fully and explain all the available options.*

### A HELPFUL GUIDE

As an attorney and recipient of *IP Review* trying to manage patents and trademarks in the UAE, I was particularly interested in 'The IP Guide to... the UAE' (IPR8). I also

frequently find myself dealing with patents and trademarks in Japan, would it be possible to cover this territory as well in future issues?

John Gillett, Switzerland  
 Emma Jones, editor, replies: *I'm glad to hear that the 'IP guide to... the UAE' has proved useful to your work. That is certainly the reason why we began this series of IP country guides in the first place. This issue, we are covering the state of IP legislation in China, but Japan will certainly be featured in a future issue.*

*If any other reader would like to see a particular country profiled in this series, please contact us at the address above. You can also give us feedback on all the articles in the magazine by filling out the short reader survey on page 23. All you have to do is tick a few boxes and you could win a Panasonic digital video camera worth £999.99.*

## EDITOR'S CHOICE



**PRAKTICA**

This issue, the author of the 'editor's choice' letter will receive a Praktica PDCZ 5.0, a high-quality five mega pixel digital camera with a 3x optical/4x digital zoom lens, a built-in memory that can be expanded by memory cards, and connection

cables for TV, video, or computer. Visit [www.praktica-uk.com](http://www.praktica-uk.com) for more information on PRAKTICA digital cameras.

# CPA news



## IP REVIEW GOES DIGITAL

From early 2005, you'll be able to download digital editions of this and all previous issues of *IP Review* at [www.cpaglobal.com](http://www.cpaglobal.com). The digital edition will be an exact reproduction of the print edition with features such as electronic navigation allowing you to flip through the pages of the magazine, zoom into articles, pictures and graphs, search the magazine, and download past issues on your computer for quick reference later.

You'll be able to download each issue of *IP Review* in its entirety and save it on your desktop, or search for and access individual articles on-line using a handy topic index that relates to the subject matter you're most interested in reading about.

All you'll need to access past and present issues of *IP Review* is Adobe Reader, which can be downloaded free at [www.adobe.com/products/acrobat/readstep2.html](http://www.adobe.com/products/acrobat/readstep2.html).

## Steely Determination

Vincent Brault, vice president of sales and marketing at CPA North America, has a very formidable hobby: he's a triathlon racer. But a standard triathlon would be too simple for this adventurous member of CPA, for Vincent has just completed the Ironman challenge – an epic 3.8km (2.4 miles) of swimming, 180km (112 miles) of cycling and 42km (26 miles) of running – and he's planning on competing in another one next summer.

In between a hectic schedule at CPA, Vincent embarked on an intensive training regime to prepare himself for the Ironman race. Starting his training at five in the morning also ensured he fitted in plenty of early nights and kept away from the temptations of alcohol. Race day still came as a shock, however, with the swim turning out to be much harder than he'd anticipated: 'it was more like a rugby scrum' said Vincent 'and it was very intense and fast'.

Once completed, he spent the next six and a half hours on a bicycle before embarking on another four hours of running before the finishing line was in sight: 'The first 45 minutes were spent just trying to regain control of my legs' he said, 'but towards the end the crowd were great, and it was a real boost to



see my name on the big screen as I came to the end of the course.'

So was it all worth it? 'Race day was the best part of the whole experience' said Vincent, 'especially as it was in France, my home country'. Will he be taking part again? 'Of course! I'm already planning to take on another Ironman challenge with some colleagues next summer. It's good to push your limits, which is why it might be time for something different after the next Ironman.'



# IP news

## US hits out at IP fraud

In one of his last major announcements as US Attorney General, John Ashcroft launched plans on 12 October 2004 for a huge crackdown on counterfeits, including DVDs, music downloads and designer goods.

Citing a new Justice Department report that puts the cost of worldwide intellectual copyright theft at US\$250 billion per year, Ashcroft said: 'Theft of this national resource has become an epidemic. This represents a haemorrhaging of the work product of American citizens. This is illegal distribution, not fair use.'

Ashcroft also highlighted an estimate from the Motion Picture Association of America, indicating that 2.6 billion songs, films and computer software applications are being illegally distributed over the Internet every month.

The plans were well-received by the Recording Industry Association of America, with chairman Mitch Bainwol commenting that the 'commitment of focus, energy and resources is music to our ears.'

The problem is not just restricted to the entertainment industry and luxury goods: other boom-areas include prescription drugs, technology and even baby food, with the results often putting consumers in harm's way.

Although no time scale for these new measures is yet in place, domestic enforcement units in the US are envisioned to swell from 13 to 18, while federal prosecutors will visit embassies in Hungary and Hong Kong to lend support in what Ashcroft promises to be 'the most aggressive, most ambitious, most far-reaching law enforcement effort ever undertaken to protect intellectual property.'

### FORTHCOMING EVENTS

Jan 22–26 ABA/IPL Midwinter Meeting, (Section Leadership Only) Miami, Florida

Jan 26–29 AIPLA Mid-Winter Institute, Jacksonville, Florida

Jan 30–Feb 2 ACPC Winter Meeting, Turnberry Isle Resort Aventura, Florida

Feb 3–4 (FORPIQ) The International Intellectual Property Forum, Quebec, Fairmont Tremblant, Mont-Tremblant

Mar 3–4 Asia Pacific Forum – INTA, Singapore

Mar 6–8 The Helsinki Symposium – The Enforcement of Intellectual Property Rights, Helsinki, Finland

Mar 6–10 IPI-CONFEX 2005 – IP Institute, Marbella, Spain

Mar 21–22 PTMG Conference, Munich

## Property genetics

Member states of WIPO intensified efforts to protect traditional knowledge, folklore and genetic resources on 1–5 November 2004, by drafting up provisions outlining policy objectives and core principles for their protection. Stopping short of committing to a full international treaty, chair and WIPO deputy director general Francis Gurry said the talks nevertheless 'served as a springboard for a concentrated, focused debate on the appropriate content of international protection of traditional knowledge and traditional cultural expressions.'

On this schedule, WIPO hopes there will be some form of internationally agreed action on traditional knowledge, folklore and genetic resources in the next three–four years.

### THE BRANDING OF BRANDO

The estate of Marlon Brando has rushed to stem exploitation of the late actor's image. A diverse list of potential products – including kimonos, license plates and key chains – has been filed with the US Patent and Trademark Office, mainly for precautionary purposes. Co-executor Mike Medavoy said: 'The last thing I'm going to do is cheapen Marlon. You want some sort of blanket protection against anyone doing something that steals his image and puts it on a napkin.'

### BEERY BRANDS GO TO EUROPE'S HEAD

For more than a century, two companies have been fighting over the marketing rights to the brand name 'Budweiser'. The dispute between US brewery Anheuser-Busch and Czech rival Budejovicky Budvar again came to a head on 16 November 2004 when the European Court of Justice ruled that it was 'for the national court to examine whether the consumers targeted are likely to interpret the sign, as it is used by Budvar, as designating the undertaking from which the goods originate, and, thus, as serving to distinguish the goods in question.'

The case was referred back from the European Court of Justice to the Finnish courts, which had originally been unable to rule on Anheuser-Busch's claim that customers in the territory could confuse its own 'Budweiser' trademark with Budvar's use of the name, which is derived from its place of origin. Budvar registered Budvar and Budweiser Budvar as trademarks in Finland in the 1960s and 1970s, but they were struck off the register in 1984 for lack of use. Anheuser-Busch then registered the 'Budweiser' trademark in Finland in the mid-1980s. Both breweries must have been hoping that the European Court of Justice would finally rule on the dispute; in addition to Finland, the rivals are currently battling it out in the courts of more than 40 countries.

# The web and the future



With CPA Inprotech – release 3.0, CPA Software Solutions sets a new standard for user-friendly attorney software. This innovative generation of modules grew out of our research into the needs of our clients, as **Stephen Butler**, from CPA Software Solutions, explains to Emma Jones

## What part does the web play in modern IP software solutions?

The web has become an invaluable tool for IP legal firms whether they work on a national or international basis. There are three general areas where web-based software can help IP firms. Firstly, it provides attorneys with an easy and inexpensive method of reaching their clients and accessing information. Secondly, it allows integration between multiple sources of information, such as documents, accounts and databases, which can all be brought together on the web. And finally, as ever more people become familiar with the browser, the hypertext page and the web page, incorporating their functionality into the working life of a law firm actually lowers training costs and encourages the use of technology in a way that handles information in a more effective way.

## How is CPA looking to help firms through its new web-based modules?

Our aim is not to redevelop Window-based modules in a web environment but to gradually build on existing systems, beginning where the need is greatest. As a result of a well-designed robust data model, our web modules work in conjunction with our core client server modules, enabling them to be run simultaneously – they are extensions to the database, not re-creations.

## How did the new look CPA Inprotech come about?

When we decided to upgrade CPA Inprotech, we looked into the method in which our clients used the system. We discovered that the functionality needed by our clients very much depended on their role within the firm. It therefore made little sense to stick to one ‘data-focused’

system to be used by attorney, clients and clerical staff alike, and so we chose instead to develop a more people-focused approach to our software, developing modules tailored to each job role.

## How does the new Professional WorkBench Module work?

IP professionals have long had their computer needs neglected. With the new Professional WorkBench Module the software has finally been put in place to assist their work. It facilitates the role of IP professionals by providing a single entry point for all their case and contact information, whether they are working at the office or off-site.

Work can be easily monitored in a calendar format and placed in order of priority for quick review of either forthcoming or completed work, whether over the previous 24 hours, week or month. There is a built-in ‘to do’ list to remind users of what stage their projects are at, and instructions can be passed to the docketing/records department.

*“Our aim was to facilitate the role of IP professionals by tailoring the capabilities of web-based software to suit their needs. The result was CPA Inprotech, a software solution that harnesses the full potential of the Internet.” Stephen Butler, Managing Director*

The key to the system is the user interface. We have presented the system in a clear visual format in which information is presented quickly, but with easy-to-use functions for drilling down for more data. There is also a quick search facility for simple queries, an advanced search for more detailed enquiries and a reporting function.

Integration is crucial. As the WorkBench modules work ‘in context’, all information is accessible without jumping between systems. Letters, billing and debt details are available as required, and websites are accessed at the click of a button.

## How will the Client WorkBench Module serve our clients’ needs?

Client WorkBench builds on the CPA’s Web Access Module to enhance the sharing of information between attorneys and their clients. While there are already web-based modules in the market place, allowing clients to access their case information via the Internet, we have taken that a step further. With our people-focused approach, we cater for all professionals involved in a client business, allowing them to review billing, receive reminders, send instructions and make their own reports within the system. And, as the module is hosted on the Internet, there’s no set-up required on individual workstations meaning that the front office, the back office and the client are all

linked into one system by their relevant interfaces. In the not-too-distant future, we believe information will be able to flow seamlessly and electronically on a secure, cost effective, web-based module.

For more information on CPA Inprotech 3.0, please contact Elodie Guillon at [eguillon@cpaglobal.com](mailto:eguillon@cpaglobal.com)

# ASP software: a new level of support

Not all companies have the necessary IT budget or infrastructure to implement IP software in house. That's why we have launched CPA Memotech ASP, a web-hosted software solution for companies without the resources to install and maintain CPA Memotech 2004 in-house

Working in the world of IP, you know that it is important to set up the correct management software for your company. But what if you don't have the budget or IT infrastructure needed to run and control an in-house system? Application Service Providers (ASPs), or hosted solutions, provide the answer by offering you the functions of a fully integrated system without the initial setup costs or maintenance requirements.

## What is an ASP?

One of the most rapidly growing areas of the software industry, ASPs are comprehensive software and support services that deliver state-of-the-art management systems directly to you via the Internet. You don't need to worry about managing the system, purchasing or updating software, or storing and recovering data. This is all maintained by the hosting provider, freeing up your in-house staff to concentrate on current operations instead.

## How will ASP software benefit my company?

The benefits are extensive, especially for small and medium-sized companies who are unable to allocate large chunks of their budget to purchasing and maintaining software. ASPs offer security, software and database management as well as infrastructure and expertise, and they also take care of tasks that would normally be performed by an IT department: managing application data storage, performing software upgrades, monitoring system security, and providing product support.

## Does CPA Software Solutions provide any ASP software?

At CPA we are always seeking innovative ways to help clients, which is why we have created an ASP solution to add to our range of products. CPA Memotech ASP runs as a hosted version of CPA Memotech 2004, our leading web-based IP management software solution for corporations. Incorporating all the advantages of ASP software, CPA Memotech ASP has been designed to handle all the infrastructure of CPA Memotech out-of-house. And to bring you the best possible ASP solution, we have partnered with leading web hosting services provider, IBM, to ensure the security of your data.

## What do I need to use CPA Memotech ASP?

All that is needed to access CPA Memotech ASP is a high-speed Internet connection and a web browser. You simply connect to the

### BENEFITS INCLUDE:

- **Speedy deployment** CPA Memotech ASP needs no software or hardware installation and can be up and running within days;
- **Easy budgeting** With no initial IT investment in software or hardware, payment is based on a monthly rental fee, so you can easily forecast how much you are going to spend. The fees are straight-forward and easy to calculate and start at 1,000 euros per month for five users;
- **Secure storage** CPA Software Solutions guarantees the security and confidentiality of all data; all traffic is SSL encrypted. You can also choose to run the software on a standard private network (VPN) or use your company's private network;
- **Flexibility** Clients can manage their IP matters at any time, from any Internet connection;
- **Version control** Software is always the latest version. CPA Software Solutions will automatically install software and law updates (patents and trademarks);
- **Hassle-free maintenance** CPA Software Solutions maintains the infrastructure and provides software support, taking the pressure off your IT staff; and
- **A trusted host** CPA Memotech ASP is offered in association with leading web service hosting provider, IBM.



### IN-HOUSE LICENSE OR HOSTED: WHICH PRODUCT IS BETTER FOR MY COMPANY?

It depends on your requirements. If you are looking for a turnkey solution to manage your IP and do not require tight integration with existing applications or system software, then CPA Memotech ASP is ideal. If you need a highly configurable system for multiple divisions, integration with back office and other enterprise applications, and administrative tools for large roll-outs, then CPA Memotech 2004 will best meet your needs.

hosted site for secure access to information, to update records and to perform business-to-business transactions from wherever you are working. And with no initial IT investment in software, and payment based on a monthly rental fee, it makes the ideal low-cost entry into IP management software.

For more information on CPA Memotech ASP, please contact Elodie Guillon at [eguillon@cpaglobal.com](mailto:eguillon@cpaglobal.com)

# Under one roof



All too often CPA is thought of only for its patent and trademark renewals service. However, **Helen Boydell**, trademark marketing manager at CPA, explains how CPA's portfolio of products and services unite as one integrated solution

In a competitive environment, your company's intellectual property (IP) portfolio should prove itself to be a valuable business asset and a measure of business innovation. However, managing and extracting the maximum value from your IP rights (IPR) can often be a complex and taxing process. That's why CPA has developed comprehensive IP solutions under one roof by defining the four key pillars integral to the IP management process: maintaining, protecting, managing and unlocking the potential of IPR

*"CPA is the standard. It is respected in the marketplace. It is simple – if your client files and registers IP and maintains it – you renew with CPA. I would say that CPA is the accepted IP renewals standard"*  
*Attorney firm*

## 1. MAINTAIN YOUR IPR

You may not be aware that CPA has a huge commitment to processing design renewals in addition to maintaining trademark registrations and patents. To ensure that these rights are renewed on time, our renewals service is supported by regional Client Service Departments with comprehensive procedures to ensure faster and lower risk processing. We take the renewal of IPR seriously. It is for this reason that we have a Data Migration Team to work with new clients to ensure the transfer of valuable IP data onto CPA's secure internal system.

As the renewals provider with the broadest global presence, CPA has built up relationships with key agents worldwide, which ensures that we renew your IPR in the most efficient and effective way.

Formalities are a key part of our trademark renewals service. Asking CPA to prepare and send for signature Powers of Attorney means we can reduce administration for our clients, and we can also manage all legalisation requirements. Even in those jurisdictions which request a more substantive declaration, CPA will provide the appropriate documents – such as Affidavits of Use for the USA – in advance of renewal. This leaves you with the time to focus on other aspects of owning and exploiting your IPR.

## 2. PROTECT YOUR IPR

The number of trademark registrations is vast. According to WIPO's latest figures, there were over one million new trademark registrations in 2000 and over 21,000 international trademark registrations in 2003. With the increasing popularity of international registration,

as more countries join the Madrid Protocol, it is becoming more complex for you to ensure that you are searching your trademarks comprehensively in all the right countries. Furthermore, some Trademark Registries only provide very limited search services before a trademark is registered. CPA believes that thorough searching before embarking on a costly product launch is the first essential step in a sensible trademark strategy. CPA provides searching services in all jurisdictions outside the UK.

It is important you are aware of any potentially conflicting trademark application filed by a third party as soon as it is published, so that timely opposition to any such application may be filed. This is especially the case in those jurisdictions where the onus for halting the registration of conflicting trademarks falls on the trademark owner. This happens when a Trademark Registry only examines trademark applications on absolute grounds (ie is the mark capable of functioning as a trademark?) and not on relative grounds (ie is there a conflict with other rights?). In such a case, marks can be registered that are identical to existing registered trademarks. Developments in trademark law such as the accession of the US and OHIM to the Madrid Protocol, and even the launch of the CTM in 1996, have also served to increase watch requirements.

CPA's watching service provided by Trade Marks Directory Service (TMDS), part of the CPA group, can help you to protect your mark's distinctiveness from third-party incursion. Based on a combination of technology and human



skills, TMDS watches trademarks and designs in nearly 200 countries, and translates and transliterates every language in the trademark world. We are proud to offer a highly experienced team of 26 in-house linguists who watch the Registers, detecting potentially conflicting trademarks that are often missed by a more heavily automated service. We recommend that watch services are set up for key marks – whether registered or not – that incorporate all registrable elements including colour, sounds and smells as well as 3D trademarks and designs.

“TMDS is great and one of CPA's biggest strengths.”

*Corporate*

### 3. MANAGE YOUR IPR

CPA provides software suites to cater for both companies and IP attorney firms – CPA Memotech 2004 and CPA Inprotech respectively. CPA Memotech 2004 is a fully web-based application available for in-house installation and also available as a hosted service for companies with limited IP infrastructure. It can be easily deployed to your entire company and allows you to manage small and large portfolios of IPR including dealing with licensing and agreements, cost tracking, invention submission and patent committee management, as well as software and IP law updates.

CPA Inprotech is a full IP and practice management software solution for IP attorney firms. Attorneys all over the world rely on this service to docket, manage and update thousands of IP rights for their clients. It leaves you free to focus

“We are building an IP practice so we will be relying on CPA Inprotech's rich functionality – the WorkBench Module which creates different work flows is wonderful.” *Attorney firm*

on filing, prosecution and IP litigation activities.

We know that clients find it helpful to access the information we hold about their IP portfolio on-line. That's why we've continued to invest in CPA Direct. It enables you to access immediately all the patent, design and trademark data CPA holds about your account, run budget and portfolio reports, and submit instructions and queries on-line. These features help you to manage your costs, and enable forward planning and effective portfolio management.

In the fast moving world of the Internet, it is important that you register all your major marks, as well as confusingly similar marks as domain names. In addition to helping you to register, CPA is also able to transfer your names, and create portfolio reports using CPA Domarque, our web-based portfolio management tool. Once you transfer to us

“CPA Domarque is exceptional. It was the main reason we chose CPA for an IP service provider.”

*Corporate*

or register your domain names with us, we are able to process renewals on your behalf. Experts are also available to help you to search, watch and audit your names on an ongoing basis, and to handle any issues you may have.

### 4. UNLOCK THE POTENTIAL OF YOUR IPR

Today's businesses are increasingly becoming aware of the importance of their intellectual assets. The challenge is in identifying, understanding and improving these assets. According to *Harvard Business Review*, it is estimated that US companies waste \$1 trillion dollars in patent assets every year.

While many major Patent Offices have put an enormous amount of data on-line, their systems are only suited to searches on an individual basis for an individual invention, rather than for any statistical examination. CPA's patent analytics service, however, allows you to audit your patent portfolios and to compare them with key competitors. Not only does it display search results graphically in the form of a report, but our IP experts also study the trends and patterns and highlight how the data could help you gain competitive advantage. Demand for this service has really taken off as clients welcome the various methods CPA uses to interrogate patent data, such as backward and forward citation analysis, and find the consultative commercial approach the perfect way to define a company's market value in terms of the IPR they own.

“CPA's service just keeps getting better.” *Corporate*

All quotes are taken from a global survey in 2004 of CPA's clients.

# The scent of change

Like a rose, a perfume by any other name should smell as sweet. But following a Dutch court ruling in July 2004, selling a cheap imitation under another name now constitutes a copyright violation. **David Bainbridge** looks at the different ways a smell can be protected, and asks what copyright protection can offer a scent that taking out a trademark or a patent currently cannot

Scents have traditionally lingered in the grey area of intellectual property law, their production secrets guarded under lock and key rather than legally protected, but a ruling by the Dutch Court of Appeals in July 2004 looks set to change all that. By granting French-based Lancôme a copyright on its perfume Trésor, it has opened the door on a debate which is dividing the IP industry: should smells be protected and, if so, by which type of legislation?

The Lancôme victory hinged on one main argument: its perfume Trésor was created thanks to author expertise and judgment, and as a result, was comparable to a creative composition of literature or art. The Dutch Court of Appeals agreed, finding the scent to be a distinct combination of ingredients 'not only measurable by the senses but also, in the court's judgment, concrete and stable enough to be considered an "authored work" as intended in copyright law'.

The claim isn't as far-fetched as it may first sound. As Charles Gielen of law firm NautaDutilh which represented Lancôme showed, Trésor is produced via a sophisticated design process of 26 specifically chosen components. In copying 24 of these (and by not claiming to have done anything but imitate the scent), Female Treasure by the small Dutch maker of cut-price perfumes, Kecofa, was found to have infringed Lancôme's copyright and the company forced to reimburse loss of earning.

## Trading on a smell

Up until the Dutch Court ruling, manufacturers were offered little support for the protection of their perfumes.

Trademark law could protect the name or design of the product, but the fragrance itself remained a far more difficult concept to bottle. Some countries, such as China, even go so far as to prohibit the registration of scents in their trademark legislation; while even countries that accept the validity of 'olfactory marks' (trademarks specific to smells), such as the US and the UK, seem yet to completely overcome the complexities of such applications.

The difficulty rests on a simple requirement of trademark registration; in order to register a mark, it must be capable of graphic representation if it is to be comparable enough to prosecute against infringement. Therein lies the problem: how exactly do you graphically recreate a smell well enough to trademark and protect it?

Applicants have tried a variety of means to represent the scent they wish to safeguard. By far the most popular method is to describe the smell in words. It was in this manner that the very first olfactory mark – a sewing thread and embroidery yarn with the scent of 'a high impact, fresh floral fragrance reminiscent of Plumeria blossoms' – was registered in the US in 1990. It was later cancelled in 1997 for failing to file an Affidavit of Use.

Two similar applications were successful in the UK: the first for 'a floral fragrance/smell reminiscent of





roses as applied to tyres', and the second for 'the strong smell of bitter beer applied to flights for darts'. A Community olfactory mark was also registered in the EU as 'the smell of fresh cut grass' for use with tennis balls, but, more often than not, such applications fail.

The example of Ralph Sieckmann's application to the German Patent Office (to trademark 'the smell, aroma or essence of cinnamon' to be used with furniture) goes some way to illustrate why. He attempted to register his mark by submitting the findings of a gas chromatograph (the equipment that separates vapour into its individual components) and by using 'electronic nose' technology (a method that provides a visual image of an odour) to indicate the smell graphically. Such representation looked infallible on paper, yet his appeal was refused. When questioned as to why, the European Court of Justice ruled that although a trademark could be granted to something that is not visible providing it can be represented graphically 'by means of images, lines or characters', this requirement was not necessary satisfied by a chemical formula, by a description in written words, by a scent sample or by a combination of all these elements. In other words, there exists no acknowledged method of graphically representing a smell in trademark terms.

With such ambiguity, it comes as no surprise to find trademark protection patchy to say the least.

### Is there a patent alternative?

For many, taking out a patent would be a more appropriate way to protect perfume (not least because patents grant exclusive rights for 20 years, compared with the right against copying given by a copyright, which can last for well over 70 years). But patenting a scent is itself fraught with difficulty.

Patent law enables the chemical composition of a perfume to be protected as an 'invention', but the reality of determining the novelty of a smell is about as difficult as the challenge of graphically representing it. After all, how can a chocolate manufacturer apply for a patent for its chocolate flavouring when the taste and smell of chocolate have been employed for centuries? Will cheese producers patenting the 'aroma' of their traditional blue find themselves running up against other producers whose aroma is considered an innovative improvement of the original? And, if a vineyard is able to patent the 'nose' of its wine, how soon will it be before applicants attempt to patent the flavour of a brew of tea, the crunch of a specific brand of biscuits, or the sensation of pressing a particular button on a particular remote control?

Of those patents for scented products which have been granted, all rest upon the novelty of the product with the smell recorded almost as an afterthought. In September 2004, for example, the UK Patent Office approved the application of a 'scent emitting alarm clock', but the smell had little to do with the patent granted; it was instead the technology that emitted the smell that the patent promised to protect.

### Is copyrighting the answer?

Although patents can in theory protect the chemical composition of a 'novel' smell, they are not able to safeguard the ingredients of a scent already in existence – which, by its very prior

existence, cannot be considered an innovation in patent terms. This is where copyright law has both its advantages and disadvantages. In awarding copyright to Trésor, the Dutch Court focused on the recipe (and proof of design), rather than the smell itself. As such, any manufacturer who is able to prove the development and individual recipe of its marketed smell (both new and old) has a chance of being awarded its copyright. The benefits of such a system, however, fall short when you consider the complexities involved in maintaining the value of the copyright. For any prosecution against infringement to hold up in court, there must, therefore, be some proof that the defendant copied (directly or indirectly) the recipe and production method of the smell. Any producer who can substantiate independent creation of the same scent could escape infringement in a way that would be impossible were the scent trademarked or patented.

Advances in smell technology, however, look set to plug the gap. By scientifically describing how odour-sensing proteins in the nose translate specific tastes and smells into information in the brain (for which he was awarded a Nobel Prize in October 2004), futurist Thomas Frey from the DaVinci Institute has wafted the door for taste and smell patents ajar. Now with a potential method for manufacturers to represent the smell and taste of their products, the patent and trademark world may soon be forced to follow the scent of change. Until this new technology comes into play, however, the best any perfume manufacturer aiming to shield its IPR from the noses of cut-price imitators can hope for, is copyright protection.

*David Bainbridge is Professor of Business Law at Aston Business School in the UK and editor in chief of the Intellectual Property Law Reports. Charles Gielen of NautaDutilh was awarded Best Contribution to Copyright Practice 2004 for his work on the Lancôme case at the World Leaders European IP Awards 2004*

# Technology for hire



Patenting your products isn't just about protecting them from the plagiarism of competitors. They are also valuable business assets, which can be sold or hired for profit, as **Rob Berman** of Acacia Technologies Group explains to Vincent Powell

Increasingly, technology companies are discovering a new worth in their IP rights (IPR). In a sector where innovation is the key and advances are occurring rapidly, patent licensing has gradually emerged as a profit-generating asset that until now has been significantly undervalued and under-priced.

For those yet to encounter its potential, patent licensing is the practice by which companies share their lucrative patents with others in return for a handsome licensing fee or access to rival technologies. Such arrangements can be a highly successful way of raising revenue and of generating profits, and it is a system that has proved especially attractive to companies with patents in the technology sector.

## A model license

One company that has begun to exploit its IPR through patent licensing is the California-based Acacia Technologies Group. It is the holder of key patents for 'streaming media', the practice by which video or audio files are 'broken' into smaller blocks for quick transmission over the Internet, cable, satellite and other wireless systems, and then reassembled for viewing or listening.

The business potential of such IPR is impressive to say the least, and with corporate business, cable TV, e-learning and adult entertainment companies all knocking on the door for licensing opportunities, it should come as no surprise to discover that Acacia licenses its digital DMT (Digital Media Transmission) technologies to media and electronics companies for a healthy sum.

But it's not as simple as it may first sound, says Rob Berman, executive vice president and general counsel at Acacia.

'In order to protect our patents and the profits we could – and should – be making from them, a large part of our job is spent educating the industry that we hold the patent rights for such technology,' he tells me. 'As a result, we employ a team of researchers who are charged with monitoring and searching for infringing activity.'

It's an approach to IP watching that seems to be paying off. In February 2004, Acacia signed a licensing agreement with Walt Disney, allowing them to use Acacia's video-streaming technology. This was followed by similar agreements with Playboy and Bloomberg, and 25 cable TV companies, 12 of whom signed up in August 2004 alone.

## An aggressive strategy?

Such agreements come as a result of a licensing strategy that critics have accused of being overly aggressive. But Berman insists that Acacia takes a fair approach to the licensing out of its technology. 'We license our products industry-wide at reasonable rates. And yes, we do actively identify and contact companies who we feel are infringing our IPR, but we try to enter into a licensing agreement with them without litigation. Of the 178 DMT licensing agreements we've entered into, only 25% of those agreements were as a result of litigation.'

If talks do not result in satisfactory licensing agreements, however, Acacia do not shy away from bringing litigation to recoup what they feel they are owed. In late 2005, US courts are due to make their final decisions in the lawsuits brought by Acacia against five of the largest cable and satellite TV operators in the US – Charter Communications

## GETTING STARTED

### 1. What should I license?

Do you want to hold onto your core IP technology to ensure a competitive edge? If so, aim to license your non-core IPR instead.

### 2. How aggressive should I be?

Each licensing approach is different depending on whether you are approaching from an infringement or a commercial perspective. Speak to your patent attorney about the best steps in each case.

### 3. How much money can I make?

Determining the value of your patent depends on a range of factors: granted or pending rights, the number of patents you own, the scope of the first independent claim and technology disclosure, prior art and inventive step. Get legal advice on its value before you approach a potential licensee.

### 4. How can I keep my licenses secret?

By setting up a Non-disclosure Agreement with your potential licensee before negotiations start, you can ensure any deals are kept under their hat, whether they are signed or not.

### 5. How much should I give away?

Ask your legal expert for advice on exclusivity and non-exclusivity issues.

Inc, Comcast Corp, Cox Communications Inc, DirecTV Group Inc, and EchoStar Communications Corp. Acacia claim the patents for the media transmission software used by each of these companies, and, according to the *Los Angeles Times*, should Acacia be successful, the royalties they will be owed could total more than US\$100 million per year.

## A lesson to be learned

As patent licensing becomes a more common (and acceptable) method to make revenue from IPR, the approach of Acacia may well prove justified.

'Patent licensing has been building for some time,' observed Berman 'and it is still a growing market. Companies like IBM, AT&T, and Texas Instruments have been making billions of dollars licensing their technologies for years. It is time for even the smallest of inventors and companies to catch onto the trend.'

# RISING TO THE CHALLENGE

The UK Trade Marks Registry, part of the Patent Office, recently introduced the biggest changes in trademark dispute procedures in the last 50 years. What are the changes, how did they come about, and what will their effect be? **Keven Bader** explains

There were a number of factors which required the UK Trade Marks Registry to streamline the procedures used to oppose registration applications. The first was a need, as a result of the Department of Trade & Industry's Innovation Review, to speed up and make easier the enforcement of IP rights (IPR) in the UK; the second was the need to reduce litigation costs; and the third was that users of the system asked for changes which would give an early indication of the likely outcome of any opposition proceedings.

## Who will be involved?

In order to meet these needs, the Patent County Court will be given jurisdiction over trademark matters, and trademark attorneys will be given rights of audience. These measures will come into effect in spring 2005 and will mean that attorneys will be able to handle a wide range of business on behalf of their clients rather than instruct solicitors and counsel to act on their behalf. However, central to the objectives, and already now in place, is the revised opposition procedure.

## What is the revised opposition procedure?

When opposing an application for registration a would-be opponent must now state, up front: what use they have made of any earlier protected right on which the opposition is based (if that earlier protected right has been registered for five years or more before publication of the opposed mark); and must, if challenged, provide proof of that use at the evidence stage.

This means that the opposition and any decision stemming from it will reflect the actual position in the marketplace because it will be assessed on actual use

rather than on the old 'notional and fair use' test. Disputes are only likely to arise, therefore, when there is clearly a threat to the trademark as it is being used.

In addition, a single cooling-off period is provided. Where the parties agree to try and negotiate, there will be up to 12 months for them to do so. If however, the proceedings are joined then the Trade Marks Registry will give a preliminary indication of the likely outcome of any opposition based upon section 5(1) and (2) of the Trade Marks Act 1994, which accounts for 80% of all trademark oppositions. A Principal Hearing Officer will give a preliminary view without evidence needing to be filed.

If the preliminary view is undesirable to a party but they accept it, the matter need go no further. However, if that party does not accept the preliminary view, they have one month to notify the Trade Marks Registry that they wish to go to the evidential rounds.

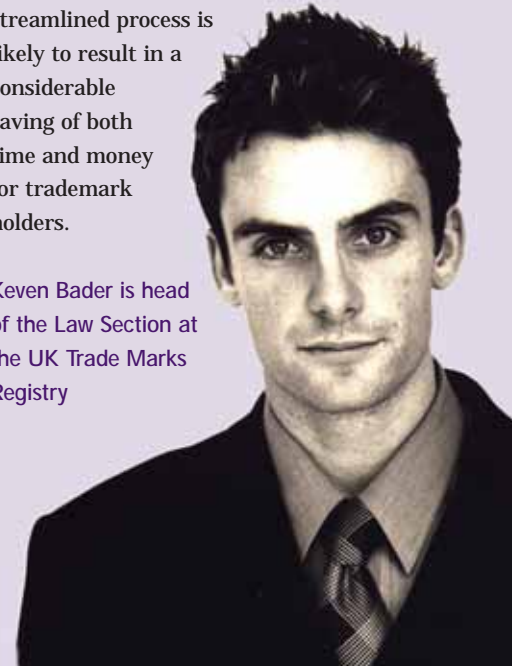
The procedure also caters for partial success where both parties are given the option to proceed to the evidential rounds. The three-month period for each side to file evidence will then be set in the usual way. There is no appeal at this stage of the proceedings.

## Have the changes been effective?

The aim of these changes is to speed up and reduce the costs to industry and commerce of trademark disputes.

Although it is too early yet to say what effect these changes have had, rough figures suggest that 25% of all preliminary indications are being accepted by the parties, bringing the disputes to an end at this point. How this figure will change over the coming months and years we will have to wait and see, but this new streamlined process is likely to result in a considerable saving of both time and money for trademark holders.

Keven Bader is head of the Law Section at the UK Trade Marks Registry



## THE NEW PROCESS STEP BY STEP

1. Opponent files against a trademark application with a statement of use (if applicable)
2. A cooling off period of up to 12 months is available for parties to negotiate
3. Applicant files a counterstatement and a request for the opponent to provide use (if applicable)
4. The UK Trade Marks Registry issues a preliminary indication if grounds exist on 5(1) and 5(2) of the Trade Marks Act 1994
5. If their findings are not accepted, the unsuccessful party can request to proceed to the evidence rounds
6. The opponent submits evidence and proof of use (if applicable) (three months)
7. The applicant provides evidence in support of its application (three months)
8. The opponent submits evidence in reply (three months)
9. Case reviewed
10. Hearing (if requested)
11. Decision issued
12. If relevant, appeal filed

# The IP guide to...

## THE PEOPLE'S REPUBLIC OF CHINA

The growth of intellectual property infringement in the People's Republic of China has paralleled the growth of its national economy and access to international markets. As its legal system develops, its IPR enforcement efforts look set to improve, says **Vincent Powell**, but there is still some way to go

The People's Republic of China boasts one of the oldest and most innovative cultures in the world. It invented paper money, printing, gunpowder and the mariner's compass, and spawned some of the most legendary empires the world has ever seen. But modern China isn't content to rest on this illustrious history; it is growing into a powerful market force, and one that requires an equally potent IP strategy if it is to fulfill its potential.

China began work on its IP rights (IPR) protection system at a comparatively late date. Its first piece of IP legislation wasn't passed until 1982 when the first Trademark Law started the ball rolling. The country's first Patent Law (1984), Copyright Law (1990) and Law Against Unfair Competition (1993) – all since updated – followed soon after, as well as the accession of China into major international IP treaties such as TRIPS (the World Trade Organization's Agreement on Trade-Related Aspects of Intellectual Property).

These attempts by China to bring its IPR legislation in line with the world's major industrial countries are being credited for the mushroom growth in patent applications in China over the last 20 years. Firstly, international companies, sensing the importance of China as an economic power, started to increase their patent rights protection in the country. Domestic companies slowly followed suit with, in 2003, the number of invention patent applications filed by Chinese companies surpassing those filed by

foreign companies in China for the first time: 56,769 invention patent applications filed by Chinese companies compared to 48,549 by foreign applicants. In the past four years alone, a million patent applications have been lodged, the same amount as had been lodged in the previous 15 years.

### Protecting your IPR

Foreign applicants who don't reside or have business premises in China must appoint an agency approved by the Chinese government to act as an agent before both the Chinese Patent Office (PTO) and the Chinese Trademark Office (TMO) with a first-to-file principle for registration.



### AT A GLANCE... NATIONAL LEGISLATION

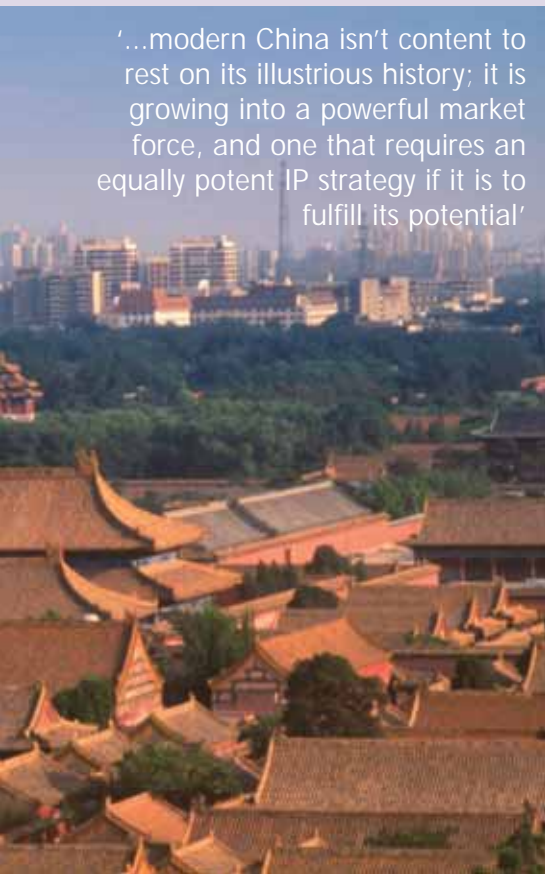
#### CURRENT IP LAWS IN FORCE IN THE PEOPLE'S REPUBLIC OF CHINA:

The Patent Law of 2001 protects the rights of inventions for up to 20 years and the rights of utility models and designs for up to 10 years from the date of filing. Failure to pay the annual fee will result in the cancellation of the patent right.

Under the Trademark Law of 2001, trademarks are valid for 10 years from the date of approval. Registered marks can be renewed within six months prior to the expiry period with a grace period of six months after the expiration of the trademark. Each renewal is valid for a subsequent 10 years.

The Copyright Law of 2001 grants protection to the author of written, oral, music, dance, art and architectural, photographic, cinematographic, graphic, computer software and other works. The right applies for 50 years after the death of the author (in the case of a private right) or the first publication of the work (in the case of a right registered by a company).

The Law Against Unfair Competition of 1993 (also known as the 'Antimonopoly Law') deals with trade secrets and was conceived to protect fair competition, repress unfair competition acts, and defend the lawful rights and interests of business operators and consumers.



'...modern China isn't content to rest on its illustrious history; it is growing into a powerful market force, and one that requires an equally potent IP strategy if it is to fulfill its potential'

But registering your patents and trademarks is only the beginning of the story. China's system of patent applications and IPR protection is still in its infancy and unable to keep pace with the country's booming manufacturing industries. The legislation may be in place, but IPR enforcement remains inconsistent and inefficient, much to the chagrin of foreign applicants who see little return from their attempts at enforcement.

China also lags far behind other industrial countries when it comes to registering its products worldwide. Fewer than a thousand patent applications were filed by Chinese residents with WIPO by the end of 2004, compared to 44,609 by US residents and 13,531 by Japanese residents.

## INTERNATIONAL AGREEMENTS

The People's Republic of China has signed up to the following treaties:

The Berne Convention for the Protection of Literary and Artistic Works

The World Trade Organization Agreement on Trade-Related Aspects of Intellectual Property (TRIPS)

Trademark Law Treaty

Rome Convention for the Protection of Performers, Producers of Photograms and Broadcasting Organizations

WIPO Copyright Treaty

WIPO Performances and Phonograms Treaty

### Enforcement actions

The State Administration for Industry and Commerce (SAIC) is responsible for enforcing China's Trademark Law and the Law Against Unfair Competition Law, while the Patent Administration Office enforces the Patent Law, and the State Copyright Administration enforces the Copyright Law. However, given China's vast geography and population, it's a huge task for central government to police activities throughout the entire country and, like the US, China instead enforces its IP laws at a local level, having established special courts in major cities since 1992 to adjudicate disputes.

Dedicating such bodies to IP enforcement, however, is only the beginning of the battle against IP infringement. Due largely to ambiguities in the law and difficulties in enforcement, IPR enforcement in China is notoriously unpredictable, thus making litigation a risky and expensive response to IP violations. As Bradley Yu, from China Unitalen (one of China's biggest patent and trademark agencies), told me: 'damages are hard to calculate and compensation is always low, while the burden of proof for the plaintiff is relatively high. Almost no IP infringers are imprisoned, and most small-scale

counterfeiters often escape with low fines that are not easily collected. Even when large fines are levied they are rarely collected. The court system is too poorly funded with a shortage of adequately trained judges, while the resources of the police, prosecutors, and relevant administrative agencies are insufficient and unsupported. This makes any stringent and controlled enforcement unfeasible under arrangements as they currently stand.'

The problem now facing China is to translate its improved legal framework into a controlled environment at the local level. As Yu reports: 'this can only be evolved by improving the professional capabilities of the police, prosecutors, courts and administrative agencies and by strengthening their ability to work together efficiently.'

### Set to improve

With domestic and international pressure driving China to improve its IPR enforcement, the future is starting to look better for IPR holders. Already market factors and recent court decisions are suggesting improvement, and in September 2004, China committed itself to cracking down on violations by the end of 2005. This included promises to increase penalties for IP rights' violations and enforce criminal penalties for on-line piracy and the import, export, storage and distribution of counterfeit products.

Until these promises are translated into real changes in IP protection, however, IPR holders must be prepared to invest resources to control the production of counterfeit versions of their products in China, or avoid losing their profits to the counterfeiting industry, at least in the short term.

*Vincent Powell is a freelance journalist and the author of The Legal Companion*

# GRIDLOCK IN EUROPE

Almost eight years in the making, the Computer Implemented Invention Directive (CIID), also known as the EU Software Patent Directive, is still steeped in controversy. **Edward Fennell** explains

The sad history of the Computer Implemented Invention Directive (CIID) is an object lesson in what happens when technology advances faster than the law – and the confusion that ensues when legislators make clumsy attempts to catch up.

By the end of November 2004, the situation was as confused as it has ever been. The draft CIID, on the point of going before the European Parliament, had been held back for further work. So what's new? This is just the latest delay in a long saga of amendment and counter-amendment between Parliament and the Council of Ministers.

## An uncertain history

The story dates back to 1997 with the first moves by the European Commission to address the EU's need for a common legal understanding on the patentability of computer-implemented inventions (including, for example, computer program-related inventions, intelligent household appliances, engine control devices and machine tools). Although the European Patent Office had been issuing patents for software for many years there was wide inconsistency and many complained that the rights of patent holders were largely unenforceable.

The Commission had begun to focus on the issue in the mid-1990s, but it wasn't until September 2003 that a draft Directive was presented to Parliament. During the subsequent parliamentary discussions, a series of amendments was incorporated which had the effect of narrowing the scope for patentability, even for inventions outside the field of software. The result was increasingly uncertain wording that proved deeply unsatisfactory to the Council of Ministers.

## Ideological conflict

The irony is that what had started as a long-overdue process of smoothing out inconsistencies had turned into a conflict between the interests of large corporations (wanting protection for the inventions that come out of their major R&D investments); and those who want, almost literally, a 'free-for-all' so that such software cannot be patented at all. This latter group has banded together as the 'Open Source' movement – a movement which has proved to be an effective lobbying operation.

There has also been concern voiced within the European Parliament by MEPs such as Daniel Cohn-Bendit, Co-president of the Greens/EFA, who argues that extending patentability to cover further computer-implemented inventions – in the way preferred by the Council of Ministers – will pave the way for 'the control of the EU's economy by a small number of multinationals' – which is, of course, a thinly disguised reference to US interests who register by far the greatest number of patents in this field.

'The Open Source movement has tried to derail the whole concept of the Directive. In my view their fears are unfounded. Patent protection won't stop people from innovating. In the US patents are easily available but that is not stopping innovation. In fact, it's the opposite. The proposed Directive – as an attempt to harmonise patent law in Europe in the field of software – is better than having a situation in which laws differ country by country.'

**Christopher Thornham from international law firm Taylor Wessing**

## Recent developments

During the course of the past year, the draft has been passed and re-passed between the Council of Ministers and Parliament. Perhaps the point of greatest farce came when, following a decision in May 2004 by the European Trade Ministers to reinstate many of

the original Commission proposals rejected by the Parliament, the Lower House of the Dutch Parliament instructed the Minister of Economic Affairs, Laurens-Jan Brinkhorst, to change the government's vote from support to abstention. A number of other countries started to waver at this point as well.

By autumn the Directive was still stuck in this dilemma – only deeper. Despite the Dutch move, the Directive was due to return to the European Parliament for a second reading. However, in the last week of September 2004, according to UK law firm Masons, the EU's Competitiveness Council dropped consideration of the draft from its agenda on the grounds that a fresh look was needed at the translation. Then in mid-November 2004, following a cabinet meeting, the Polish government declared that 'it could not support the text that was agreed upon by the EU Council on 18 May 2004'. As a result, due to the shortfall in the necessary votes, it became impossible for the EU Council to adopt the proposal as its common position.

So when the Directive will now go to Parliament, in what form and with what outcome, is, at the time of writing, anyone's guess. A patent demonstration of European gridlock at its worst.

*Edward Fennell has regularly contributed to The London Times' law pages since 1987*



# The Disposable Nappy

(Patent No. US3180335)

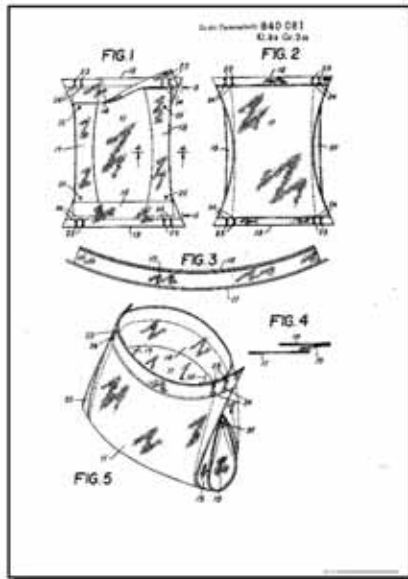
The disposable nappy transformed the infant care industry, but like many designs before it, the first prototype was almost mocked out of existence. Vincent Powell charts the history of an invention that has become an essential accessory for parents and now sells over 45 billion units worldwide

Ask nine out of ten parents in the childcare aisle of a modern supermarket, who invented the disposable nappy (or diaper), and chances are, they will give the same answer: Pampers? But although it was Pampers-producer Procter & Gamble who patented the modern nappy – launching it to the world with great aplomb in 1961

– the original designer was, in fact, Marion Donovan, a mother from Fort Wayne, Indiana.

When Donovan first picked up the challenge in 1946, the cloth nappy, made of heavy fabric that needed to be secured with safety pins, had already been in mass production since the late 1800s. Its drawbacks were obvious to any mother of the time: it wasn't waterproof and was burdensome to wash and dry between use.

Deciding to take action, Donovan set about designing a waterproof version that could not only reduce leakage but also be mass-produced. The result was a waterproof nappy known as the 'boater', which was launched to instant success in New York's Saks Fifth Avenue store in 1949. Fashioned by Donovan out of a series of cut-up shower curtains, shaped into plastic 'envelopes', and stuffed with absorbent paper, the reusable leak-proof diaper took its name from one exciting innovation: it helped babies to 'stay afloat' by reducing leakage.

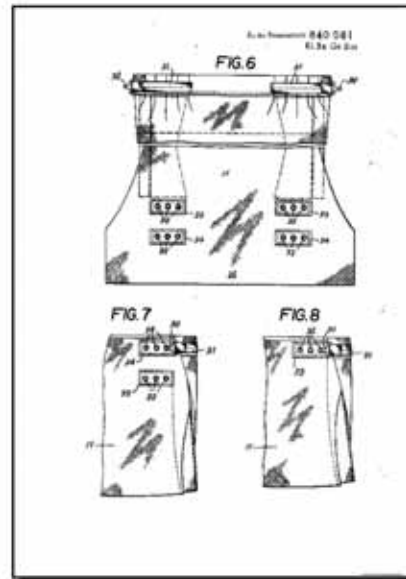


Marion Donovan fashioned her waterproof nappy out of a series of shower curtains. The resulting designs, shown above, were patented in 1951.

However, it wasn't all plain sailing. Her attempt at a completely 'disposable' paper nappy (rather than a waterproof one which needed washing) was laughed out of offices throughout New York. Choosing to drop the design and concentrate on her original waterproof product instead, Donovan patented and mass-produced the 'boater' in 1951 – later selling both the company and the patent to the children's clothing manufacturer Keko Corporation for US\$1 million.

It was another 10 years before Vic Mills of Procter & Gamble picked up Donovan's (unpatented) disposable paper design and developed it into the first fully-disposable nappy.

Once their improvements were patented, the company launched the affordable modern disposable nappy in 1961, later releasing it to an international audience in the early 1970s.



Today's disposable nappies – tailored for age, shaped for boys or girls, easy to affix, super-absorbent, leakproof and comfortable thanks to elastic leg holes and waists – are a far cry from Procter & Gamble's early designs: back then the nappies were thick and unwieldy, were only 90% leak-proof, and needed to be secured

by strong sticky tape if they were to work (the lateral fastenings were added much later in the 1970s). Competition between Procter & Gamble and Kimberley-Clark (the producers of Huggies), however, ensured numerous innovations, as manufacturers sought to improve on their nappy designs and reduce their pricing almost as soon as they had hit the supermarket shelf.

But cloth nappies have also come a long way since the original squares with safety pins. Cost issues and environmental awareness have taken their toll on nappy sales with many new parents and environmental campaigning bodies currently promoting a switch back to cotton from disposable nappies, which cannot be recycled. Disposable producers, however, are already rising to meet the challenge, and with the first biodegradable versions already in our shops, it looks as if a new revolution for the disposable diaper is on its way.

Vincent Powell is a freelance journalist and author of *The Legal Companion*



# Thailand

## – a counterfeiter's paradise?

Wherever tourist markets open up, a trade in fakes is sure to follow. **Vicky Bamforth** spends a morning walking around Bangkok's notorious Patpong market, and asks what its trade in counterfeit goods says about the Kingdom of Thailand's intellectual property laws and problems with enforcement

A tourist buying a look-alike Louis Vuitton purse from a young girl on a market stall in the infamous Patpong market may think this is part of the freewheeling atmosphere of the country. Like elsewhere, however, street traders are working with criminal networks to take advantage of Thailand's good production capacity, and export-oriented economy.

The problem is not limited to consumer goods and digital media. Fake engine parts and pharmaceuticals are a major – and potentially life-threatening – problem. One medical study, conducted at Bangkok's Mahidol University, which evaluated samples of the anti-malarial Artesunate, discovered up to 11% of the drug distributed in Thailand contained no active ingredient at all.

According to Peter Holmshaw, of Orion Investigations, a Bangkok-based commercial investigation firm, some infringers, particularly those involved in producing counterfeit optical discs and pharmaceutical products may also be involved in prostitution, human trafficking and counterfeiting travel documents. The volume of IP piracy is staggering. Orion Investigations conducts raids every day, totaling an average of 200 a year, and is just one of a

number of investigators and attorney firms dealing with piracy. According to figures released in June 2004, Thai authorities had seized 732 million baht's worth of counterfeit goods under the Copyright Act, equivalent to over US\$18 million, in the previous 12 months. Experts estimate this constitutes about 15% of the trade overall.

### Enforcement efforts

Thailand's IP legal regime is robust and complies with its obligations under the World Trade Organization Agreement on Trade-Related Aspects of Intellectual Property (TRIPS). With an active Intellectual Property Division located in the Ministry of Commerce, and an IP Court that dealt with 4,000 trademark and copyright cases in the year ending June 2004, there are opportunities for seeking redress within the Kingdom.

Rights' owners can pursue civil actions against counterfeiters but they rarely do. They have to prove lost sales, which is difficult in a country where so much of their market share has been diluted. Moreover, Thai law does not require business operators to register as companies to run a business, so civil actions fail to seize counterfeiters' assets.



The 1994 Copyright Act, now under amendment, views infringement as a crime against a person, while the 2000 amended Trademark Act sees infringement as a crime against the State, which has a duty to protect consumers from being fooled into buying substandard goods. This means that under section 66 of the Copyright Act, rights' owners can settle criminal cases before reaching court, while in trademark cases, they cannot. 'Taking action against a low-level infringer is like taking a sledgehammer to a street-trader, in the view of the courts, who often feel for the young and likely impoverished offender,' says Edward Kelly, director of the IP Division at Bangkok-based attorney firm Tilleke & Gibbins. However, the continual presence of street traders in tourist areas also erroneously gives an impression the government is lax in its attitude to infringement.



Politically, the climate has come a long way since 2000, when a raid on the then Prime Minister's Bangkok residence uncovered 80 fake CDs belonging to his driver. Police and customs officials are now empowered to take ex-officio action and government departments are

working more closely together. According to Fabrice Mattei, an IP attorney with international IP consultancy Rouse & Co, this has led to a very substantial improvement in enforcement over the last two years. When Rouse & Co first investigated shops in the coastal resort of

Phuket, they discovered 113 outlets selling counterfeit Quicksilver-branded diving equipment. With local and national government support, at last count this had been reduced to very few.

Since September 2003, Thai customs officials have raided consignments routinely, making an average of 10–12 seizures a month. 'In the last nine months,' comments Fabrice Mattei, 'for some of our clients, customs have seized as much as they did in the last nine years'.

#### WHAT RIGHTS' OWNERS CAN DO

1. Conduct active anti-counterfeiting campaigns, as infringers target rights' owners who do not.
2. Work closely with Thai-based attorneys and investigators who have strong links with government departments and enforcement agencies.
3. Don't limit enforcement program to Bangkok, many cities such as Hat Yai and Nong Khai are also paradises for infringers.
4. Target counterfeiters individually as well as in coalitions, as such individual campaigns often prove themselves to be more successful than coalition actions.
5. Conduct brand-awareness campaigns to increase local respect for IPR.
6. Dispose of counterfeit goods carefully. One company who burned counterfeit goods on a Thai beach received bad publicity as a result.
7. Lobby for effective measures with the US and Japanese governments who are pressing for strong anti-counterfeiting measures during current trade negotiations with the Thai government.

#### More action needed

Nevertheless, successful raids do not always catch the mastermind of the operation, and corruption is still a problem. When attorneys at Tilleke & Gibbins recently raided a shopping mall near Bangkok International Airport, they assembled a team of almost 100 police officers, investigators and attorneys. Yet the first attempt was abandoned at the last minute, after

## Thailand – a counterfeiter's paradise?

police yielded to pressure from the mall's owner, a powerful military official. 'We took the case to the Minister of Commerce,' said Edward Kelly, 'and he got involved. When the raid finally went ahead, we discovered 12,000 cases of counterfeit Shiseido and L'Oreal products and 27 sellers pleaded guilty to trademark offences.'

Trying to prevent landlords from leasing premises to counterfeiters has been unsuccessful. At Panthip Plaza, Bangkok's largest computer shopping mall, outlets ignore prominently displayed anti-counterfeiting notices, offering thousands of fake software CDs for sale. Competition between outlets is so intense that sales scouts linger near the entrance, touting newcomers for business. 'The law needs to be changed to make landlords liable,' admits Edward Kelly. 'Punishments need to be more severe. Repeat offenders or owners of large counterfeiting operations should receive jail sentences, as they do in Singapore and Hong Kong.'

Convicted counterfeiters can expect fines of US\$2,000 for first timers and up to US\$20,000 for repeat offenders. This is minute compared to profits. In one case that Peter Holmshaw investigated, a group of university students were discovered selling optical discs containing counterfeit software, games, movies, and music over the Internet. They were buying blank CDs for five baht and selling them for 250 baht each, making a profit of over 73,000 baht a day, equivalent to an annual turnover of nearly US\$700,000.

Other attorneys believe that harsher penalties would send operations across Thai borders into Cambodia, Laos and Burma. This is happening already. In the Burmese border market of Tachilek, thousands of DVDs are offered for sale to day-trippers.



Many local consumers view IPR as a western concept they cannot afford. Few Thai consumers can buy a US\$40 football shirt on earnings of US\$50 dollars a month. Poverty is not always the main issue though. An estimated 80% of Thai-based public and overseas companies, who could afford genuine software, choose counterfeit. 'Some Western companies have been very aggressive about enforcement,' says Fabrice Mattei. 'Rights' owners now need to focus on making people more receptive to IPR, rather than taking criminal action against them.'

state should be involved by leading criminal cases, but in other areas too, it seems that IP judges are taking a different stand. In the IP courts there is increasingly a need to show counterfeiters had criminal intentions by informing them they are conducting a crime, before taking criminal enforcement action, in the light of the low level of awareness of IP in Thailand. There is also debate about section 66 of the Copyright Act, since in a bizarre twist, counterfeit rights' owners have 'raided' infringers and used fake Powers of Attorney to extort money.

### In 2000, a raid on the then Prime Minister's Bangkok residence uncovered 80 fake CDs

Thai judges are beginning to agree. 'Many prefer rights' owners to take civil rather than criminal actions,' admits Fabrice Mattei, 'since they feel it is not the state's role to enforce IPR'. In civil actions the rights' owner prosecutes the infringer although the government facilitates the process by providing a court and judge. Rights' owners could argue that counterfeiting is such a huge problem the

With infringement still an overwhelming problem, it is important rights' owners take appropriate action to ensure the strengthened political will is not undermined through lack of resources and legal overkill.

*Vicky Bamforth is the former editor of IP Review. She is currently based in Chiang Mai, Thailand*

# World Fairs

The Great Exhibition of 1851

**Through their desire to encourage intellectual, mechanical, artistic and social advancement, World Fairs have proved themselves to be the perfect showcase for new inventions. Vicky Bamforth kicks off our new series with a look at the Great Exhibition of 1851**

## What was the Great Exhibition?

The 'Great Exhibition of the Works of Industry of all Nations' was the first World Fair. It was conceived as an international showcase for industry and the arts, and to reflect its grandiose importance, it was housed in a gigantic glasshouse dubbed The Crystal Palace, which enclosed 26 acres of Hyde Park in London, between May and October 1851.

## It was for the ruling classes then?

Fear of the mob meant that for the first weeks at least, the Crystal Palace was, according to *The London Times*, 'in the hands of the wealthy and the gently and nobly born'. Thereafter, the entrance fee was reduced from three guineas a day to one shilling and over six million were allowed in, providing they left their dogs at the door.

## What did it showcase?

The exhibition was an endorsement of nineteenth-century free trade, and to encourage foreign exhibits, the Crystal Palace was transformed into a duty-free bonded warehouse, while the 1850 Design Act was amended to prevent the theft of exhibitors' ideas. History books describe the fabulous Indian Koh-i-Noor diamond acquired by Queen Victoria, while noteworthy inventions included a sewing machine and the world's first set of false teeth. Less well received was the tilting bed alarm clock, which deposited its slumbering occupants onto the floor.

## Did it have a lasting impact?

The Exhibition's profits were used to build industrial and design museums and institutes in London, including the Science Museum, Imperial College, and the Victoria & Albert. The development of modern marketing, PR, mass tourism, and the invention of picture postcards are also attributed to the exhibition. Its success has inspired more than 50 World Fairs and national show-and-tells designed to showcase the best in arts and industry.

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Please return your questionnaire before 10 February 2005 to be eligible for this great prize. The lucky winner of last issue's draw, a portable DVD player, was Mr Andrew Sadovski of Intels Agency, Russia.

**1. Which articles do you find the most useful and interesting in this issue of *IP Review*? Please rate your top four in order of preference.**

- Thailand – a counterfeiter's paradise?
- The IP Guide to... the People's Republic of China
- Eyeing up the options
- The scent of change
- Gridlock in Europe
- Rising to the challenge
- The web and the future
- ASP software
- Under one roof
- Patents that changed the world
- IP Conversation
- Lighter side: Trade Secrets

**2. Which of the following topics would you be interested in attending a seminar on at INTA 2005?**

(please choose more than one)

- Patents
- Trademarks
- Asset Management
- Domain names
- Software
- Other (please specify)

**3. Which CPA products and services would you like to learn more about?**

- Patent renewals
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# Eyeing up the options

BP, Nestlé and Vodafone are among a growing number of companies placing ownership of their trademarks and global brands into offshore holding companies in low tax jurisdictions. For some, the attraction is in greater tax efficiency, for others, the benefit is in exercising central control over licenses and global brands. Three experts examine the advantages and disadvantages of such arrangements



## WHAT IS THE TAX WORTH?

Mark Engelman looks at the tax worth of placing ownership of IP into offshore

holding companies, and examines how the Inland Revenue is viewing this new trend

There is serious contention growing over the attempt by multinationals to reduce their tax liability through the transfer and licensing back of brand portfolios. Many multinationals have already sought to take advantage of the opportunities posed by the recognition by the Inland Revenue of IP as balance sheet assets. In the UK, for example, the commonly adopted scheme permits a company with an existing trademark portfolio to transfer its trademarks to another offshore company generally located in a jurisdiction in which the receipt of royalties does not trigger tax. The countries of choice presently appear to be Switzerland or the Netherlands.

### An advantageous rate of tax

The initial transfer of those rights is a transaction which represents a capital gain to the company for corporation tax purposes. Generally, however, UK companies through normal tax planning would ensure that the timing of the gain coincides with a coincident tax loss which is offsettable against it. Once transferred offshore, the brand portfolio is then

licensed back to the UK corporate which is then permitted to deduct those royalty payments against corporation tax, potentially for ever. To the corporate group as a whole, the transfer, in effect, reduces the rate at which it pays corporation tax from the UK rate to that applicable in the offshore country.

The Inland Revenue can choose to investigate the company for conducting the transaction between related parties, which is almost universally the case. They might claim that the transfer was not conducted at arm's length, or was not really of a commercial nature and therefore falls within the anti-avoidance rules. It can also argue that the original transfer valuation (which the UK corporate would wish to maintain at as low a level as possible) or the level of royalty charged to the licensee company, are not correct.

### Has a transfer of IP taken place?

However, the real issue may well turn upon the legal effect of the transfers themselves. It has been a long established principle of trademark law that the goodwill in a business cannot be transferred without a transfer of the other assets of the business. For practical reasons, it is unlikely that the transfers of trademarks executed in pursuit of these tax benefits involve anything more than the paper transfer of registered and unregistered trademark rights.

While the registered trademarks can easily be assigned without any negative consequence because of the impact of TRIPS (the World Trade Organisation's Agreement on Trade-Related Aspects of Intellectual Property) – which permits transfer of those marks with or without goodwill – the goodwill associated with the business of the company is unlikely to follow those registered trademarks, unless all of the other business assets go with it. The most important effect of this is that it may allow the Revenue to argue that no real transfer of IP has taken place, thus negating the very purpose of the transfer, thus assisting the Revenue in proving that the transaction is merely a sham.

### Litigation on the horizon

Therefore, unless the transfer has been effected with a transfer of the business assets of the company, which of itself involves both other tax, legal and administrative consequences, the transfer might well not meet its designed effect of tax reduction.

It is very likely that we will begin to see more litigation arising because of the pressure placed upon the Inland Revenue to recover government revenue by challenging the rights of multinationals to take taxable assets out of jurisdiction.

Mark Engelman is a specialist IP counsel at 7 New Square. He was previously head of IP at The Body Shop



## HOW TO MAKE THE MOST OF YOUR LICENSES

Michael Bilewycz weighs up the advantages and disadvantages of putting your trademarks in an offshore holding company from a licensing perspective

In an effort to avoid or reduce corporate taxation, many businesses are placing ownership of their trademark portfolios in offshore holding companies in low tax jurisdictions, and licensing them onto sister companies or third parties. In many cases this will also generate additional income by way of royalties, which in turn are tax deductible in many jurisdictions.

### Delegating the burdens

When setting up a third-party license, the holding company will be able to pass on all the responsibility for providing the product or service to the licensee. This also means that the licensee will be accountable for any set-up tasks in the country concerned (which will also involve the necessary investment), as well as the risk and responsibility of employment and product liability.

Care must also be taken to ensure that quality control provisions are

included within the license agreements to enable the owner to safeguard the trademark being licensed. This could include provisions to inspect the manufacturing of the article, or in the case of services, watch over their provision. Without such provisions, there is a real danger that the association between the owner and mark licensed may be broken, leaving the licensee in de facto possession of the property, and the registration invalid.

### Choosing the correct license

If the proprietor is a holding company, which does not intend to trade in the territory concerned, then if only one licensee is to be appointed, setting up an exclusive license also brings its own benefits. In many territories, such a license enables the proprietor to insert provisions into the license agreement, whereby the licensee may be given the same rights and remedies as if the license had been an assignment, including the right to bring infringement proceedings in the licensee's own name. However, this will exclude the licensor from using the mark itself, or appointing another licensee in that territory, at least during the lifetime of the license.

A non-exclusive license, on the other hand, will enable the proprietor to continue to produce and sell its own products, provide its own services, or appoint another licensee as it sees fit. This may well be appropriate, for example, if the first licensee does not meet the proprietor's requirements or is unable to meet unanticipated extra demand for the products produced.

### Where the system can fall short

Such complex licensing systems, however, require constant administration and review. The enforcement of licenses against licensees also presents its own problems, including those of jurisdiction and applicable law. In many companies such as Shell, entire departments exist to administer and enforce the licensing structure. This may well be a cost effective exercise since they have the resources to do this, but this structure may not be suitable for all companies. Essentially it comes down to what is the most cost-effective strategy to adopt; smaller companies may well find such an arrangement too burdensome.

Michael Bilewycz is the director of Markforce Associates Ltd

**“Essentially it comes down to what is the most cost-effective strategy to adopt; smaller companies may well find such an arrangement too burdensome.”**



## HOW TO MANAGE YOUR BRANDS

Jan Lindemann asks what offshore holding companies can do to help build stronger brands

In most economies around the world, brand management has become a key driver of corporate value. Brands influence the choices made by customers, employees, investors and government authorities, and according to the annual survey of *Business Week/Interbrand* on the world's leading global brands, can account for between 30% and 70% of stock market value. Given this figure, it is not surprising that companies are searching to ensure optimal management of their brands, and many are doing so by creating dedicated holding companies for their management.

### A positive input

Such holding companies – and the royalties paid by their subsidiaries – reflect the economic importance of brands as assets. The holding companies become accountable for the use of the brand and, therefore, need to provide value-added marketing services to justify the charge for brand royalty. Subsidiary companies, meanwhile, feel the need to apply the brand more wisely and efficiently to warrant the price they are paying for its use. As a result, brand management is converted from a cost centre into an accountable profit centre that receives royalties from subsidiaries. These royalties are then reinvested into global brand management initiatives, creating a positive cycle of brand return and brand investment.

### Joint responsibility

A central brand management function also offers a more effective means of maintaining the legal rights of a brand. Registration and renewal of trademark registrations, policing, prosecuting infringement and passing-off actions can be better co-ordinated and carried out consistently by a brand holding company, rather than being left to the

interests or abilities of a subsidiary companies' management.

That is not to say, however, that brand management becomes the sole responsibility of the brand holding company. Both the company and its subsidiaries need to manage and invest in the brand, but with such a set up, these tasks can be split. Global marketing initiatives and investments (such as the design and management of the brand's global positioning, identity guidelines, trademark protection, brand extensions, licensing, and global advertising campaigns or sponsorships) becoming the key responsibility of the brand holding company; and local marketing initiatives (such as regional advertising, channel marketing, promotions, and local sponsorships) carried out by the local subsidiary instead. These different brand management tasks are then reflected in the royalty arrangement.

### A valuable contribution

Through central control, brand holding companies can make a valuable contribution to the management of global brands by creating consistent development of the brand asset, financed by the fair returns that the management of the global brand brings to the shareholder value of the company.

### Disadvantages

Putting the ownership of the brand into a separate holding company is not without risks. The relationship and reporting structure between brand holding, group and subsidiary needs to be arranged in a way that ensures optimal operational use of the brands by the subsidiaries. There needs to be clear control and feedback procedures that ensure that all parties feel ownership of the brand. Otherwise the structure can become restrictive and turn operating companies away from properly using the brand asset.

Jan Lindemann is global marketing director, brand valuation at global branding consultants, Interbrand



## Should you move your IP offshore?

Our experts propose four key questions you should be asking yourself before you opt to place your IP into offshore holding companies

### Tax

- Does the tax structure of your jurisdiction allow you to move your brands into tax-free offshore holding companies? Are these laws looking to change?
- What tax (federal, state/province/region, and local) obligations must be accounted for in the country where the offshore company is based? How will they be managed and accounted?
- If tax obligations apply, who will pay them?
- What effect will placing your trademarks offshore have on the goodwill associated with the business of your company?

### Licenses

- Is the Licensee able to deliver the quality required both in the product (or service) and in related matters (such as marketing the products, distribution within the market, and sales support)?
- Does that Licensee act for a competitor? Can you be sure that sensitive information will not flow from your company to theirs?
- How will you express the quality control provisions within the licence, and how extensive or detailed will they be?
- What degree of exclusivity (if any) will be given to the licensee? What powers will the licensee be given by the licence (such as the power to litigate, and the choice of marketing/advertising agency)?

### Brand management

- What sort of management and reporting structure would you like to put in place to manage your brand?
- How much of your marketing strategy would you like to be run from a global perspective?
- What part or parts of your brand management and IP are you happy to place under the control of the offshore third party?
- Will any important business knowledge be lost through an outsourcing arrangement?

When it came to trade secrets, Willy Wonka played hardball. Convinced that his employees were handing over his recipes to the competition, the chocolate-factory owner in Roald Dahl's *Charlie and the Chocolate Factory* fired the entire workforce and replaced them with the Oompa Loompas, a mysterious race from a far-off land who never left the factory, and who were the only ones he would trust with such crucial secrets as the recipe for the Everlasting Gobstopper.

# Trade secrets

Some companies go to great lengths to protect their trade secrets, but as **Richard Brass** points out, sometimes the true value of a secret can be found in just having one

Colonel Harland Sanders cooked up the first batch of KFC's unique blend of 11 herbs and spices on the floor of his backyard porch, but today the list of ingredients is kept in another bank

TV broadcasters in Europe and the US against NDS, which is News Corporation's British-based maker of the smart cards that decode encrypted pay TV signals.

It was a drastic step, but not as extreme as some of the methods that have been used in the past to keep trade secrets out of the hands of the competition.

In ancient China, revealing the secrets of silk production or smuggling silkworms out of the country was punishable by death, an effective sanction which delayed the first manufacture of silk in the West by a good 2,000 years. The same disincentive was applied to Venetian glassmakers who, even if they had no intention of spilling the beans, were still all locked up on the island of Murano, turning out millefiori and the like without risk of competition.

To the chagrin of some IP specialists, doling out the death penalty is not an option for most of today's corporations, so they need to be a little more creative in protecting their secrets. Coca-Cola leads the way. It keeps the recipe for its world-conquering drink locked away in a bank vault in Atlanta, Georgia, accessible to only two people who are never permitted to travel together, in case they are both killed in an accident, or kidnapped by Pepsi and the formula that taught the world to sing is lost forever.

vault, this time in Louisville, Kentucky. The blend itself is mixed in two different batches at separate locations and combined at a third, keeping rival chicken-fryers guessing. And just in case any employee at either of these banks is tempted to slip down to the vault with a digital camera during their coffee break, the Economic Espionage Act is in place to do what the Chinese and Venetians preferred to do more full-bloodedly.

The US National Counterintelligence Agency estimates that US business loses around US\$50 billion a year through economic espionage. In recent years big companies whose employees have been prosecuted for stealing trade secrets have included Gillette, Deloitte & Touche, Bristol-Myers, Harvard Medical School and Boeing. The growth area is the high-tech sector; it is so broad-based and fast-moving that getting hold of somebody else's innovation can bring substantial reward before anyone notices it's gone. Lawsuits alleging theft of trade secrets have recently been brought by Apple against a former contractor, Jose Lopez, by British mobile phone maker Sendo against Microsoft, and by dozens of pay

TV broadcasters in Europe and the US against NDS, which is News Corporation's British-based maker of the smart cards that decode encrypted pay TV signals. But in most sectors the real value of a secret lies in saying you've got one. For marketing purposes, being able to put 'secret' on the packaging is far more important than actually having one. And if a dogged spy did somehow get hold of that top-secret formula for Coca-Cola and start churning out a copy, it would still only be a copy. Likewise, the KFC recipe could be salt, pepper and tomato sauce for all the difference it would make when an imitator came up against a deeply entrenched global brand with a vast marketing budget and all the lawyers it could poke a drumstick at.

As for Willy Wonka, he could have found a more effective way to protect his secrets. Employing a staff of illegal immigrants, imprisoning them in the factory, and making them work in conditions that wouldn't stand up to the slightest legal challenge is one route, of course, but hiring a decent IP lawyer and taking out a few patents would have been a whole lot simpler.

*Richard Brass is a columnist for The London Times. He writes on business issues for The Daily Telegraph and was a former editor of Punch*

