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Strategies for Developing Intellectual Property Portfolios in the Global Environment: Protection of Intellectual Property in Hostile Environments

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Strategies For Developing Intellectual Property Portfolios In The Global Environment: Protection Of Intellectual Property In Hostile Environments

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I. INTRODUCTION

Intellectual property (IP) is becoming one of the most important aspects of business and trade in the global environment. In many indus-

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tries, entering the global market without an IP portfolio may be a difficult or impossible undertaking.

This Article addresses general issues to consider in establishing a strategy for developing an IP portfolio in the global environment and adjustments to that strategy required by the kind of protection available in hostile environments. A detailed study of national IP laws is beyond the scope of this Article. However, we will identify deficiencies in IP protection in hostile environments and develop adjustments to the global strategy for these environments.

II. DECIDING WHAT TO PROTECT AND HOW TO PROTECT IT

A. *Types Of Protection*

The most important forms of intellectual property are patents, copyrights, trade secrets, and trademarks. There are other forms of protection, such as mask work protection laws, that are outside the scope of this Article. A brief discussion of each of these follows:

1. Patents

A patent is the grant by a government of a right to prevent others from making, using, or selling the patented subject matter for limited periods of time.³ The subject matter protected includes new, useful, and inventive (nonobvious) processes, machines, or objects of manufacture, and compositions of matter.⁴ In the United States, there are also design and plant patents. Globally, there are different kinds of patents such as utility models, petty patents, and certificates of invention that offer varying and usually weaker protection. Not all countries offer the same degree of patent protection. Hence, patent protection may not always be the most suitable form of protection.

Generally, patent protection must be sought from the competent governmental authority of each country where protection is desired. Treaties facilitate international filing processes and often compel the member countries to provide a certain degree of convention, but even where there is harmonization of patent practices each country issues its own patents according to its own laws.

The most important factor in deciding what inventions to patent is licensing value. Licensing value is determined by the need of others to take a license on a patent. Licensing value is to be contrasted with technical value which is a measure of the success of products embodying the subject invention. Obviously, many inventions possess both licensing value and technical value, but technical value alone should not be the basis for a decision to seek patent protection. In the global con-

³ 35 U.S.C. § 271(a) (1994).

⁴ 35 U.S.C. § 101-03 (1994).

text it is also important to note that licensing value varies from country to country. Thus, the critical inquiry should be: is the invention one that others would want to use? If it is not, any patent thereon would be of questionable value. Other important factors to consider are: (1) achieving a balance of protected technologies; and (2) projecting what new technologies, which may lack present licensing value, will become more valuable as technology and IP laws change.

In determining licensing value one should determine whether: (1) others are likely to encounter the same problem; (2) there are any or many workarounds (i.e., alternative designs that circumvent the need for the patented invention); and (3) the company already holds patents covering the idea.

2. Copyrights

Copyrights protect original works of authorship. A copyright provides its owner the exclusive right to do and authorize the following:

- (1) reproduce the copyrighted work in copies or phonorecords;
- (2) prepare derivative works based on the subject work;
- (3) distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending;
- (4) perform the subject work, in the case of literary, musical dramatic, and choreographic works, pantomimes, and motion pictures and audiovisual works; and
- (5) display the subject work publicly, in the case of literary, musical dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including individual images of a motion picture or other audiovisual work.

Generally, protection arises from the act of creation. As in the case of patents, treaties often provide minimum levels of protection for the member countries.

The Berne Convention eliminates the need for many formalities formerly present in various countries' laws. Thus, although there are still some advantages to early registration of copyrighted works, early global registration is not as critical as in the case of trademarks or patents.

3. Trademarks

Trademark laws protect any word, name, symbol, or device, or any combination thereof used for identifying the trademarked goods or representing their source. In most countries, rights to a trademark arise from registration of the mark. In the United States, rights are acquired by use or filing for registration with a bona fide intent to use. Various bilateral and multilateral treaties provide protection from registration

of well-known marks by third parties, compel minimum standards of protection, and facilitate international registration.

Early selection, clearance, and registration of trademarks is very important. In most cases the trademark should be registered in a country before the subject product is introduced. In selecting a mark it is important to avoid marks that may sound bad or have negative connotations in key market countries.

4. Trade Secrets

Trade secrecy laws provide protection from misappropriation of information that is protected by its owner. These laws prevent persons having access to the protected information from misappropriating the information. The obligation to avoid such misappropriation either arises from contract or from a relationship of trust recognized by law. Many countries do not have trade secrecy laws, and where those laws do exist, reverse engineering is usually a legitimate way to get at the trade secret unless prohibited by contract.

As discussed above, trade secrecy may be most appropriate in cases where patent infringement would be difficult to prove. The decision to rely on trade secrecy versus patents should be made on the basis of what is most appropriate for the most important markets. Once a decision to patent is made, trade secrecy will be precluded by publication.

An interesting application of trade secrets is in the software area where programs are only distributed in machine readable (object code) format. The human-readable (source code) form of the program may be protected by trade secrecy and reverse engineering prohibited by the end user license. Moreover, reverse engineering that requires decompilation of the object code into a human-readable source code copy should be prohibited as copyright infringement. In the European Union (EU) a directive allows decompilation for interoperability purposes, such as where a need arises for another person producing a non-competitive product to interface with the subject software. Such a need should not be present where the necessary interfaces are provided by the owner of the subject software. Owners of software should always be concerned with decompilation of their product because once the decompilation is accomplished for any purpose it is difficult to control the use of the human-readable form for other purposes.

B. Invention Disclosure And Evaluation

The first step in developing an IP portfolio is to identify the subject matter to be protected. This should be done early in the product development process because securing an adequate trademark, and securing the necessary patent protection may be impossible if done too

late.

Thus, it is important to establish a system for the early disclosure and evaluation of innovations to be protected, and how to protect these innovations. Such a system would provide for identification of the subject matter to be protected. The responsibility for disclosing innovative ideas should be on the persons creating or developing the products. Some incentive, such as awards, for disclosure should be provided. The next step is to evaluate the disclosure. This step may require an evaluation committee or identification of an individual responsible for evaluation. Those responsible for evaluation should represent both business and technical areas. It is also necessary to set up a mechanism for identifying a trademark for each product to be marketed globally.

A threshold decision is whether a given aspect of a product should be patented. Alternative forms of protection to consider include trade secrecy and defensive publication. The decision on the type of protection to use should be made with consideration of the technology type, global business, and legal concerns. For example, when infringement of a patent on the subject matter under consideration may not be easy to detect, trade secrecy may be better than a patent. On the other hand, the projected market for the subject product may be in a jurisdiction that does not have a trade secret law or the subject matter of the product may not be inventive or otherwise patentable in that jurisdiction. Thus, selection of the type of IP protection may be controlled by what protection is available in projected markets.

Different aspects of innovations may be protected by different intellectual property laws. For example, the ideas in a computer program may be patentable, whereas the expression is copyright-protected. Therefore, in the case of computer software one could decide to rely on protection of the expression and forego patent protection.

III. DECIDING WHERE TO PROTECT IP RIGHTS

A. In General

Ideally one would want to protect IP rights for every product and in all significant countries. However, budgetary restraints make this a practical impossibility. Patent protection is relatively expensive to obtain and maintain. Obtaining patents in various countries requires hiring local patent professionals and possible translation of the original application. Therefore, some strategy must be developed to deal with the issue of where to seek protection.

As in the case of deciding the original place for seeking patent protection, the most important factor is the licensing value. In deciding additional places to patent, the question becomes—what additional value can be derived? Some companies employ patent portfolio experts to make this decision. Another approach is to use a committee compris-

ing both legal and business expertise. The greatest additional licensing value is generally in the countries where the most significant infringement will be found. However, there are no rules of thumb that are universally applicable to determine where the most significant infringement will be found. Thus, with value as the guiding principle, there are several factors to be considered to reach the ultimate conclusion of where to seek IP protection.

Moreover, a patent owner must decide how to make decisions about patent portfolio selection. Some companies employ patent portfolio experts to decide in which countries to seek patent protection. Another approach is to use a committee comprising legal and business expertise.

B. Competitors/Potential Licensees: Where Do They Manufacture/Where Do They Sell?

There are two fundamental approaches to deciding where to seek patent protection. One approach is to file in countries where the patented product is likely to be made by competitors and the other is to file where the competitive product is to be sold. These approaches are governed to a great degree by the licensing strategy employed by the owner of the patent rights. Some companies prefer to license at the point of manufacture, while others prefer to license at the point of sale. This aspect of licensing strategy varies according to the technology being licensed and the industry. For example, companies in the information technology hardware industry may prefer to license in countries where the competing hardware is manufactured because going after the end user is not generally a good idea. On the other hand, in the software industry competing software can be made or copied practically anywhere, making enforcement more difficult.

C. Economic Issues

1. Economic Factors and Patent Protection

Gross National Product. Perhaps the most important economic factor in selecting countries in which to file patent applications is the gross national product (GNP) of each country considered. A patent is infringed by the unauthorized making, using, or selling of the patented article. Thus, infringing sales are probably most numerous in countries having the greatest GNPs.

Nature of the Market. GNP factor is not by itself conclusive because not all GNPs are equal. An industrialized country having a lower GNP may be a better place to market an expensive or luxury article than a less-developed country having a higher GNP. Therefore, the nature of the market is also important.

Total Revenues. The total revenues forecast from sales of the pat-

ented product in the country, especially by competitors, are yet another important factor in deciding whether to seek patent protection there.

Budgets. There is always a need to consider the value of a patent in a given country weighed against the projected cost of obtaining and maintaining such rights. The value of a patent to a given company will vary from jurisdiction to jurisdiction depending on the protection available.

2. Economic Factors and Trademark Protection

Generally, trademark protection should be sought in at least the same countries as patent protection. Naturally, budgetary restraints may limit the number of countries in which a given trademark is registered, but trademark registration is usually much less expensive than solicitation of patents. Additionally, the unavailability of the global trademark in a country may require selection of a different trademark, resulting in increased costs for advertising to promote the new trademark and possibly for producing new labels or packaging. If those costs are great, it may be preferable to buy the adversely held trademark that is acting as an impediment to local registration of the global mark.

D. *What Are Others Doing?*

It is worthwhile to study where competitors are protecting their IP rights because that may indicate intentions to manufacture in the countries where they are seeking protection, and, hence, the possibility of infringement and cross-licensing could also arise there.

IV. PATENT LICENSING STRATEGY

As we have seen, to a great degree a strategy for developing an IP portfolio in the global environment depends on the licensing strategy of the owner of the IP. There are three major licensing strategies that are commonly used: (1) the “freedom of action” strategy; (2) the “revenue source” strategy; and (3) the “exclusive market” strategy. These strategies are, however, not mutually exclusive. They represent different aspects of the value of a patent portfolio. It is often useful to combine aspects of each to suit a specific situation.

Under the first strategy the licensor seeks patents mainly for their cross-licensing value. Such licensor would apply for many patents in many different technical areas to achieve a massive portfolio that is difficult to analyze by a licensee. Many large companies use this strategy to reduce exposure of their products to adversely held patents. Companies having large numbers of products may want to use this strategy to facilitate the patent clearance process. Royalty income is not the most important factor under this strategy. A danger in adopting this strategy is that there are many individual inventors and small busi-

nesses that hold important patents and who have little or no need for a license under the patents of large enterprises that sell many more products. An example of such a company is Stac Inc., a small company having data compression products and patents covering those products. Stac was recently successful in an infringement case against the larger Microsoft Corporation. Stac's exposure to counterclaims was limited by the specificity of the products it sold.

Under the "revenue source" strategy, the licensor seeks royalties as compensation for the benefit of the licensor's cost of research and development. A licensor using this strategy will select patents for their licensing value to companies that do not do much research and development, and hence have little or no patent portfolios. These patents should have claims specifically directed to the potential licensor's (usually the competence) product and should be scrutinized for validity and enforceability before asserted because the accused party's defense is likely to be invalidity or unenforceability. Those using this strategy prefer to avoid cross-licensing and will be much more willing to take their patent disputes to court. These companies will also tend to select patents on products where infringement is easy to prove.

Under the "exclusive market" strategy, the licensor will not license others under a set of selected patents that cover a key technology area. Such reserved patents will typically cover key aspects of the licensor's product and perhaps some anticipated workarounds. Other patents in the portfolio may be licensed as the circumstances may require. Although this approach may appear at first glance to be an exception to the "licensing value" strategy for selecting inventions to patent, it is not an exception. The licensing value is a criterion for selection of inventions to patent, but actual licensing need not be done to realize the value. In this case the value is realized by profits from sales of the products embodying the reserved patents.

V. STRATEGIES FOR HOSTILE ENVIRONMENTS

The foregoing strategies are generally applicable to all environments. The fundamental strategies for developing a global IP portfolio should be the same worldwide, but some adjustments may be necessary in some places. Strategies for developing IP portfolios in industrialized countries, such as the United States are not necessarily well-suited in hostile environments. We should note at this point that the term hostile is not meant to apply to the whole of the laws of any given country or jurisdiction. Certain laws in any country may be viewed as hostile depending on the particular circumstances. Even certain IP laws in the United States have been perceived as hostile to foreign persons. Examples of these are the pre-NAFTA and GATT version of 35 USC Section 104 and Section 337 of the Tariff Act of 1930. In the case of Section 104, under the first to invent system of U.S. law, acts occurring

outside the United States could not be considered in determining inventorship. Under Section 337 the unavailability of counterclaims and the accelerated procedures were found by a GATT panel to violate the provisions of the GATT. As a result of adherence to the international trade conventions by the U.S., Section 104 and Section 337 have been amended. The following part of this Article will identify deficiencies in protection of IP rights in hostile environments⁵ and will attempt to develop strategies that are specifically applicable in hostile IP environments.

A. Deficiencies In IP Protection In Hostile Environments

1. Deficiencies In Patent Protection

a. Unprotectable subject matter

Many countries have excluded certain subject matter such as pharmaceutical and computer software from patentability by statute or practice.

b. Nonadherence to the Paris Convention

The Paris Convention provides that any person who has filed a patent application in one of the signatory countries shall enjoy, for the purpose of filing in the other member countries, a right of priority.⁶ Thus, persons from member countries have one year, from the date of filing in a member country, to file counterpart applications in other member countries and receive the benefits of the earlier filing date. Some countries⁷ have not signed the Paris Convention and others may not have implemented its provisions. Nonadherence to treaties such as the Paris Convention by a selected country creates some difficulty for persons seeking patent protection there because of the need to file in that country before any events occur that would result in the loss of the right to patent.

c. Unrealistic working requirements

In some countries a patentee who sits on his/her rights, by not making or exploiting the patented product, may be subject to forfeiture

⁵ The identification of deficiencies in IP protection in various foreign countries was based in part on a study done by the U.S. International Trade Commission to prepare a report to the U.S. Trade Representative. *See* U.S. INTERNATIONAL TRADE COMMISSION, REPORT TO THE UNITED STATES TRADE REPRESENTATIVE (Feb. 1988).

⁶ The Patent Cooperation treaty provides a period for filing foreign counterpart applications of 20 months from the priority filing date, under Ch. 1, and 30 months from the priority date, under Ch 2.

⁷ *E.g.*, the Andean Pact countries.

of the patent or to the imposition of a compulsory license to others. These countries are typically developing countries in regions such as Latin America and Southeast Asia. In concept, working requirements are justified as promoting the local industry, but these requirements present difficulties when the working requirements are unrealistic in the activities required of the patentee or in the length of time provided to accomplish the working.

d. Short terms

In most countries the term of a patent is measured from the date of the application. Some countries have patent terms that appear on their faces to be adequate; however, these terms can be effectively reduced by long pendency periods before the patent office or by working requirements that force the patent applicant to delay issuance until the applicant is ready to work the patent, leaving very little time to exploit the patent after issuance. This presents a problem in countries where litigation is highly disfavored because collecting for infringement from the time of publication of the application by the Patent Office is difficult.

e. Undue narrowing of claims

In some countries there are prosecution requirements that result in narrowing of patent claims in a manner not required by the prior act. For example, in countries not permitting means plus function type claims, the Patent Office will typically require that claim elements be expressed in terms of a known component. Unfortunately, in some technologies, such as information technology, there may not exist a name for an element recited as a means in the original application. The use of an alternate term may result in an undue narrowing of the claim.

f. Issuance of patents on minor improvements

In some cases, perhaps most notably in Japan, the Patent Office will issue patents on minor improvements over an already patented invention. The holder of the dominant patent may be forced to enter into a cross-license with the holder of the improvement patent or patents, thus losing much of the value of the dominant patent that constitutes a greater contribution to the art.

g. Remedy/enforcement problems

These problems are set forth below.

2. Deficiencies In Copyright Protection

a. Laws do not protect all traditional and new works

Examples of traditional and new works not protected are: sound recordings, software, and databases. In the case of software the key issue is whether software is protected as a literary work. This is important because the Berne Convention provides certain necessary protection to literary works and the scope of protection available for literary works provides protection against disguised copying that is still substantially similar.

b. Inadequate protection against decompilation of widely distributed software

c. Inadequate exclusive rights

Examples include cable retransmission and public performances.

d. Enforcement problems

These problems are set forth below.

3. Deficiencies In Trademark Protection

a. Scope of protection is too narrow

In some countries the degree of similarity required for infringement is too high for effective protection, and hence some confusingly similar trademarks may be found not to infringe the registered trademark.

b. Difficulty of proof of use for renewal

In countries requiring proof of use for renewal, it may be difficult, as a practical matter, to prove that the trademark sought to be renewed is the same as that actually used.

c. No protection of well-known marks

This deficiency could result in the registration of a well-known mark by another, although prohibited by the Paris Convention.

d. Narrow spectrum of class of protection

Classification of products may lag behind changing technology, causing possible registration of new products under an inapplicable class.

e. Enforcement problems

These problems are set forth below.

4. Deficiencies In Trade Secret Protection

a. No trade secret protection available

In civil law countries where there is no provision in the civil code protecting trade secrets. There is no clear right of trade secrecy.

b. Short time limits on confidentiality

For example, an unreasonably short confidentiality period imposed by law on source code could result in significant losses to copyists.

c. No protection against third parties

An example of this is a case where the holder of a trade secret loses a key employee to a competitor who uses the trade secrets and the trade secret holder is unable to enforce its rights against the competitor.

d. Enforcement problems

These problems are set forth below.

5. Remedy/Enforcement Problems

There are cases where the hostility arises only when it becomes necessary to enforce the IP rights against an infringer. The underlying problems may be the absence of courts competent to handle technology cases or, indeed, absence of counsel competent to handle such cases. In other cases there may be a local bias in the courts or corruption. Other problems encountered relate to remedies and enforcement procedure. These include:

- (1) no preliminary or final injunctive relief;
- (2) lack of seizure and impoundment remedies;
- (3) lack of exclusion of imports;
- (4) lack of compulsory process and/or discovery;
- (5) inadequate civil remedies;
- (6) inadequate criminal penalties; and
- (7) unreasonably slow enforcement process.

B. Adjusting The Global Strategy For Inadequacies In Protection

A natural reaction to the deficiencies in patent protection in hostile environments is to avoid seeking patents in such environments and rely instead on other means of protection such as trade secrets or trade-

marks. However, in most cases that is not the best course to take. The trend toward globalization of trade has caused many countries, long regarded as hostile to protection of IP, to enter into treaties such as GATT and NAFTA that require minimal standards of protection for IP rights. For example, in cases of countries whose laws or practice deny patent protection in certain areas, such as pharmaceutical products and software, the problem may be short-lived because GATT/TRIPs provides that patent protection shall not be denied on the basis of the technology class of the invention to be patented. As the national laws of those countries come into compliance with the minimum requirements, those who obtained patents and other IP rights will benefit.

Before full compliance with the treaties is achieved, one should readjust one's expectations on the value of patents. For example, even in countries where it is difficult to enforce patents there may be value in having patents as part of a bundle of rights transferred in a technology transfer. Moreover, the patent claims can serve to define the technology transfer in a concrete manner. Royalties for use of patents in hostile environments can be accomplished by providing, in the worldwide license agreement, that failure to pay royalties for patents in any of the licensed territories will result in a loss of rights under all licensed patents in all licensed territories. Licensees will comply with royalty obligations in the hostile environments to avoid losing license rights in markets such as North America and western Europe which are valuable to most licensees.

If inadequate protection of IP rights is found in the country where an infringing product is made, one can resort to remedies available in countries where the infringing products are sold. An example is the use of the U.S. Customs Service to prevent the unauthorized importation of articles that infringe U.S. copyrights and trademarks. This protection can be obtained by registering the subject copyrights and trademarks with the U.S. Customs Service. Customs will then police importations for infringing articles. In the case of patents, unlawful importation can be prevented by initiating a proceeding under Section 337 of the Tariff and Trade Act of 1930 before the U.S. International Trade Commission (U.S.I.T.C.). Such proceedings provide a prompt determination of whether the subject articles infringe the asserted IP, and the U.S.I.T.C. has the ability to issue orders preventing the accused importers from importing the infringing articles. The U.S.I.T.C. can also issue general exclusion orders preventing the importation of the subject articles.

In some cases the deficiencies in a country's protection of IP can effectively prevent some companies or individuals from conducting profitable business there. In such situations, the owner of the IP may want to resort to trade remedies provided by its own country. One such

remedy is Section 301 of the Tariff and Trade Act of 1930.⁸

In addition to perfecting one's rights to IP in a given country, it is important to have some mechanism for enforcement of those rights in that country. For example, detection and proof of patent infringement is often difficult and the authorities in some countries are not well-equipped to assist in these endeavors. In the case of patents, this problem is reduced if the inventions selected for local protection are easy to detect and prove. This, in turn, can be accomplished by making patent applications as easy to understand as possible.

VI. CONCLUSION

It is important to remember that many of the countries where intellectual property protection is weak have a past of colonialism, protectionism, and Communism. Strong IP protection has not been a part of those cultures. Thus, a large part of the enforcement effort in the hostile environments is education of the public to promote greater respect for IP rights. There are many vehicles, such as trade organizations, useful for educating the public. Moreover, some of these hostile environments represent important markets to many industries. Therefore, the decision to avoid selling products in those countries is not practical and selling without seeking IP protection may not be worth the effort if copyists can compete without any research and development overhead. Recent trends in IP aspects of international trade agreements are encouraging, and patience with present legal regimes and practices should eventually pay off.

⁸ 19 U.S.C. § 2411 (1994).