# Global Intellectual Property Asset Management Report

*Covering e-commerce, corporate intellectual property management and related licensing*

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# New European Licensing Rules Require Fresh Assessment of Existing and New Intellectual Property Licenses

BY JOHN RATLIFF, THOMAS MUELLER AND AXEL GUTERMUTH
(WILMER CUTLER PICKERING HALE AND DORR LLP)

Many licensors and licensees of patents, know-how and computer software in Europe will need to step up their efforts to ensure that they comply with European competition law under new regulations, which become effective as of May 1, 2004. Companies without significant market power will enjoy greater flexibility than in the past to tailor licenses to their particular needs. But companies which license competitors or which have market power need to review their market position and licenses more carefully and more frequently.

This is a consequence of the completely revised Technology Transfer Block Exemption Regulation (the "Regulation") and new explanatory guidelines (the "Guidelines") that the European Commission published last month.[1]

All licenses must conform to these rules immediately, save existing licenses which comply with the predecessor regulation.[2] These must be brought into compliance by March 31, 2006. The rules apply for the newly enlarged European Union of 25 Member States.[3]

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# IP and Cost-Sharing Agreements—Resolving Tax Issues Involving Intellectual Property

BY DANIEL McSWINEY AND BRIAN BURT
(KPMG)

Few issues in corporate international taxation have received as much attention recently as the ownership of intellectual property ("IP"). Most countries have tax regulations governing the transfer of tangible and intangible property between related entities (e.g., a parent company and its subsidiary). These transfers generally must take place at "arm's length," although the methods for determining an appropriate transfer price vary somewhat from country to country.

The arm's-length standard ensures that the prices paid by related parties are equal to those paid by unrelated parties for the same good or service under the same circumstances.

A cost-sharing agreement ("CSA"), also called a "cost contribution arrangement," may be implemented by a multinational company to simplify

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**The New European Competition Rules for Licensing Agreements**

The new Regulation and Guidelines, which resulted from a lengthy evaluation and public consultation process,[4] replace a markedly different predecessor regulation adopted in 1996.[5] The most important changes include:

- Agreements between competitors can fall within the Regulation's "safe harbor", but under stricter conditions than agreements between non-competitors.
- The availability of the Regulation's "safe harbor" now depends principally on (i) the parties' market shares (combined market share not exceeding 20 percent in any affected product or technology market if the licensor and licensee are competitors, or individual market shares not exceeding 30 percent if the parties are not competitors); and (ii) the absence of "hardcore" restrictions. The old distinctions between "white" (legal), "gray" (probably legal) and "black" (generally illegal) listed clauses are eliminated. Accordingly, to asses how the new Regulation applies, parties will need much more information about relevant product markets than was formerly the case
- The Regulation's scope will extend beyond patent and know-how licenses to include licenses for computer software copyrights. The Regulation will also cover other patent-related rights, such as design rights, utility models and topographies of semi-conductor products.

Many licensing agreements fall outside the Regulation and therefore cannot benefit from the safe-harbor that it creates:

- Licensing agreements between parties that exceed the 20/30 percent market-share thresholds;
- Licensing agreements that contain a serious "hardcore" restriction as defined in the Regulation, including certain forms of allocation of markets or customers, limitation of output, or restrictions on pricing; and
- Licenses among more than two parties, agreements creating technology pools, settlement agreements of patent and other IP disputes and non-assertion agreements.

Agreements that fall outside the Regulation's "safe harbor" are not presumed to be illegal, but

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# USTR and EU Criticize Chile's IPR Protection

BY GONZALO CORDERO (WHITE & CASE, LLP)

On May 1, 2004, the United States Trade Representative (USTR) released the annual "Special 301" report, detailing the adequacy and efficacy of intellectual property (IP) protection in 85 countries. "Special 301," shorthand for Section 182 of the Trade Act of 1974, requires USTR to identify foreign countries that deny adequate and effective protection of IP or deny fair and equitable market access for US products relying on IP protection.

The USTR groups countries investigated under the Special 301 into three categories: "Priority Foreign Countries," "Priority Watch List Countries," and "Watch List Countries." Only the most flagrant offenders are categorized as Priority Foreign Countries. In the 2004 Special 301 Report, only Ukraine was so designated. Fifteen countries were designated Priority Watch List Countries, and 34 countries, on the less egregious 2004 Watch List.

Chile was placed on the Watch List. USTR noted that the U.S.-Chile Free Trade Agreement, entered into force on January 1, 2004, provides high levels of intellectual property protection, which obligate Chile to conform its IP laws and enforcement practices to advanced standards. However, USTR warned that some substantive IPR deficiencies remain, and enforcement continues to be irregular. The report said that copyright piracy is still quite high and has increased slightly in recent years, as digital piracy becomes more prevalent. In addition, USTR expressed its disappointment with the registration of several pharmaceutical products that appear to infringe validly issued Chilean patents.

Marybeth Peters, Register of Copyrights of the U.S. Congress, suggested that Chile should have stricter IP laws and provide adequate resources for their enforcement.

The European Union joined the USTR in criticizing Chile's intellectual property protection. Wolfgang Plasa, the EU Ambassador in Chile, said that the EU had similar problems.

The Chilean government answered these criticisms saying that in late 2003, a bill was sent to Congress to amend the copyright law and implement TRIPS and the U.S.-Chile FTA. Alvaro Diaz, Undersecretary of Economy said that the government is doing its best to improve IPR protection.

According to Diaz, the legal modifications will increase the protection of intellectual property rights by creating new categories, such as geographical denominations; extending the patent protection period to 20 years from the date of the request of the patent; expediting the civil, administrative and criminal procedures to sanction violations of intellectual property regulations. The bills will also change the manner in which the members of the specialized IP Tribunal are designated and will establish mandatory pharmaceutical licenses for cases of catastrophe or sanitary emergency.

**The Chilean government has repeatedly reaffirmed its commitment to IP protection, arguing that it is necessary to improve IP protection to comply with Chile's international obligations under the WTO and other trade agreements.**

**Outlook**

The Chilean government has repeatedly reaffirmed its commitment to IP protection, arguing that it is necessary to improve IP protection to comply with Chile's international obligations under the WTO and other trade agreements. The government also considers more effective IP critical for improving the level of technological development in the country, as the current levels of piracy are a disincentive for technological innovation. ❏

*Gonzalo Cordero (gcordero@whitecase.com) is an Associate with Morales, Noguera, Valdivieso & Besa in Santiago, Chile. He is currently seconded to White & Case, LLP in Washington DC.*

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# Changes to Intellectual Property Law in Luxembourg

BY LINKLATERS

The Law amending the law on copyright, related rights and databases and modifying the legal status of patents was passed by the *Chambre des Députés* on March 18 and published in the *Mémorial* on April 29. This law aims to implement the copyright and related rights directive (2001/29/EC) and to comply with a decision of the European Court of Justice (March 6, 2003) stating that the obligation for "*mandataires agréés*" (professional representatives) to have their domicile in the territory of the Grand Duchy of Luxembourg must be removed

The Law now complies with the copyright and related rights directive with regard to: the distribution right; broadcasters' exclusive related rights; the duration of the rights of phonogram producers; legal protection for technological protection measures and technical systems of information; protection for rights-management systems; and the obligations of right-holders to guarantee the benefits of certain exemptions.

**The register of copyright, related rights and database rights which was originally designed to confirm the legal date, publicity and status of those rights has been removed.**

The database directive (96/9/EC) was transposed into Luxembourg law in 2001 but there was an error in the definition of the *sui generis* database right which has now been corrected. The criterion of substantial investment, evaluated qualitatively or quantitatively, applies to the *sui generis* database right whereas the only criterion for copyright protection is that the work is the author's own intellectual creation.

The creation of a royalty system or standard rate of duty on reproduction equipment and recordable supports was rejected by the legislator in favor of a system of contracts between rights-management organizations and users. Its aim is to achieve a set of framework agreements by negotiation, with tariffs fixed unilaterally by management organizations if those agreements fail.

The definition of "resale right" has been modified following the adoption of the directive on resale rights (2001/84/EC) which must be implemented by January 1, 2006. The resale right is an inalienable right which cannot be waived, even in advance, to receive a royalty based on the price obtained on the resale of any work, subsequent to its first transfer by the author. To comply with the directive, the term "resale" has replaced the term "sale" and the definition has been amended to add the impossibility of waiver.

In addition, the criterion that the work be sold at public auction has been broadened to include "*all acts of resale involving as sellers, buyers or intermediaries art market professionals, such as salesrooms, art galleries and, in general, any dealers in works of art*". A Grand-Ducal Regulation will determine the conditions for implementation, including the term of the resale right and the conditions under which authors can enforce it.

Finally, the register of copyright, related rights and database rights which was originally designed to confirm the legal date, publicity and status of those rights has been removed. ❑

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*This article was written by Linklaters. For additional information, please contact Jacqueline Jones-Parry at jacqueline.jones-parry@linklaters.com.*

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must be assessed individually under Article 81 EC Treaty (the general law against anti-competitive agreements in the European Union) in light of market conditions. Accordingly, if agreements are challenged in litigation, arbitration or competition authority proceedings, the parties may be required to offer specific, detailed evidence about their competitive effects. The Guidelines both provide a general framework for the assessment and discuss in more detail relevant considerations for assessing royalty obligations, exclusive licensing, sales restrictions, output restrictions, field of use restrictions, captive use restrictions, tying, and non-compete obligations. The greater the parties' market power in the relevant market, and the more restrictive the provision in question, the less likely it is that the provision will be upheld. Companies with very high market shares may therefore face more regulatory constraints under the new rules than under the old ones, where market shares were largely irrelevant.

Agreements containing one or more of the Regulation's enumerated "hardcore" restrictions receive intense scrutiny. Not only does the presence of such restrictions take the entire licensing agreement outside the Regulation's "safe harbor" (regardless of the parties' market shares), but the restrictions themselves are presumptively illegal and void under almost all circumstances. In the initial draft of the Regulation and Guidelines, the Commission had listed many common license terms as "hardcore" restrictions.[6] In response to strong criticism, the Commission narrowed the scope of the "hardcore" list. Even so, some commercially significant provisions – such as absolute territorial sales restrictions on licensees – are still considered "hardcore" in most cases, even if the parties are not competitors. In principle, "hardcore" restrictions may give rise to fines from the European Commission or Member States authorities. The concept of "hardcore" restrictions and the strict treatment thereof is one of the continuing divergences between EU and US licensing law. (US licensing law does not contain a presumption of illegality for most of these provisions.)

**Practical Impact for Companies and Their Legal Advisors**

For companies and their legal advisors, the new rules have a number of significant practical consequences:

First, companies need to review licenses affecting Europe that were concluded before May 1, 2004 and will run beyond March 2006 for conformity with the new rules. As of April 1, 2006, these agreements are no longer covered by the old regulation. In some cases, it may be impossible to comply with the new rules without renegotiating the license.

Second, after May 1, 2004, the new rules in practice require companies and their legal advisor to assess, before finalizing the agreement:

i. The parties' competitive relationship (competitors or non-competitors)
ii. The market shares of the parties in the product and technology markets (*i.e.*, whether they are above or below the Regulation's 20/30 percent thresholds); and
iii. Whether the draft agreement contains "hardcore" restrictions – which should be eliminated completely or made to apply only outside Europe.

If the agreement falls within the Regulation's "safe harbor", the entire agreement will comply with EU competition law, except for contract provisions that the Regulation specifically excludes from the "safe harbor" —such as grant-back provisions for improvements and no-challenge clauses. These provisions always require individual assessment in light of market circumstances.

**Agreements between competitors can fall within the Regulation's "safe harbor", but under stricter conditions than agreements between non-competitors.**

If the agreement falls outside the "safe harbor", a more detailed individual assessment is required. The licensor and licensee are well-advised thoroughly to self-assess draft licensing agreements. Doing so gives them an opportunity to consider amending the agreement to avoid the possibility of an unpleasant surprise if it is later challenged in court or by a competition authority. Furthermore, if the parties have demonstrated a good faith effort to comply with the Regulation, an authority may use the parties' assessment as a starting point for its own analysis or treat more leniently any violation it finds. The Commission will provide an advance review of a licensing agreement only in exceptional circumstances.

Third, companies will also need to review their licensing agreements periodically to ensure ongoing compliance with the new rules. That the agreement was in compliance when entered into

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does not immunize it from future review. The Regulation and Guidelines contemplate a review process based on market conditions at the time of the case or investigation, not just when the agreement was reached.

In practice, companies should review their license agreement whenever market circumstances change significantly, for example if one of the parties' few competitors exits the market. Absent such an event, the parties should carry out a review every two years — since the Regulation provides a "safe harbor" grace period of two years beyond when the parties' market shares grow above the 20/30 percent thresholds.

**For companies and their legal advisors, the new rules have a number of significant practical consequences**

[1] Commission Regulation 772/2004, 2004 OJ L123/11 and Commission Guidelines, 2004 OJ C101/02.

[2] Commission Regulation 240/96, 1996 OJ L31/2.

[3] See, The Fifth EU Enlargement : Major Revisions to EC Competition Enforcement Practices, Wilmer EU Bulletin of May 1, 2004

[4] See our previous bulletins, European Commission Proposes New Competition Rules for Technology Licensing, Wilmer EU Bulletin of October 15, 2003 and Upcoming reform of the Transfer of Technology Block Exemption, Wilmer EU Bulletin of February 27, 2003

[5] Commission Regulation 240/96, 1996 OJ L31/2.

[6] See, European Commission Proposes New Competition Rules for Technology Licensing, Wilmer EU Bulleting of October 15, 2003.

*John Ratliff (John.Ratliff@wilmerhale.com) is a Partner and Co-chair, Thomas Mueller (Thomas.Mueller@wilmerhale.com) is a Partner, and Axel Gutermuth (Axel.Gutermuth@wilmerhale.com) is Counsel in the antitrust and competition law practice group of Wilmer Cutler Pickering Hale and Dorr LLP. Wilmer Cutler Pickering LLP has announced that it will be merging with Hale and Dorr LLP as of May 31, 2004. Hale and Dorr is recognized in the United States and Europe as a leading firm for advice on acquiring, licensing and litigating intellectual property rights.*


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# The German Employee's Inventions Act—Beware of Employees' Rights to Inventions

BY KAY N. KASPER (MAYER, BROWN, ROWE & MAW LLP)

In Germany, as in other industrialized countries, the vast majority of inventions and other creative developments are made by employees. In comparison to the laws regarding employee inventions in many other countries, German laws are unusual: as a matter of principle, an invention made by an employee belongs to the employee. The invention and the proprietary rights relating to it remain the property of the employee until they are transferred to the employer, which will only happen if the employer claims the invention in return for monetary compensation. This basic rule is binding by law and cannot be contracted out of until an invention report (see below) has been submitted by an employee inventor to his or her employer. This can have far-reaching consequences, and needs to be taken into account when drafting outsourcing contracts which may involve the creation of patentable inventions by employees in Germany.

### A German Specialty

The legal concept that an invention made by an employee belongs to the employee has its roots in the German Patent Act of 1936, but the current specific provisions of German law relating to employee inventions are set out in the German Employee's Inventions Act (EIA). Under § 1 of the Act, the proprietary right to an invention made by employees in private employment or in public service, by civil servants or by members of the German Armed Forces is subject to the EIA. According to §§ 1, 2, the EIA applies to all inventions which may be eligible for utility model and/or patent protection. The EIA does not apply to copyrights, design rights or topographies. Unfortunately, the area of employee inventions was not harmonized by the European Patent Convention (EPC). Where European patents are concerned, Art. 60 I 1 of the EPC states that if the inventor is an employee, the rights to the European patent shall be determined in accordance with the law of the State in which the employee is mainly employed. Thus, for a European patent the German rules apply if the employment relationship is governed by German law.

### Possible Applicability to Software

Although the patentability of software under German law is not as wide in scope as in the U.S., the number of applications for patents claiming software inventions has been increasing every year, in contrast to the overall trend of a slight decrease in patent applications. In 2002 6.5 percent of all applications filed with the European Patent Office related to data processing. Where a software-related invention is patentable, the provision of the EIA will apply, with potential consequences for outsourcing of software development services.

### Procedures Required by the EIA

The provisions of the EIA set out in detail the procedures that apply to employee inventions. The EIA distinguishes between inventions which are subject to the full provisions of the Act (defined as "service inventions") and "free inventions". Service inventions are those made during the term of employment which either result from the employee's activities in the business or public service, or are significantly based upon the experience or activities of the business or public service. In practice, most inventions made in the course of the employment relationship are service inventions. All other inventions are free inventions which are owned by the employee but subject to the limitations of §§ 18 and 19, namely that the employee inventor has an obligation to notify the employer of the invention and offer the employer at least a non-exclusive license, if it wishes to exploit the invention.

> **The U.S. Patent Act is similar to the German Patent Act in that inventions made by an employee belong to the employee.**

For example, a special book cover invented by a rocket scientist would probably be a free invention because it did not result from his activities or experience as a rocket scientist. If, however, that book cover could be used to enable a reader to read more easily in space, then it would probably be a service invention.

An employee inventor is under a duty to report a service invention to his or her employer

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by written notice without undue delay by making an invention report. The written notice must fulfill the requirements set out in § 5 II in order to be recognized as an invention report, and the employer must confirm receipt of the invention report in writing without undue delay. Within two months of receipt of the invention report, the employer may ask the employee to supplement the invention report with additional information regarding the invention. In the absence of a request to supplement, the report is deemed to fulfill the requirements of § 5 II. After the two-month period, the employer is free to request any additional information relating to the invention, if needed, for the filing and prosecution of a patent application. This very bureaucratic approach to the reporting of inventions is intended to provide certainty to the employee and the employer regarding the status of an invention and the rights in it. Needless to say, in many instances the opposite is achieved and law reports contain many cases adjudicating on whether the provisions of the EIA have been complied with or not.

**In exchange for the right of the employer to claim the invention, the employee inventor is entitled to reasonable compensation in accordance with the provisions of the EIA and the guidelines for the compensation of employee inventors.**

### Employer's Right to the Invention

The employer has the right to claim a service invention by means of either an unlimited claim or a limited claim pursuant to § 6. The employer may exercise his rights within four months of receiving the invention report from the employee. Upon receipt by the employee of a written notice of an unlimited claim, all rights to the service invention pass to the employer pursuant to § 7 I, but the employer must pay the employee reasonable compensation for those rights (as described below).

If the employee inventor does not submit an invention report, this will constitute a breach of his or her employment contract, and the employer may rely on any sanctions that would otherwise be applicable for that breach. The employee's failure to submit the initial invention report does not, however, affect his or her rights to the invention.

If the employer makes a limited claim to the invention, the employer acquires a non-exclusive right to use the service invention in return for a claim for remuneration. In this event, the service invention becomes a free invention owned by the employee, subject to the right of use on the part of the employer.

The invention will become a free invention if:

- The employer releases it by a written notice, which usually does not pose a problem, as such notice is the result of a conscious decision, or
- The employer does not make a claim to the invention within four (4) months of receiving a duly filed invention report.

In both these cases the invention will be at the free disposal of the employee inventor and not subject to the limitations of §§ 18 and 19.

### Employee Invention Reporting System Recommended

Clearly, in order to cope with the legal requirements of the EIA, a business should implement a system to process invention reports and react to them. Preferably this system should be monitored by a patent department that includes specialists who can evaluate the economic and technical value of the invention and are familiar with the business's intellectual property policies.

### A Sample Case

To illustrate the resulting complexities, imagine the following: Your business (A) asks another business (B) to develop a certain product. The contract specifies that you own the intellectual property rights in any invention made under the development contract, perhaps granting B a non-exclusive right to use it. B informs its employee (E) of the project. E comes up with a brilliant way to solve your problem and duly files an invention report with B. B does not consult with anybody who is familiar with the EIA and four months pass by without reaction. Your contract is with B. Now E, with whom you have no contract, owns the invention and the rights relating to it. You will have claims against B for damages, but E might have the right to prevent you from making and selling under the patent that will be granted to him. Imagine further that B in the meantime went bankrupt. So much for your claims for damages. E's rights are limited by principles of good faith which form the basis of E's employee relationship, but your business will not want to rely on these alone, and you may be left without ownership of important IPR.

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It is therefore apparent that it is advisable to implement procedures in all companies to deal with employee inventions—and to follow them. In the context of two parties cooperating in relation to a project, it may be advisable to implement a reporting scheme to help ensure that no deadlines are missed.

**Employer's Obligation to File Intellectual Property Rights**

The administration of employee inventions does not end, however, at this point. In the event that the employer has acquired a service invention by means of an unlimited claim, the right to the patent application or the registration of a utility model, the right to the patent and the rights deriving from the patent are transferred to the employer. In this case the employer is then the only person entitled to obtain intellectual property rights for the service invention. However, the employer is also obliged to file the respective patent applications or utility model registrations in Germany without undue delay. This obligation extends only to applications and registrations with effect in Germany. The employer can comply with this obligation by filing a European patent application if Germany is designated in this application. If the employer does not wish to file a foreign patent application, he must provide the inventor with the possibility of doing so within relevant priority time limits.

**Employee's Right to Compensation**

In exchange for the right of the employer to claim the invention, the employee inventor is entitled to reasonable compensation in accordance with the provisions of the EIA and the guidelines for the compensation of employee inventors. The entitlement of the employee inventor to reasonable compensation applies to rights claimed in respect of both free inventions and service inventions. The compensation is calculated according to tables developed by the German courts and royalty schemes which have been developed enabling the users to arrive at a fair result.

**Specific Provisions for University Employees**

§ 42 of the EIA provides for specific rules that apply if the inventor is the employee of a university. Thus, cooperation agreements with universities subject to German law need specific scrutiny—before being signed. A body of sample contracts known as the "Berlin Contract" has been developed by co-operation between German industry and universities, which may be used as precedent contracts for cooperation agreements with universities. However, whilst the Berlin Contract may be used as a guideline, it should not be used as a definitive blueprint for every scenario. In fact, the Berlin Contract has also been the subject of a well-argued critique, which should be borne in mind if it is used as a framework. The specific interests of parties and projects in each case often require tailor-made solutions.

**Non-patentable Intellectual Property Rights**

As indicated above, the legal position regarding ownership of copyrights, designs and topographies is different from that which applies to inventions, and is mentioned here for completeness. § 69b of the German Copyright Act provides that where a computer program is created by an employee in the execution of his duties or based on the instructions of the employer, the employer is exclusively entitled to exercise all economic rights in the program. For designs and models made by illustrators, painters, sculptors or similar artists employed by a German commercial organization, § 2 of the German Design Patent Act provides that if the creation was undertaken by order of, or for the account of, the commercial organization, the latter shall be deemed to be the originator of the designs and models. If a topography was created during employment or by order of a commissioning party, the intellectual property rights in the topography belong to the employer or to the commissioning party. These basic rules may be contracted out of.

**In order to cope with the legal requirements of the EIA, a business should implement a system to process invention reports and react to them. Preferably this system should be monitored by a patent department that includes specialists who can evaluate the economic and technical value of the invention.**

**Know-how**

In most cases, patentable inventions can in practice only be economically exploited in conjunction with the necessary know-how. Know-how in itself is not subject to the EIA unless it constitutes a suggestion for technical improvement pursuant to § 3 at the same time. As a matter of principle, know-how remains the property of the firm where it was developed, provided that it fulfills the requirements of being secret, identifiable and essential. Under the German Act Against Unfair Competition, know-how is protected by civil and criminal sanctions. Nevertheless, German courts regularly hand down decisions permitting employees to use the knowledge that they obtained during their former employment in their new occupations, subject to the provisions of the employment contract and any secrecy obligations which continue after the termination of the employment contract.

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**Consequences**

The position under German law in respect of inventions on the one hand and creations subject to non-technical intellectual property rights on the other, needs to be taken into account when drafting outsourcing agreements. One solution for the outsourcing party may be a closely monitored reporting system that ensures that the four months' deadline for claiming a service invention is observed by the party developing the intellectual property rights. Another solution depending on the facts may be to impose an obligation on the developing company to make a limited or unlimited claim to all inventions from the employees working on the project. This may be costly for the developing company and thus may affect the costs of the outsourcing agreement. If the outsourcing party has its own employees working on the project, it is essential to define their contribution to the project, since this contribution may result in a joint invention. A joint invention may give the outsourcing party a right to claim part of the invention from its employee. Joint inventions—in itself a complex topic, particularly when considered in the context of different legal systems—will be considered in an upcoming issue of this Newsletter.

**Under U.S. Law**

The U.S. Patent Act is similar to the German Patent Act in that inventions made by an employee belong to the employee. This differs from the rule under the U.S. Copyright Act, which is that the employer is the owner of copyrights in works prepared by employees within the scope of their employment.

U.S. employers are generally permitted to require their employees to sign prospective assignments of the employees' intellectual property rights in inventions as a condition of employment. The enforceability of these assignments is a matter of state law. However, employee assignments generally are enforceable if they cover inventions made by employees in the course and scope of their employment or with the use of the employer's time, materials or facilities. Note that, unlike under German law, the U.S. employee does not have a right to compensation for assignment of the employee's inventions.

In the absence of a written assignment agreement, an employer may still have rights in the employee's inventions and related intellectual property. Some courts have found implied in-fact assignment when an employee is hired for the purpose of inventing or assigned to work on a specific invention.

Alternatively, an employer may have a "shop right" in an employee's invention—a non-exclusive, non-transferable, royalty-free license for the employer to use the employee's invention. However, both of these possibilities are roads to litigation and uncertainties. Employers should ensure that all of their U.S. employees sign written intellectual property assignments.

**Under UK Law**

The position under English law regarding employee inventions is regulated by the Patents Act 1977, and is generally more favorable to employers than the position under German Law. Under English law, inventions made by employees belong to the employer if the invention was:

- Made in the course of the employee's normal duties; or
- Made in the course of duties falling outside his normal duties, but specifically assigned to him; or
- Made in the course of the employee's duties in circumstances in which the employee had a special obligation to further the interests of the employer's undertaking.

All other employee inventions are owned, as between the employee and the employer, by the employee. In practice, however, the vast majority of employee inventions will be owned by the employer.

The Patents Act does include provision for the courts to order employers to pay compensation to employees for patented employee inventions which have been of outstanding benefit to the employer.

However, the courts have never made such an order. The scope of the provisions regarding employee compensation may be broadened in a new Patents Act which is being introduced to make various amendments to UK patent law.

At present the employee needs to show that the employer's patent for the invention has been of outstanding benefit to the employer. Under the proposed changes, any benefits deriving from the invention—not just from the patent—may now be relevant. ❏

*Kay N. Kasper (kkasper@mayerbrownrowe.com) is an Associate, Intellectual Property Group with Mayer, Brown, Rowe & Maw LLP in Frankfurt (++49-(0)69-7941-2001) and is specialized in patent law and related subjects.*

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# Remuneration of Employee Inventors in Japan

BY KYM BAVCEVICH (COUDERT BROTHERS)
AND TAKU OSAWA (YODOYABASHI & YAMAGAMI L.P.C.)

In January this year, the Tokyo High Court ordered Hitachi Ltd. ("Hitachi") to pay its former employee, Seiji Yonezawa, 162 million yen in connection with the transfer of patents for technology developed by Yonezawa for reading CDs and DVDs to Hitachi. At the time, the 162 million yen award (approximately US $1.5 million) represented the largest amount ever ordered by a Japanese court to be paid by an employer to an employee inventor.[1] The following day however, the Tokyo District Court ordered Nichia Corporation ("Nichia") to pay the staggering amount of 20 billion yen (approximately US $189 million), to former employee Shuji Nakamura, in connection with blue light emitting diode patents filed when he worked for Nichia.[2] These decisions came hot on the heels of a landmark Supreme Court decision handed down in April 2003[3], which ruled in favor of Shunpei Tanaka, former employee of Olympus Optical Company, Ltd. ("Olympus"), who sued Olympus for reasonable remuneration in connection with the rights to his invention, an optical pick up device which improved the quality of video discs. The Supreme Court held, dismissing an appeal by Olympus, that the amount of remuneration paid by Olympus to acquire the patent from the former employee (Tanaka) was not adequate. The decision was the first handed down by the Supreme Court which rejected an employer's assessment of "adequate" remuneration (*soutou no taika*). The concept of "adequate remuneration" is key in determining the amount an employer must pay an employee inventor under Section 35 of the Japanese Patent Act (the "Patent Act"), sub-sections (3) and (4) of which currently provide that:

(3) The employee, etc. shall have the right to adequate remuneration when he has enabled the right to obtain a patent or the patent right with

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# European 'Database' Protection –AG Gives Opinions on Nature and Scope

BY ROUSE & CO. INTERNATIONAL

The Advocate General Stix-Hackl gave Opinions on the Database Directive 96/9/EC in response to questions referred to the ECJ in four separate proceedings[1]. Three of the proceedings relate to fixture lists drawn up by the organizers of English and Scottish football. The fourth concerns a British Horseracing Board electronic database containing extensive racing and breeding information.

The questions referred to the ECJ covering a range of issues from the scope of the *sui generis* database right, to the meaning of specific words in Article 7. In response to each, the AG made detailed observations.

### Background

The Database Directive introduced a wholly new *sui generis* right into European law, making provision for the protection of databases that may or may not have been capable of protection as copyright works.

The referral of questions of interpretation from Courts in Greece, Sweden, Finland and the UK, reflects the current widespread uncertainty as to the nature and scope of the right.

### The Opinions

The Opinions deal with a number of interesting aspects, including the following:

- The scope of the database right. The AG concluded it is wide and capable of being infringed by the use of content that does not replicate any of the structural elements of the database.
- In determining whether a 'substantial' part of a database has been extracted or re-utilized, the commercial value, as well as the size, of the part in question must be considered.
- The extraction and re-utilization of insubstantial parts must be both repeated and systematic in order to infringe. It will be both if it is

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**As a result of the decision in the Olympus case, Section 35 has become hotly debated and on June 4, 2004, an amendment to Section 35 was passed by the Japanese Diet in an attempt to resolve the controversy surrounding the notion of "adequate remuneration".**

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*Japan* from page 11

respect to such employee's invention to pass to the employer, etc. or has given the employer, etc. an exclusive right to such invention in accordance with the contract, service regulations or other stipulations.

(4) The amount of such remuneration shall be decided by reference to the profits that the employer, etc. will make from the invention and to the amount of contribution the employer, etc. made to the making of the invention.

The predecessor of Section 35 is set out in the former Patent Act (*Kyuutokkyohou*), which was enacted in 1921. The failure of Section 35 to maintain relevance in the face of changing Japanese social and economic circumstances, contributed to disregard of the section by employers, which was reinforced by the reticence of employees to assert their rights under the section. The controversy which now surrounds Section 35 is due in part to the fact that as a result of tremendous changes in social and economic circumstances in Japan over the past ten years, the factors which buttressed the reticence of employees to assert their rights under Section 35 no longer apply. As a consequence, employee inventors have begun utilizing the courts to claim their entitlement to adequate remuneration under Section 35 and more recently still, as illustrated by the decisions set out above, the Japanese judiciary has begun to respond in the employee inventors' favor.

**In the past ten years, an increasing number of cases have been brought to court by employee inventors, challenging, on the grounds of inadequacy, the remuneration received from their employers for their inventions.**

As a result of the decision in the Olympus case, Section 35 has become hotly debated and on June 4, 2004, an amendment to Section 35 was passed by the Japanese Diet in an attempt to resolve the controversy surrounding the notion of "adequate remuneration".

Both the current Article 35 of the Patent Law and the amended Article 35 (which will come into force on April 1, 2005) stipulate that (1) in the event that the employee inventor or a third party designated as the employee inventor obtains the patent for the employee invention, the employer may non-exclusively exploit the employee invention free of any license fee; and (2) in the event that the employee transfers a right to apply for the patent or the patent right to the employer or grants the employer the exclusive right to exploit the employee invention pursuant to any agreement or any employment rules, the employer should pay appropriate remuneration to the employee inventor.

As indicated above, the current Article 35 addresses this important issue vaguely in 35(4) by stipulating that "adequate remuneration" should be determined with reference to: (1) the benefits that the employer obtains from the employee invention; and (2) the amount of the employer's contribution to the invention. The amended provision attempts to address this inadequacy by adding a new section to Article 35, which provides that the stipulation with respect to remuneration, including those agreed to between the employee and the employer and those stipulated in the employment rules, should be reasonable. Elements which affect whether remuneration is reasonable are now specified to include: (1) the process of negotiations between the employee and the employer in establishing the standard which will be used to determine remuneration; (2) the disclosure of such standard; and (3) the circumstances in which the opinion of the employee was heard in the process of determination of remuneration. This new sub-section emphasizes the protection of the employee's interests. Balance with the interests of employers has been achieved by the addition Article 35(5) which has been amended to provide that if the stipulation with respect to remuneration is not reasonable or if there is no such stipulation, the appropriate remuneration should be determined considering the following and other related elements: (1) the benefits that the employer obtains from the employee's invention; (2) employer's contribution to the invention, both before and after the event of the invention (including production and marketing, etc.); and (3) the rewards and treatment the employee has received.

**Remuneration of Employee Inventors: Recent Background**

From the inception of the 1959 Patent Act, the prevailing practice among Japanese companies with respect to rewarding employee inventors has, when contrasted with the profits obtained from the exploitation of intellectual property created by the employee inventors, been to reward such employees modestly. According to a report published by the Japan Institute of Labor (*Nihon Roudou Kenkyuu Kikou)* in September 2002, the compensation which an employee inventor could expect to receive in the event that he or she was able to devise a patentable invention averaged less than 9,000 yen (approximately US $85), supplemented by a further payment of 22,588 yen (approximately US $215) (on average) upon registration and transfer of the patent to the company[4]. In more than 26 percent of cases, the com-

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pensation of employee inventors was not supplemented by any additional benefits. For those who did receive additional benefits, the most common "benefit" was a public commendation by their employer. Only 0.7 percent received a share of royalties, or a share in other rights accruing to the patent holder[5]. Until recently, the practice of rewarding employee inventors with modest monetary compensation and praise, was generally not challenged by employees.

The reticence of employees to challenge this practice is thought to have been connected to the operation of the seniority based employment system *(nenkoujoretuseido)* which, by the time the Patent Act was enacted in Japan, had become firmly entrenched in Japan. The seniority system tied pay rises to seniority within the company, restricting job mobility, and possibly contributing to employee inventors considering themselves bound by a social contract between themselves and their employers, pursuant to which employers accepted responsibility for the welfare of the employees, who in turn committed themselves (forsaking personal gain to an extent) to working for the good of the company (the employer). Employees were thus rendered unwilling and effectively unable to challenge their employers in connection with the determination of "adequate compensation".

With the collapse of the Japanese economy however, has come the gradual erosion of the seniority system and with that, the weakening of factors which had previously operated to prevent employee inventors from asserting their rights under Section 35 of the Patent Act. As set out above, in the past ten years, an increasing number of cases have been brought to court by employee inventors, challenging, on the grounds of inadequacy, the remuneration received from their employers for their inventions. The judiciary has begun responding in favor of the employee inventors, accepting employee interpretations of "adequacy" of remuneration and the legislature has also attempted to provide further clarification with respect to the concept of "adequate remuneration". While the issue of remuneration for employee inventions remains a vexed question, companies should revise their in-house provisions regarding the provision of remuneration to employee inventors in accordance with the guidelines provided by the legislature under Article 35 of the amended Patent Act. ❑

**The judiciary has begun responding in favor of the employee inventors, accepting employee interpretations of "adequacy" of remuneration and the legislature has also attempted to provide further clarification with respect to the concept of "adequate remuneration".**

[1] Case No. 14 (Ne) 6451, 29 January 2004
[2] Case No. 13 (Wa) 17772, 30 January 2004
[3] Case No. Heisei 13 (Ju), 1256, 22 April 2003
[4] Jigyouin no hatsumeinitaisuru shoguu ni tsuite- Roudou ni kansuru WEB kigyou chousa (Treatment of Employee Inventors: A Web industry survey on labor) September 2002. p.11
[5] Supra p.13

*Kym Bavcevich ((bavcevichk@coudert.com) is an Associate with Coudert Brothers in Tokyo. Taku Osawa (osawa@yglo.gr.jp) is with Yodoyabashi & Yamagami L.P.C. in Tokyo.*

# Patents

***EU* from page 11**

carried out at regular intervals (e.g., weekly or monthly).

- Whether the distribution of material obtained only indirectly from the database will amount to 're-utilization'. The AG concluded that it will. ('Extraction' must be direct).
- Where substantial changes result in the creation of a new database, the whole of the new database will qualify for a new term of protection.

**Our Comment**

These Opinions place a very wide interpretation on the database right. It will be interesting to see to what extent it is adopted by the ECJ. If the ECJ takes a similar approach, those sourcing information would be well advised to review their procedures to reduce the risk of infringement. ❑

1. Case C-203/02 the British Horseracing Board Ltd & Ors v William Hill Organization Ltd; Case C-338/02 Fixtures Marketing Ltd v Svenska Spel AB; Case 444/02 Fixtures Marketing Ltd v OPAP; Case C-46/02 Fixtures Marketing Ltd v Oy Veikkaus Ab.

*This article was written by Rouse & Co. International. For more information, please visit the webpage www.iprights.com.*

# Planning Advisory

## Attacking Trademarks Under the Madrid Protocol

BY ROBERT B. BURLINGAME (PILLSBURY WINTHROP LLP)

The Madrid Protocol makes it easier for trademark owners to file and maintain foreign trademark applications and registrations. But does it also make it easier for someone to attack those Protocol-based applications and registrations? Sometimes.

First, one must recognize that there are several different applications and registrations involved with any Protocol-based trademark. There is the "International Registration" which the International Bureau grants to the trademark owner. This International Registration is then extended to and registered in the countries (the "Contracting Parties") that the owner designates. Furthermore, the International Registration is based on a "basic application" or "basic registration" in the owner's country of origin. The "basic application" also may mature into a registration.

**Each Contracting Party may have special rules and procedures for challenging Protocol-based trademarks.**

There are three types of attacks against International Registrations: opposition to an extension, the "central attack" and the "invalidation" action.

***Opposition to an Extension.*** Once the International Bureau issues an International Registration, it notifies the Contracting Parties who each have a limited period of time (generally 18 months) to refuse to accept that International Registration in their country. If a Contracting Party timely refuses the International Registration, then the International Registration will not be extended to that Contracting Party. If a Contracting Party does not timely refuse the International Registration, then the International Registration is extended to that Contracting Party and is treated just the same as a non-Protocol registration in that country.

While considering whether to refuse the International Registration, the Contracting Party may publish the fact that the trademark owner is seeking to extend the International Registration to that country. Parties are then generally given an opportunity to file an opposition, pursuant to the rules and procedures of that Contracting Party, to argue against the extension of the International Registration to that country.

***Central Attack.*** Once an International Registration has been extended to the Contracting Parties, the most efficient type of attack is the "central attack". A central attack must be commenced within five years of the date of the International Registration, even if some extensions of that International Registration were recently granted. In a central attack, one attempts to cancel the basic application, the registration resulting therefrom, or the basic registration. The procedures and rules for the cancellation are governed by the country in which that target application or registration is located. If the cancellation is successful in whole or in part, and the decision is no longer subject to review or appeal, then the related International Registration (including all of the registrations of that International Registration in all of the Contracting Parties) is similarly canceled therewith.

To soften the consequences of a successful central attack, the Protocol gives the owner of the canceled International Registration three months to file new non-Protocol applications for that trademark in all of the Contracting Parties where that International Registration had effect. If this "transformation" is done properly, the new applications are treated as if they had been filed on the registration date of the canceled International Registration.


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***Invalidation Action.*** As the central attack is relatively rare (with only 190 such cancellations during 2001), the more common type of attack against International Registrations is the invalidation action. In an invalidation, one attempts to cancel a particular Contracting Party's registration of the International Registration. If the attack is to cover more than one Contracting Party, then separate invalidations must be brought in each of the other Contracting Parties. The invalidations are governed by each Contracting Party's cancellation rules and procedures.

In regard to all three types of attacks, each Contracting Party may have special rules and procedures for challenging Protocol-based trademarks. For example, in the rules adopted by the United States Patent and Trademark Office, one must *electronically* file an opposition against (or a request for extension of time to oppose) an extension of an International Registration to the United States. Unlike oppositions or extension requests pertaining to non-Protocol applications, paper filings will not be permitted. The U.S. rules also provide that, unlike oppositions against non-Protocol applications, oppositions against an extension of an International Registration to the United States cannot be amended after filing to change or add to the grounds for opposition or to add to the goods or services opposed.

In conclusion, the best type of attack will depend on the circumstances. If an International Registration is in the process of being extended to the country at issue, consider opposing that extension and attempting a central attack if the basic application or basic registration is vulnerable. If the International Registration has already been extended to the country at issue but is less than five years old, consider pursuing a central attack. And if the International Registration is more than five years old, consider filing invalidation actions in the countries at issue. ❑

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*Robert Burlingame is an intellectual property attorney at Pillsbury Winthrop LLP in San Francisco. He can be reached at rburlingame@pillsburywinthrop.com. For additional information, please visit the firm's related Madrid Protocol Resource Center at http://www.pillsburywinthrop.com/spotlight/madrid/madrid_main.asp.*

# Taxation

***IP* from page 1**

inter-company pricing and, specifically, to share ownership of jointly-developed IP. This often necessitates migrating historically developed IP from a high-tax jurisdiction to a relatively lower-taxed one.

For purposes of this article, "intellectual property" includes patents, trademarks, trade names, copyrights, and other intangible assets created by marketing or technology expenditures.

CSAs commonly occur between unrelated companies in the form of joint ventures and strategic alliances.

A CSA is defined as "an agreement under which the parties agree to share the costs of development of one or more intangible in proportion to their shares of reasonably anticipated benefits from their individual exploitation of the interests in the intangibles assigned to them under the arrangement." *See* §1.482-7(b)(1) of the US Income Tax Regulations.

This article initially discusses the benefits and issues of CSAs. Next, it examines common methods for determining an arm's-length price in relation to a CSA and outlines the operation of a typical CSA. Finally, it discusses the transfer pricing documentation requirements for a CSA.

### Benefits and Issues of CSAs

Many multinational companies have entered into CSAs during the past 10 years. CSAs represent an alternative to more traditional IP ownership structures, such as licensing or centralized ownership.

There are frequently economic and business advantages to sharing the costs and risks associated with IP development. CSAs can assist companies in implementing a worldwide transfer pricing policy that ensures a reasonable return to all entities in the controlled group.

For example, if a company has two entities jointly contributing to intra-company shared services, the costs associated with the services should be allocated to each entity based on the reasonably anticipated benefits to each entity.

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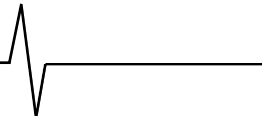

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Implementation of a CSA allows companies to use the relative strengths inherent in their separate entities. In addition, companies can diversify their overall risk portfolio by spreading the risk associated with IP development to two or more entities.

The decision to enter into a CSA is often part of a larger corporate restructuring, such as a merger, acquisition, or decision to outsource certain corporate functions. From a transfer pricing perspective, corporate restructurings provide a unique opportunity to align expenses and profits with each entity's functions and risks.

Perhaps the most widely-publicized benefit of CSAs is their potential to create an efficient tax structure by migrating partial ownership of IP to a country with a low corporate tax rate. This is typically performed through the use of a new or existing intangible holding company ("IHCo") within the company group structure.

Implemented properly, CSAs can potentially simplify the company's licensing structure and lower their consolidated effective tax rate. This tax-efficient aspect of CSAs has increased their scrutiny by fiscal authorities over the past several years.

**Cost-sharing agreements commonly occur between unrelated companies in the form of joint ventures and strategic alliances.**

Tax authorities are careful to note that inter-company pricing included in the CSA complies with the arm's-length standard; the arm's-length pricing of IP will be discussed in more detail in the next section.

Despite the many potential benefits of CSAs, there are several issues that accompany the implementation of such arrangements.

Perhaps the most significant issue is the uncertainty that accompanies a CSA. The success of a CSA depends on the contractual and economic structure; however, the company's financial performance, business volatility, and merger and acquisition activity can also have a profound impact on its ultimate success.

Companies usually migrate existing IP to the IHCo or the entities involved in the CSA. Keep in mind, this migration must be performed at a fair market value of the existing IP, creating a negative return to the CSA in the short term. Therefore, a company should only enter into a CSA if the structure complements its long-term strategy.

Finally, because CSAs require legal and operational maintenance, contracts and accounting systems must be updated to reflect the company's current operational structure.

### Arm's-Length Pricing for IP

As mentioned previously, CSAs must allocate costs between related parties based on the reasonably anticipated benefits of each entity. In addition, certain value-added costs must be charged out at cost, plus an arm's-length profit margin.

It is important to include all costs covered by the CSA in the cost pool.

The US issued new regulations regarding cost-sharing agreements on August 26, 2003, stating that equity-based compensation, such as stock options, must be included as a component of intangible development expense in the cost pool covered by the CSA. The new regulations have been the source of significant debate because they do not specify the valuation method to be used for equity-based compensation.

Once the costs are properly identified, it is important to allocate the costs between the parties in the CSA based on a reasonable estimate of future benefit.

Companies frequently migrate existing IP to the entities involved in a CSA to simplify IP ownership. In certain cases, it is necessary to migrate existing IP to the IHCo because it is related to future IP covered under the CSA.

Typically, the IHCo would make an arm's-length payment to the developer of the existing IP for the rights to own and exploit the existing IP in a specified region. This payment, often referred to as a "buy-in" payment, must be calculated to fairly represent the price that an unrelated party would pay the IP developer for the same ownership rights.

There are several methods described in the *OECD Transfer Pricing Guidelines* to determine the arm's-length price of existing intangibles. In addition, many countries have their own specific transfer pricing regulations that govern the valuation of existing intangibles for the purpose of transfer under a CSA.

Generally, the value of existing intangibles is calculated based on either the future income attributable to the intangibles (*i.e.*, the "Profit Split Method" or "Foregone Profits method"), or a Comparable Uncontrolled Transaction ("CUT") method. A CUT method "evaluates whether the

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amount charged for a controlled transfer of intangible property was arm's length by reference to the amount charged in a comparable uncontrolled transaction." *See* §1.482-4(c)(1) of the regulations.

**A Practical Example**

CSAs occur in a variety of structures, depending on the individual company's specific circumstances.

As an example, a US company that has centrally-owned IP would typically set up a new legal entity (IHCo) in a country with a low tax rate. The IHCo would pay a buy-in payment to its US parent company for the rights to existing IP. The buy-in payment would be calculated based on a reasonable estimate of the future income attributable to the existing IP.

In addition, the IHCo would pay annual cost-sharing payments to the US company to assist in the development of future IP and to maintain its ownership of existing IP.

Creation of a defensible IHCo structure includes the migration of functions and activities to the IHCo. In addition, the IHCo bears significant business risk, and could produce losses if the company doesn't achieve its forecast.

**Documentation Requirements**

Because CSAs are subject to scrutiny from tax authorities, companies must have documentation in place to support a CSA, including written contracts between related parties.

The documentation must also provide evidence to support and defend the cost allocation and intercompany pricing included in the CSA.

**Because cost-sharing agreements are subject to scrutiny from tax authorities, companies must have documentation in place to support a CSA, including written contracts between related parties.**

Accurate implementation is just as important as proper documentation of the inter-company structure. Therefore, companies should consider including an operations manual as part of their inter-company pricing documentation.

The operations manual might include a detailed description of the CSA calculations and

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## Cost-Sharing Regulations

The US Treasury is working towards an anticipated June 30 release of revisions to the so called "cost sharing" regulations that govern a good portion of the tax planning strategies for US high technology companies. Cost sharing regulation govern the tax treatment of high value technology assets in the development phase. These assets may have very high future profit potential, therefore the ownership of these assets (across different parts of a multinational enterprise) is a significant "driver" of tax planning strategies. Historically, many companies have used cost sharing strategies to locate a portion of the global ownership rights of such assets in lower tax jurisdictions, such as Ireland and Singapore. Such actions have not only enhanced tax positions but also help advance the economic development of these economies.

It is anticipated that the new release will focus on better measurement or valuation of the so called "buy-in" element of cost sharing agreements. The buy-in recognizes, for a partially developed technology asset, that at the time of the agreement some level of value has already been created. While, from the agreement date forward, the costs of further development will be shared among the qualified cost sharing participants (i.e., two or more companies in a multinational organization) in relation to the anticipated benefits, the presence of an existing buy in value requires additional payment (often from the related companies in the lower tax jurisdiction). The implication is the for future planning and documentation (compliance) purposes, deeper analysis may be required.

This release would also happen in the wake of recently released, and long anticipated, proposed regulations on the transfer price tax treatment of services rendered between related companies (involved in such exchanges across international borders). A motivation for these regulations is to further regulate the ability of multinational companies to migrate the ownership of intangible assets across borders in the form of services. In short, there developments are noteworthy and can be expected to have a significant impact on tax planning for intangible assets. ❑

*Russ O'Haver, Ph.D. and Partner at Ernst & Young in New York will provide an article on these developments in an upcoming issue of this publication.*

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the accounting systems adjustments necessary to accurately book the inter-company payments.

Finally, incorporating an economic study with any CSA would help to ensure that costs are being accurately captured and IP is valued at arm's length.

As discussed, there are legal, operational, and economic factors to be considered prior to executing a CSA. However, implemented properly, CSAs can assist companies in simplifying their inter-company pricing, align costs with functions and risks, and provide favorable long-term tax planning opportunities.

A solid economic analysis and strong documentation are necessary components of any inter-company pricing structure, but are particularly important in cost contribution arrangements. ❑

*Daniel McSwiney is a senior manager and Brian Burt a manager in the Los Angeles office of KPMG's Economic and Valuation Services Group. KPMG LLP (www.us.kpmg.com) is the US member firm of KPMG International. The information contained in this article is general in nature and based on authorities that are subject to change. Applicability to specific situations is to be determined through consultation with your tax adviser.*

# News Round-Up

## Issues from Around the Globe

BY THOMAS J. SMEDINGHOFF (BAKER & MCKENZIE)

### CONTENT

**CANADA – DAMAGES FOR ONLINE DEFAMATION**. The Ontario Court of Appeal ruled that libelous postings on the Internet are distinct from those made offline and therefore merit greater damages. In Barrick Gold Corporation v. Lopehandia, the Court accepted the plaintiff's argument that the defendant engaged in a systematic, extensive and vicious campaign of libel over a long period of time that intentionally inflicted injury on the company. The appellate court increased the damage award, noting the increased potential of Internet defamation to harm the reputation of individuals and corporations. A recent judgment by the Alberta Court of Queen's Bench came to a similar conclusion. See Court Decision at http://www.ontariocourts.on.ca/decisions/2004/june/barrickC39837.pdf.

**US - FTC REPORT ON DO NOT EMAIL LIST**. An FTC report said that a Do-Not-Spam list would not be effective in reducing spam, stating that such a list might help spammers find legitimate email addresses. Rather, the report suggested that the most promising way to reduce spam was to create new technology that can verify that an email message was sent from the address that it claims to be from. Congress ordered the commission to report on the feasibility of creating a do-not-spam registry for those who do not want unsolicited messages. See FTC Report at http://www.ftc.gov/, press release at http://www.ftc.gov/opa/2004/06/canspam2.htm.

### EMPLOYMENT

**FRANCE - TRADE UNIONS MAY USE THE INTRANET AND E-MAIL OF THE COMPANY**. The Law relating to the professional training and to the social dialogue, passed on May 4, 2004, inserted into section L. 412-8 of the French Labor Code a paragraph requiring the conclusion of a corporate agreement for the possible use, by trade unions, of the Intranet and e-mail of the company. See Law at legifrance.gouv.fr/Waspad/Visu?cid=26126&indice=1&table=consolide&ligneDeb=1.

### INFORMATION SECURITY

**US – COMPUTER CYBERSECURITY STUDY**. The Computer Security Institute (CSI) has announced the results of its ninth annual Computer Crime and Security Survey. Overall financial losses from 494 survey respondents


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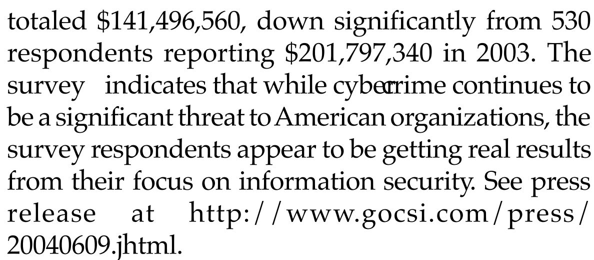

totaled $141,496,560, down significantly from 530 respondents reporting $201,797,340 in 2003. The survey indicates that while cybercrime continues to be a significant threat to American organizations, the survey respondents appear to be getting real results from their focus on information security. See press release at http://www.gocsi.com/press/20040609.jhtml.

**US – CYBERCRIMES THREATEN EMAIL USEFULNESS**. Experts contend that the future of email is uncertain due to rising new forms of spam, phishing attacks and viruses that are being exploited by digital criminals. As a result, some companies restrict the use of email and consumers opt for other forms of online communication, such as instant messaging and personal Web diaries. According to various studies, about 64% of email monitored in May was spam. Phishing attacks reached a record of 1,125 unique schemes in April, compared with 402 in March. In addition, nearly 1,000 viruses surfaced in May. See article in E-Commerce Times at http://www.ecommercetimes.com/story/34504.html.

### INTELLECTUAL PROPERTY

**EU – WEBSITE ON EUROPEAN COPYRIGHT LAW.** The new website gives an overview on the status of implementation of the EU Directive on the Harmonization of Certain Aspects of Copyright and Related Rights in the Information Society, which came into effect on May 22, 2001. The website addresses consumers in the individual EU Member States and aims to provide answers to the most frequently asked questions in relation to the new copyright law. Euro-copyrights.org has been launched by the University of Amsterdam in co-operation with Elaborate Bytes and CDFreaks.com. Legal experts have given their input on the copyright law information of the various countries. See Website at http://www.euro-copyrights.org.

### OUTSOURCING

**US - PERSONAL DATA OFFSHORING PROTECTION ACT**. The Personal Data Offshoring Protection Act of 2004 (H.R. 4366), introduced May 13, 2004, would prohibit a business from transferring personal information regarding a citizen of the U.S. to any foreign affiliate or subcontractor located in a country that is a country without adequate privacy protection unless the business discloses to the citizen that the country to which the information will be transmitted does not have adequate privacy protection; obtains consent from the citizen to transmit such information to such foreign affiliate or subcontractor; and the consent referred to is renewed by the citizen within 1 year before such information is transmitted. Under the Act, the FTC shall certify those countries that have legal systems that provide adequate privacy protection for personally identifiable information and make the list of countries certified available to the general public. The bill also provides for a private right of action against those in violation of the Act. It further permits the state to bring a civil suit against an offender. See H.R. 4366 at http://www.theorator.com/bills108/hr4366.html.

### PRIVACY

**CANADA – COURT REJECTS PRIVACY SURVEILLANCE FINDING**. The Federal Court of Canada overturned a Privacy Commissioner finding that had favored a complainant in a video surveillance dispute. In Eastmond v. Canadian Pacific Railway, CAW sought a confirmation of the Commissioner's decision and an order to remove surveillance cameras from a railway company's yard. The Court refused to confirm the Commissioner's decision, and ruled that it can accord the Commissioner some deference in the area of his or her expertise, but not on findings of fact. The court held that this particular surveillance was reasonable and thus not a violation of PIPEDA. Finally, the court ruled that PIPEDA should be classified as a fundamental law of Canada and can exist alongside the Canadian Labor Code. See Privacy Commissioner Finding at http://www.privcom.gc.ca/index_e.asp.

**An FTC report said that a Do-Not-Spam list would not be effective in reducing spam, stating that such a list might help spammers find legitimate email addresses.**

**EU - US PASSENGER DATA SHARING AGREEMENT**. The Secretary of DHS and representatives signed an agreement that will allow the U.S. CBP to collect airline Passenger Name Record information relating to flights between the U.S. and the EU. The arrangement includes how CBP will process and handle PNR data, and contains specific guidance on the use and retention of the PNR data. See press release at http://www.dhs.gov/dhspublic/interapp/press_release/press_release_0420.xml, factsheet at http://www.dhs.gov/dhspublic/interapp/press_release/press_release_0421.xml.

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**JAPAN – GUIDELINES FOR THE LAW ON THE PROTECTION OF PERSONAL DATA**. The Ministry of Economy, Trade and Industry (METI) published guidelines to support the Law on the Protection of Personal Information. The guidelines outline the application of the Law and provide specific examples and scenarios to enable companies to understand measures that should be taken. In addition, the guidelines expressly provide that names, addresses and surveillance footage can constitute personal information. See Nikkei at http://www.nikkei.co.jp/news/keizai/20040616AT1F1502115062004.html.

**US - COMPUTER SOFTWARE PRIVACY CONTROL ACT**. The Computer Software Privacy and Control Act (H.R. 4255), introduced April 30, 2004, in part, would make it unlawful for any person to knowingly transmit to a protected computer owned or operated by another person any computer software that collects personal information about the computer owner and transfers such information to any person other than such owner. It is also unlawful to monitor or analyze the content of the Internet web pages accessed by an owner or modify default computer settings or computer settings previously selected by the owner, unless notice of such actions is provided and consent by the owner is obtained. It is further unlawful for any person knowingly to transmit any computer software that includes a function to deliver or display advertisements, unless notice is given to the owner and consent is obtained. See H.R. 4255 at http://www.theorator.com/bills108/hr4255.html. ❑

*Thomas J. Smedinghoff is the North American Coordinator for the E-Commerce Law Practice at Baker & McKenzie. This report is summarized from Baker & McKenzie E-Law Alerts, available at www.bakernet.com/ecommerce.*

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