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Patents

Introduction

2.1 A patent is a document, issued, upon application, by a government office (or a regional office acting for several countries), which describes an invention and creates a legal situation in which the patented invention can normally only be exploited (manufactured, used, sold, imported) with the authorization of the owner of the patent. "Invention" means a solution to a specific problem in the field of technology. An invention may relate to a product or a process. The protection conferred by the patent is limited in time (generally 20 years).

2.2 In a number of countries, inventions are also protectable through registration under the name of "utility model" or "short-term patent." The requirements are somewhat less strict than for patents, in particular in respect of inventive step, and in comparison with patents the fees are lower, and the duration of protection is shorter, but otherwise the rights under the utility model or short-term patent are similar.

2.3 Patents are frequently referred to as "monopolies", but a patent does not give the right to the inventor or the owner of a patented invention to make, use or sell anything. The effects of the grant of a patent are that the patented invention may not be exploited in the country by persons other than the owner of the patent unless the owner agrees to such exploitation. Thus, while the owner is not given a statutory right to practice his invention, he is given a statutory right to prevent others from commercially exploiting his invention, which is frequently referred to as a right to exclude others from making, using or selling the invention. The right to take action against any person exploiting the patented invention in the country without his agreement constitutes the patent owner's most important right, since it permits him to derive the material benefits to which he is entitled as a reward for his intellectual effort and work, and compensation for the expenses which his research and experimentation leading to the invention have entailed.

2.4 It should be emphasized, however, that while the State may grant patent rights, it does not automatically enforce them, and it is up to the owner of a patent to bring an action, usually under civil law, for any infringement of his patent rights. The patentee must therefore be his own "policeman."

2.5 Simply put, a patent is the right granted by the State to an inventor to exclude others from commercially exploiting the invention for a limited period, in return for the disclosure of the invention, so that others may gain the benefit of the invention. The disclosure of the invention is thus an important consideration in any patent granting procedure.

Conditions of Patentability

2.6 An invention must meet several criteria if it is to be eligible for patent protection. These include, most significantly, that the invention must consist of patentable subject matter, the invention must be industrially applicable (useful), it must be new (novel), it must exhibit a sufficient "inventive step" (be non-obvious), and the disclosure of the invention in the patent application must meet certain standards.

Patentable Subject Matter

2.7 In order to be eligible for patent protection, an invention must fall within the scope of patentable subject matter. Patentable subject matter is established by statute, and is usually defined in terms of the exceptions to patentability, the general rule being that patent protection shall be available for inventions in all fields of technology (see Article 27.1 of the TRIPS Agreement).

2.8 Subject matter which may be excluded from patentability includes the following (see also Article 27.3 of the TRIPS Agreement). Examples of fields of technology which may be excluded from the scope of patentable subject matter includes the following:

- discoveries of materials or substances already existing in nature;
- scientific theories or mathematical methods;
- plants and animals other than microorganisms, and essentially biological processes for the production of plants and animals, other than non-biological and microbiological processes;
- schemes, rules or methods, such as those for doing business, performing purely mental acts or playing games;
- methods of treatment for humans or animals, or diagnostic methods practiced on humans or animals (but not products for use in such methods).

2.9 The TRIPS Agreement (Article 27.2) further specifies that Members may exclude from patent protection certain kinds of inventions, for instance inventions the commercial exploitation of which would contravene public order or morality.

Industrial Applicability (Utility)

2.10 An invention, in order to be patentable, must be of a kind which can be applied for practical purposes, not be purely theoretical. If the invention is intended to be a product or part of a product, it should be possible to make that product. And if the invention is intended to be a process or part of a process, it should be possible to carry that process out or "use" it (the general term) in practice.

2.11 "Applicability" and "industrial applicability" are expressions reflecting, respectively, the possibility of making and manufacturing in practice, and that of carrying out or using in practice.

2.12 The term "industrial" should be considered in its broadest sense, including any kind of industry. In common language, an "industrial" activity means a technical activity on a certain scale, and the "industrial" applicability of an invention means the application (making use) of an invention by technical means on a certain scale. National and regional laws and practices concerning the industrial applicability requirement vary significantly. At one end of the spectrum, the requirement of industrial applicability is met as long as the claimed invention can be made in industry without taking into account the use of the invention. At the other end of the spectrum, the "usefulness" of the claimed invention is taken into account for the determination of the industrial applicability. On the other hand, some countries do not require industrial applicability, but utility.

Novelty

2.13 Novelty is a fundamental requirement in any examination as to substance and is an undisputed condition of patentability. It must be emphasized, however, that novelty is not something which can be proved or established; only its absence can be proved.

2.14 An invention is new if it is not anticipated by the prior art. "Prior art" is, in general, all the knowledge that existed prior to the relevant filing or priority date of a patent application, whether it existed by way of written or oral disclosure. The question of what should constitute "prior art" at a given time is one which has been the subject of some debate.

2.15 One viewpoint is that the determination of prior art should be made against a background of what is known only in the protecting country. This would exclude knowledge from other countries, if it was not imported into the country before the making of the invention, even if that knowledge was available abroad before the date of the making of the invention.

2.16 Another viewpoint is based on the differentiation between printed publications and other disclosures such as oral disclosures and prior use, and where such publications or disclosures occurred.

2.17 The disclosure of an invention so that it becomes part of the prior art may take place in three ways, namely:

- by a description of the invention in a published writing or publication in other form;
- by a description of the invention in spoken words uttered in public, such a disclosure being called an oral disclosure;
- by the use of the invention in public, or by putting the public in a position that enables any member of the public to use it, such a disclosure being a "disclosure by use."

2.18 Publication in tangible form requires that there be some physical carrier for the information, a document in the broad sense of the term, and that document must have been published, that is to say, made available to the public in any manner such as by offering for sale or deposit in a public collection. Publications include issued patents or published patent applications, writings (whether they be manuscript, typescript, or printed matter), pictures including photographs, drawings or films, and recording, whether they be discs or tapes in either spoken or coded language. Today, publication on the Internet must increasingly be taken into consideration.

2.19 Oral disclosure, as the expression suggests, implies that the words or form of the disclosure are not necessarily recorded as such and includes lectures and radio broadcasts.

2.20 Disclosure by use is essentially a public, visual disclosure such as by display, sale, demonstration, unrecorded television broadcasts and actual public use.

2.21 A document will only destroy the novelty of any invention claimed if the subject matter is explicitly contained in the document. The subject matter set forth in a claim of an application under examination is thus compared element by element with the contents of each individual publication. Lack of novelty can only be found if the publication by itself contains all the characteristics of that claim, that is, if it anticipates the subject matter of the claim.

2.22 Lack of novelty may however, be implicit in the publication in the sense that, in carrying out the “teaching” of the publication, a person having ordinary skill in the art would inevitably arrive at a result falling within the terms of the claim. Generally speaking, lack of novelty of this kind will only be raised by the Patent Office where there is no reasonable doubt as to the practical effect of the prior “teaching.”

2.23 It should be noted that in considering novelty, it is not permissible to combine separate items of prior art together.

Inventive Step (Non-Obviousness)

2.24 In relation to the requirement of inventive step (also referred to as “non-obviousness”), the question as to whether or not the invention “would have been obvious to a person having ordinary skill in the art” is perhaps the most difficult of the standards to determine in the examination as to substance.

2.25 The inclusion of a requirement like this in patent legislation is based on the premise that protection should not be given to what is already known as part of the prior art, or to anything that the person with ordinary skill could deduce as an obvious consequence thereof.

2.26 The expression “ordinary skill” is intended to exclude the “best” expert that can be found. It is intended that the person be limited to one having the average level of skill reached in the field in the country concerned.

2.27 It should be noted that novelty and inventive step are different criteria. Novelty exists if there is any difference between the invention and the prior art. The question, “is there inventive step?” only arises if there is novelty. The expression “inventive step” conveys the idea that it is not enough that the claimed invention is new, that is, different from what exists in the state of the art, but that this difference must have two characteristics. Firstly, it must be “inventive”, that is, the result of a creative idea, and it must be a step, that is, it must be noticeable. There must be a clearly identifiable difference between the state of the art and the claimed invention. This is why, in some jurisdictions, there is the concept of an “advance” or “progress” over the prior art.

2.28 Secondly, it is required that this advance or progress be significant and essential to the invention.

2.29 In order to assess the nature of the differences which are relied upon as constituting an inventive step, account has to be taken of the prior art as a whole. Thus, as distinct from the assessment of novelty, the subject matter of the claim under examination is compared not with each publication or other disclosure separately, but with the combinations thereof, insofar as each such combination is obvious to the person having ordinary skill in the art. The combination may be global, whereas the claim may define a set of subject matter known separately, for instance a new form of washing machine including a particular type of motor coupled to a particular type of pump. For the inventive step to be denied, it is necessary that not only the combination, but also the choice of the combined elements, is obvious. It is the sum of the differences that have been discovered which must be compared with the prior art and judged as to obviousness, and not each of the new elements taken individually, except where there is no technical link between them.

2.30 In most cases, it is useful to assess inventive step in relation to three aspects, namely:

- the problem to be solved;

- the solution to that problem; and
- the advantageous effects, if any, of the invention with reference to the background art.

2.31 If the problem is known or obvious, the examination will bear on the originality of the solution claimed. If no inventive step is found in the solution, the question becomes whether or not the result is obvious or whether it is surprising either by its nature or by its extent. If a person having ordinary skill in the art would have been able to pose the problem, solve it in the manner claimed, and foresee the result, the inventive step is lacking.

Disclosure of the Invention

2.32 An additional requirement of patentability is whether or not the invention is sufficiently disclosed in the application.

2.33 The application must disclose the invention in a manner sufficiently clear for the invention to be carried out by a person skilled in the art.

2.34 The description should set out at least one mode for carrying out the invention claimed. This should be done in terms of examples, where appropriate, and with reference to the drawings, if any. In some countries, the description is required to disclose the best mode for carrying out the invention known to the applicant.

2.35 Whether or not there is an examination as to substance, some jurisdictions provide for an opposition procedure which may be instituted either before or after the grant of a patent. An opposition procedure is designed to allow third parties to present objections to the grant of a patent.

2.36 So that oppositions may be filed, the public must be informed of the content of the application, and this is done by the Patent Office by publication of a notice in an official journal or gazette to the effect that:

- the application is open to public inspection; and/or
- the Patent Office will, unless opposition is filed within a prescribed period, grant a patent; or
- a patent has been granted on the application.

2.37 The grounds upon which an opposition may be filed are prescribed by the relevant legislation. Generally speaking, it should be possible for an opposition to be based on non-compliance with any substantive requirement. However, the law in some countries restricts an opposition to certain substantive requirements only. Typically these grounds are lack of novelty, inventive step or industrial applicability, insufficient disclosure of the invention, or the fact that an amendment made to a patent application has gone beyond the original disclosure in the application as filed. Some jurisdictions make it possible to file an opposition on the ground that the applicant has no right to a patent.

Drafting and Filing a Patent Application

Identification of the Invention

2.38 The first task in drafting a patent application is the identification of the invention.

This involves:

- summarizing all the necessary features which in combination solve a particular technical problem; and
- an examination of this combination to determine whether it would, according to one's own judgment, fulfill the requirements for patentability, especially inventive step.

2.39 It is during this process that a full comprehension of the essence of the invention is obtained, and this is important in helping to draft the description and claims.

2.40 Often the invention contains more than one new feature. It is essential to identify the critical feature or features and to have an explanation of why they contribute to an effective solution to the problem. There are two important reasons for this. First, the claims should be as broad as possible; the broadest claim is the one restricted by the least number of features. Second, having identified the critical features and their effect, it is then necessary to ask how else may this effect be achieved, that is, can the specific features be substituted or altered while still achieving the end result. This is important not only in drafting the claims, which must be wide enough to cover these substitutes or alternatives, but also in the description of the invention which must include details of the substitutes or alternatives so that the broad claim can be supported by the description.

Practical Aspects of Drafting Patent Applications

2.41 Drafting practices and requirements differ from country to country. However, there are typically three basic requirements to be complied with in the drafting of a patent application.

2.42 Firstly, there is a requirement that the application should relate to one invention only, or to a group of inventions so linked as to form a single general inventive concept. This requirement, referred to as "unity of invention", is particularly important when claims are being drafted.

2.43 Secondly, the description should disclose the invention in a manner sufficiently clear and complete for the invention to be evaluated, and to be carried out by a person having ordinary skill in the art. This is of fundamental importance, since one of the main functions of the description is to provide new technical information to third parties. An important phrase to note in this requirement is "a person having ordinary skill in the art." This allows for a simplified description since it can be assumed that the reader will be an informed reader having the background knowledge which makes it unnecessary to describe every basic detail of the invention.

2.44 Thirdly, for the application to proceed, it must contain claims which determine the scope of the protection. The claims must be clear and concise and fully supported by the description. This third basic requirement is important since the claims are the basis of interpretation of patent protection. It is from the claims that third parties are able to know what they may do and what they may not do. The claims may not be significantly broader or different from that which has been described.

2.45 The first section of the description typically contains two elements, namely, the title of the invention and a brief statement of the technical field in which the invention lies. Usually this statement is in the form of a short introductory paragraph which commences with the phrase "This invention relates to"

2.46 In the second section, the background of the invention is described. In drafting this section, the patent agent usually sets out any existing problems or difficulties which the invention overcomes. Any previous solutions to those problems or difficulties should be described, preferably in a way which clearly sets out the difference between the present and previous solutions. This section may also describe the object of the invention, that is to say, what the invention sets out to achieve. The second section of the description is important to provide a good understanding of the invention and to put it into perspective against the prior art.

2.47 The third section of the description provides a summary of the invention in such terms that it may be readily understood. The patent agent will normally describe the invention first in general terms which correspond to those he intends to use in the main claim. By using this technique, the agent can avoid any disputes that might arise based on differences between the invention described and the invention as defined in the claims. This description of the invention in general terms is usually followed by a series of paragraphs which set out different preferred features of the invention. These paragraphs usually form the basis for dependent claims which follow the broad main claim.

2.48 In the fourth section of the description, two elements are generally found, namely a brief description of the drawings, if drawings are appropriate, and a detailed description of one or more embodiments of the invention. If the invention relates to some form of mechanical object, for example, drawings illustrating plan, elevation and sectional views of that object could be used. Elements of the drawings which are described are numbered in the drawings and these numbers utilized in the description of the embodiment.

2.49 Where the invention is an electrical circuit, drawings can be used effectively to show the connections between the various elements or components of the circuit. Again these elements or components should be numbered for ease of reference. Normally the drawings should contain no textual matter. Exceptions, however, may be made when single descriptive words can be used where they do not interfere with the lines of the drawings. Thus in any drawing illustrating an electrical circuit, for example, standard components may be indicated in the drawings by boxes which may be labeled. Similarly, where the invention relates to a process, drawings may show a block, schematic or flow-sheet diagram, and blocks or boxes contained therein may be labeled as appropriate.

2.50 Where the invention is in the chemical field, the drawing may be the chemical formula of one or more compounds. Where the invention is of a metallurgical nature, the drawing may be a diagram such as a phase diagram of the components.

2.51 It is usual for the description of the embodiment to include a passage which briefly describes the actual operation of the invention. If the device, for example, is a machine or an electrical circuit, the manner in which the machine or electrical circuit operates is extremely helpful in understanding the invention.

2.52 The claims are the center or the heart of any granted patent because they define the protection which is the purpose of the patent, that is to say, they define clearly the scope of the exclusive right provided by the patent. Therefore it is the most important task in the work of the patent agent when preparing the application, to produce a wording of the claims which defines the

invention in terms of the technical features disclosed in the description and which does not contain any reference to commercial advantages.

2.53 The series of claims drafted by the patent agent generally commences with a broad main claim followed by a number of claims of narrower scope. The broad claim is drafted so as to just avoid the prior art known at the time of preparing the application. The patent agent drafts the succeeding claims more narrowly, and hopefully this results in stronger claims which could withstand any anticipation by more relevant prior art which might be produced by a Patent Office during examination, or by third parties during any opposition or invalidation proceeding. It should be emphasized that there must be some element of additional invention in each succeeding claim in order for it to be stronger.

2.54 The narrower claims following the broad main claim usually refer back to one or more of the preceding claims. They are therefore usually called dependent claims. The features introduced in each of the dependent claims must find some basis in the description. There it is usually explained that these are preferred features which produce a better technical form of the invention.

2.55 The last element of a patent is the abstract. The abstract presents a short summary of the description and the claims. It serves the purpose of enabling third parties to obtain quick information about the essential contents of the invention. It must be emphasized that it is not used to interpret the scope of protection.

2.56 The guiding principle is that the abstract should be so drafted that it can efficiently serve as a scanning tool for purposes of searching in the particular art. Thus the abstract has to be as concise as the disclosure permits. Generally speaking, it contains between 50 and 150 words.

Examination of a Patent Application

Examination as to Form, The Filing Date and Priority Date

2.57 It is now useful to follow the progress of an application through the Patent Office. There are three main areas of activity worthy of some comment, namely:

- examination as to form;
- search; and
- examination as to substance.

2.58 In each of these areas of activity, the normal procedure is for a dialogue to be carried out, mainly in writing, between an examiner in the Patent Office, and the applicant. The patent agent acts as a go-between in the sense that he receives communications from the Patent Office, advises the applicant as to the appropriate course of action, takes the applicant's instructions, and responds accordingly to the Patent Office's communications.

2.59 Prior to examination as to form, the application is checked to ensure that all the requirements necessary to accord the application a filing date, have been satisfied. This is a fundamental check since if a filing date is not established, the application will be treated as if it had not been filed, and it proceeds no further. The filing date is important in the general scheme of things since it constitutes the date from which certain actions are calculated, such as the term of

the patent, and, where appropriate, determines the priority date of any subsequent application in another country under the terms of the Paris Convention for the Protection of Industrial Property. The filing date (or priority date) is also relevant to the evaluation of novelty and inventive step.

2.60 The right of priority may be based on a national, regional or international application filed less than twelve months earlier. Its effect is to substitute the date of the earlier filing for the date of the national filing and this is particularly important with respect to the relevant prior art for evaluating novelty and inventive step.

2.61 The right of priority is available in all countries which are party to the Paris Convention or the TRIPS Agreement. It should be noted however, that under some national laws, priority rights are granted on a bilateral basis of reciprocity for countries not parties to the Paris Convention.

2.62 The right of priority offers great practical advantages to an applicant who seeks protection in one or more other countries. The applicant is not required to present all applications in his own country and in foreign countries at the same time, since he has up to twelve months to decide in which foreign countries he desires protection. The applicant can use that period to organize, with due care, the steps to be taken to secure protection in the various countries of interest to him.

2.63 Examination as to form is normally carried out as soon as an application has been accorded a filing date. Basically this covers the following points: the representation by a patent attorney, if any, the contents of the request, the statement concerning the inventor, the physical requirements governing the description, the claims and the drawings, and the inclusion of an abstract. The applicant is given an opportunity to correct any defects identified during examination as to form, and if such defects are not corrected within a specified time, the Patent Office rejects the application.

Search

2.64 Depending on the examination procedure provided in the relevant law, the search will be conducted either separately from and prior to, or at the same time as, the examination as to substance. In either case, the objective of the search is to determine the prior art in the specific field to which the invention relates. In conducting the search the Patent Office checks its documentation collection to ascertain whether any documents exist which describe a solution which is the same as or similar to that described in the application.

2.65 If the search is conducted separately from the examination as to substance, a search report will be forwarded to the applicant setting out:

- a list of the documents located during the search, which disclose subject matter the same as or closely resembling the invention; and
- the claims in the application that should be compared with each of those documents.

2.66 The report may also give an indication of the scope of the search, that is, the type of documents that may have been searched, the time span covered and the specific areas of technology searched.

2.67 The search itself is a documentary search in a collection of patent documents that is primarily arranged for search purposes according to the specific areas of technology. These patent documents may be supplemented by articles from technical journals and other so-called non-patent documents. This total collection of documents is usually referred to as "the search file."

2.68 The Patent Office may conduct the search only in respect of documents in the search file. It may additionally carry out an online computer search of one or more commercial databases, as well as on the Internet. The search does not extend to disclosures other than publications and, in particular, does not seek to determine whether disclosure has taken place by public use. This type of disclosure, if any, will only be taken into account during the examination as to substance if that use has been brought to the attention of the Patent Office by some third party's action.

2.69 The search itself will first cover all directly relevant technical fields, and may then have to be extended to analogous fields, but the need for such extension must be judged by the examiner in each individual case, taking into account the outcome of the search in the directly relevant areas of technology. It must be realized that whilst completeness is the ideal of the search, this ideal may not necessarily be obtained because of such factors as the inevitable imperfections of any classification and information retrieval system, and may not be economically justified if the cost is to be kept within reasonable bounds.

Examination as to Substance

2.70 The aim of the examination as to substance procedure is to ensure that the application satisfies certain conditions of patentability. In essence, this is to prevent the grant of a patent where:

- the invention is excluded from patent protection by specific provisions in the legislation;
- the invention is not new, does not involve an inventive step and/or is not industrially applicable; or
- the invention is not sufficiently disclosed in a clear and complete manner in the documents filed.

2.71 In the same way as with examination as to form, the applicant is given the opportunity to remove any objections raised during the examination as to substance phase, and if he fails to do so within a specified time, the Patent Office will refuse the grant of a patent.

2.72 It is in the interest of both the applicant and the public that there exists the possibility to amend the application. Not only can deficiencies be eliminated and thus a better patent grant secured, but also amendments to clarify the disclosure will result in a better description of the invention and a more precise definition of the scope of protection.

2.73 Not all amendments are permissible. As a general rule, an amendment is not allowable if it goes beyond the original disclosure in the application.

2.74 It should be noted that since the purpose of any patent law is to protect inventions, the Patent Office will only refuse to grant a patent if the results of the examination clearly preclude the grant. In general, any doubt is resolved in the applicant's favor, since final adjudication on the validity or otherwise of a patent is usually possible via the courts.

Grant and Publication

2.75 If and when the examination process has reached a conclusion favorable to the applicant, that is to say all the necessary requirements as to form and substance have been fulfilled, and assuming no opposition has been filed or that any opposition has been unsuccessful, the Patent

Office will grant a patent on the application. This involves certain actions on the part of the Patent Office.

2.76 Firstly, when the patent is granted, the details of the patent are entered into the Patent Register. The Register usually contains bibliographic data such as the patent number, the name and address of the applicant/patentee, the name of the inventor, the original application number, the filing date, certain priority application details and the title of the invention. It does not contain any technical information.

2.77 Additionally in countries where annual fee payments are required in order to maintain the patent in force, the Register will contain details of when such fees have been paid, and may also list any details of licenses or assignments which may have been recorded.

2.78 The Register can thus be very useful to third parties especially competitors of the patentee, because it reveals the actual status of the patent. In some countries the courts accept a certified copy of an extract from the Register as being proof of the correctness of the position recorded in respect of the patent.

2.79 Secondly, the Patent Office publishes in an Official Gazette, a reference to the grant of the patent with the prescribed bibliographic data. The entry in the Official Gazette may also contain the abstract or the main claim and, if there are drawings, the most illustrative drawing.

2.80 Thirdly, a Certificate of Grant is issued to the applicant, which is the legal document establishing his ownership of the patent. A copy of the granted patent is also issued at the same time.

2.81 Lastly, the Patent Office generally publishes the patent document itself in printed form. Recently, certain Patent Offices have decided to publish certain kinds of patent applications, such as applications containing sequence listings or consisting of a high number of pages, in electronic form only. Copies of the patent document are made available by the Patent Office for use by patent libraries, etc., as a source of technical information, and by third parties subject to the payment of a fee. Many Offices also publish the application 18 months after the priority date or filing date.

2.82 As stated above, in order to keep the patent in force, each year, for the term of the patent, a prescribed renewal or maintenance fee, usually has to be paid to the Patent Office. In some countries, where for example a deferred examination system exists, the maintenance fee is payable even before the patent is granted. In some countries the maintenance fee is not required annually but may be paid, for example, say every three to five years. A small number of countries do not require the payment of maintenance fees.

Infringement

Exclusive Right of a Patent Owner

2.83 Generally speaking, a patentee acquires the right, enforceable at law, to decide who shall and who shall not exploit his patented invention. He retains this right for the term of the patent, provided he pays any necessary renewal or maintenance fees.

2.84 The patent owner's legal rights over his invention are usually limited in a number of quite different ways.

2.85 Firstly, the claims which define the monopoly may be subject to amendment or invalidation by the courts in respect of defects which were not detected prior to the grant of the patent.

2.86 Secondly, where the invention is an improvement or development of an earlier subsisting patent, the patent owner may need to obtain a license and pay royalties to the earlier patent owner.

2.87 Thirdly, the patent owner's rights are usually limited by the patent law, quite apart from the question of validity of his patent. In most patent systems, for example, the patent owner is required to work his invention, either on his own behalf, or by licensing others to use it, if he wishes to retain his monopoly. A non-voluntary license may, for instance, be granted to third parties if it can be demonstrated that the patented invention is not worked or is insufficiently worked in the country.

2.88 Finally, a fourth legal limitation on a patent owner's right to exploit his invention is that patented inventions may often be used by Government or by third parties authorized by Government, where the public interest so requires, on terms fixed by agreement or by the courts.

2.89 With the exception of the limitations just referred to, the grant of a patent allows its owner to exclude others from exploiting the patented invention. The right of the owner is called exclusive because it allows the exclusion of others from exploiting the invention and because the owner is the only one allowed to exploit the invention as long as others are not given an authorization, for example, by way of license to do so. This exclusive right of the patent owner has two main applications in practice, namely protection against infringement and the possibility of assigning or licensing the right, in part or in whole. Licensing of the patented invention will be discussed in a later chapter.

2.90 An infringement of the exclusive right of a patent owner involves the unauthorized exploitation of the patented invention by a third party. The making of the invention in particular, and its development for industrial application, usually involve considerable expense for the applicant and for the future owner of the patent for invention. The patent owner thus wishes to recover this expense through exploitation of the patented invention, in particular through the sale of products that incorporate the invention.

Enforcement of Rights

2.91 Initiative for enforcing a patent rests exclusively with the patent owner. It is he who is responsible for detecting infringements and for bringing them to the infringer's attention. In many jurisdictions there is a strict rule that the patent owner may not threaten legal action without the possibility of incurring severe countermeasures, including damages, if the threats prove to be on insufficient grounds. The main purpose of such provisions in the law is to prevent patent owners from threatening the customers of alleged infringers without pursuing the primary infringer. In practice, a polite letter pointing out the existence of the patent carries the implication that the patentee will sue if the infringement continues. Such a letter has proven to be quite effective in suppressing an infringement.

2.92 If the infringer is persistent, the patent owner may consider whether he wishes to offer a license. Many incipient disputes are settled through license negotiations at an early stage, the terms of the license reflecting the bargaining strength of the parties. But if the patent owner is reluctant to license on terms acceptable to the licensee, he may have recourse to legal action by suing for infringement and seeking an injunction to restrain the infringement. The invariable legal response of an infringer who wishes to pursue the contest is to petition for invalidation of the patent.

2.93 The great majority of patent infringement disputes never reach the stage of court action but are settled through negotiation. Of those that do reach the stage at which official legal action is taken, very few go beyond the pre-trial stage, the usual outcome being settlement before any court hearing, possibly with the help of an unofficial arbitrator. Settlements of this nature can take several years, especially in complicated cases, but they do not typically involve large legal costs. Such settlements almost invariably involve a license and possibly damages as well.

Types of Infringement

2.94 There are several ways in which infringement of patent rights might arise. Firstly, there is the situation where a patent is deliberately infringed by a third party without any attempt to avoid the infringement. This will either be straight copying of the invention or else involve minor variations or modifications thereof. This form of infringement may occur because the third party is unscrupulous, or because he has been advised by his patent agent that the patent in question, or one or more claims thereof, is invalid.

2.95 With this form of infringement there is generally no argument as to whether or not there is infringement. If all the features of the patented invention have been copied, then there must be infringement, and the only matter to be resolved is whether the claims of the patent are valid.

2.96 The second situation which arises is where the infringement is deliberate, but some attempt has been made to avoid the appearance of infringement. It frequently happens that once an invention is disclosed either by sale of the product incorporating the invention, or in a published patent document, or in some other publication, third parties are given ideas. The publication generally outlines the problem and shows a way of solving it. Third parties then may endeavor to design an alternative to do the same thing. While third parties may be genuinely trying to design around the patent whilst still making use of the basic idea of the inventor, the result does not always clearly fall outside the scope of the claims of the patent. This is probably the most common form of infringement faced by patent owners and it gives rise to the most litigation.

2.97 The last situation that arises is the case of accidental infringement. As soon as a patent owner comes across something which embodies his idea he naturally feels that his invention is being copied. This is not necessarily so, since there may be many people working to solve a particular problem at the same time. For example, research departments of different large organizations may all be working on a similar problem. Similarly there may be several companies who have been asked to tender for a contract to solve a particular problem or to achieve a certain result, and in so doing may come up with similar ideas to that which may have been involved in the patented invention. Thus, although the patent owner may feel that his invention has been copied, the third party has, in fact, arrived at a similar if not identical solution via a different route.

Elements in Establishment of Infringement

2.98 To establish infringement the patent owner must prove all the following elements:

- the carrying out of a prohibited act;
- the prohibited act must have been done after the publication of the patent application, or the issuance of the patent where no early publication occurs;
- the prohibited act must have been done in the country where the patent has been granted;

- the prohibited act must be in relation to a product or process falling within the scope of a claim of the patent.

Prohibited Acts

2.99 A prohibited act, the most important element in establishing an infringement, is one which involves the making, using, selling or importing the patented product, or the use of the patented process, or the making, using, selling or importing the product directly obtained through the patented process.

2.100 To make the product means that the product described and claimed in the patent is carried out in practice. Such making is also referred to as manufacturing especially when the product is produced on a commercial scale. The method of manufacture and the quantity in which the product is manufactured is irrelevant so far as infringement of a patented product is concerned. There are however, three main exceptions in most laws to infringement of exclusive rights to make a patented product, namely:

- where the patented product is made for the sole purpose of scientific research and experiment;
- where a third party had started making the product before the date when the patent application for an invention incorporated in the product was filed; and
- where the patented product is made under a non-voluntary license or under an authorization granted by the Government on public interest grounds.

2.101 In respect of patented processes, only the making of products directly obtained through the patented process is a prohibited act. "Directly" in this context means "immediately" or "without further transformation or modification."

2.102 One of the difficulties in establishing infringement in respect of products directly obtained through a patented process, is that of proving that the patented process was used to produce the product. Some laws partially solve this by providing for the reversal of the burden of proof in respect of patents for processes by introducing the following presumption: if the product resulting directly from the use of the patented process was new on the filing date or priority date of the patent application, an identical product manufactured by a third party is presumed to have been obtained by the same process. Some other laws go further and eliminate the difficulty by not limiting the resulting product to one which has to be new.

2.103 The use of a patented product does not require that the use be repetitive or continuous. The rule is that use is a prohibited act irrespective of who the user of the patented product is, and for what purpose the patented product is used. The use of the patented product is a prohibited act irrespective of whether the product actually being used was made by the patent owner, with the authorization of that owner, or without the authorization of such owner.

2.104 There are, in most laws, five exceptions to infringement of exclusive rights to use a patented product, namely:

- where the use of the patented product is solely for purposes of scientific research and experiment;

- where the patented product that is used is a product which was put on the market in the country by the owner of the patent for invention, or with his authorization;
- where the use of the patented product occurs in vehicles in transit in the country;
- where the patented product is used by third parties who have the special right to continue to make the product; and
- where the patented product is used under a non-voluntary license or under an authorization granted by the Government on public interest grounds.

2.105 The sale of a patented product is a prohibited act irrespective of whether the product actually sold was made by the patent owner, or with or without his authorization. Any product that corresponds to the description of the invention and is claimed in the patent, even if made without the authorization of the owner, is a patented product.

2.106 Importing a product simply means that an article which constitutes or incorporates the patented product is brought into the country where protection has been conferred. Thus, importation is a physical act of transportation of the product across the border into the territory of the country. It is irrelevant which other country the product is imported from. Furthermore, it does not matter whether the importation takes place for purposes of use or sale, or for the purposes of distribution free of charge. It is also irrelevant whether the imported product enjoys patent protection in the country in which it was made or in the country from which it was imported.

2.107 The principles relating to the use, sale and importation of patented products, as far as the definitions of these acts are concerned, applies, *mutatis mutandis*, also to the use, sale and importation of products directly obtained through a patented process.

After Publication of the Application or Issuance of the Patent

2.108 The second element in establishing an infringement, namely that the prohibited act must have been done after the publication of the invention in either a patent application or in the granted patent, needs little comment. It would be contrary to natural justice if third parties could be charged with committing an offense when details of the invention were not available to the public to see what it is that could not be done.

In the Country where the Patent has been Granted

2.109 The third element in establishing an infringement also requires little comment. Generally speaking, patents do not extend beyond the boundaries of the country which granted the patent. The patent law of a country has no effect in any other country. However, in a small number of countries, particularly U.K. Dependent Territories, it is possible to extend the coverage of a United Kingdom patent to those countries by the owner of the U.K. patent applying, generally within a period of three years from the date of grant thereof, to register such patent in the country concerned.

Within the Scope of a Claim of the Patent

2.110 The fourth element in establishing an infringement is one which is normally the decisive point in any patent litigation. The scope of protection of the patent is determined in all countries by the claims. The meaning of the claims is ultimately interpreted by the courts. The manner in which the courts will interpret a claim in turn depends upon the domestic law and to a certain extent the

rules or regulations. Therefore, what a claim means will depend upon the jurisdiction in which it is being interpreted.

2.111 The courts, particularly in common law systems, attempt to determine what structure the language of the claims defines, and whether or not the alleged infringing structure corresponds to the structure defined in the language of the claims.

2.112 In attempting to answer the question as to whether a particular structure infringes a particular claim of a patent for invention, the claim should be broken down into its individual elements, and these compared with the elements of the alleged infringement to see whether they fit. If the claim can, in fact, be made to correspond to the alleged infringement without stretching the words of the claim too far, then there may indeed be infringement. If, on the other hand, the claim contains a limitation to something which is not found at all in the alleged infringement, there may be no infringement.

2.113 When comparing the individual elements of a claim against the corresponding elements of the alleged infringement, the following questions have to be answered:

- Are all the elements of the claim present in the alleged infringement?
- Do all the elements have the same form?
- Do all the elements perform the same function?
- Do the elements have the same relationship to the other elements?

2.114 If the answer to each of these questions is “yes”, then infringement is established, depending of course, on whether the claim in question is valid. An infringing product or process must include each and every element of the invention defined in a claim.

2.115 Of course, the establishment of infringement is not always clear-cut. For example, changes in form will not avoid infringement if there is no change in the result produced. Further changing the order of steps in a process will not avoid infringement if the result is the same. Moreover the presence of additional elements in an alleged infringement does not avoid infringement if all the elements of the patent claim are also present.

2.116 One of the most difficult areas of patent claim interpretation is the determination as to whether or not there has been a substitution of equivalent elements in the alleged infringement. This is the so-called “doctrine of equivalents” which is well known in patent litigation practice in many countries. Briefly stated, the doctrine indicates that an infringer should not be allowed to continue his actions where he basically makes use of the patented invention while merely substituting a variant for an element of the invention which is equivalent technically and functionally to the element as contained in the patent claim, irrespective of whether the variant used by the infringer turns out to be an improvement or otherwise. Equivalence is restricted to those cases where the variant or variants used by the infringer function in substantially the same manner and produce substantially the same result as the element or elements contained in the claim or claims.

Remedies Available to the Patent Owner

2.117 The remedies which may be available to the patent owner where infringement has been established are usually provided for in the national patent law and are generally in two forms, civil sanctions and criminal sanctions.

2.118 Broadly speaking, civil sanctions are available in all cases of infringement while criminal sanctions are available only under particular circumstances, where the infringement was committed intentionally.

2.119 Civil sanctions normally available include the award of damages, the grant of an injunction, or any other remedy provided in the general law such as the seizure and destruction of the infringing products or the tools used for the manufacture of those products.

2.120 If the patent owner establishes in court that infringement has occurred, or is occurring, he is entitled to damages, which the court will assess. Damages will only be awarded against the infringer for infringements committed since the date of publication of the invention by the Patent Office in the patent application or the granted patent. The amount of damages may be calculated in at least two different ways. One way would be to set damages at the amount of the financial loss suffered as a result of the infringement by the patent owner. Under a second method of calculation, damages would be based on an account of profits. This does not mean that the patent owner will necessarily receive all the profits the infringer has made on the infringing articles but, nevertheless, an account of profits can be very near to the actual profits made. Damages may also be assessed by taking into account the royalty being paid by any licensees. In this case a court may decide that damages should be no less than the royalty payments per article and, as they are damages and not royalties, it is likely that damages will be fixed at a higher figure.

2.121 Under some national laws, an infringer will not be liable to damages if he proves that at the date of infringement he was not aware, and had no reasonable ground for supposing, that the patent existed.

2.122 An injunction is a prohibition of the infringing act. In such a case the court will issue an order directing the infringer to stop making further copies or infringements of the patented invention. Where the infringing act has not yet been committed but where preparations have been made by a third party with a view to committing an infringing act ("imminent infringement") the injunction means that infringement may not be started.

2.123 Criminal sanctions depend on the structure of the criminal law and the procedures applicable in the country. The usual forms of criminal sanction are punishment by imprisonment or by a fine, or both.

Exploitation of the Patented Invention

Selling an Invention

2.124 It is not enough to assess the product itself; the inventor should also discover whether there is an adequate market for the product covered by his invention.

2.125 Who will buy the product? How many people make up the potential market? This is a difficult figure to assess but is one of the keys to product survival. Statistics on local populations

and potential market segments published by the relevant government agencies, as well as surveys by private firms, can provide the basis for a study of the proposed market areas by age group, marital status and so on.

2.126 For some of the more sophisticated technology, research establishments, multinational corporations and the like are showing increasing interest in taking up embryo or partially developed technology with the object of completing development and thus gaining from the research effort and securing a significant lead over competitors.

2.127 "Test marketing" is a stage that many larger companies go through before commencing full scale production. They introduce the product in limited quantities to those viewed as a typical segment of their potential market. The small businessman also should consider using this technique before he commits too much time and money launching a product that ultimately may not sell.

2.128 Basically, there are two methods the inventor can use to get his idea into production. He can sell or license his product idea to a company equipped to manufacture it. Alternatively he can become a manufacturer himself, either establishing a factory or contracting out production to a job or machine shop if appropriate.

2.129 Some companies receive new product ideas with coolness. Often, companies are besieged with unsolicited ideas from the public, very few of which are even worth serious consideration. Larger corporations frequently have research and development departments in which substantial sums of money have been invested. Management, naturally, favors in-house developments. Other companies are wary of inventors who may claim that their ideas have been stolen, when in fact the company may have been already working on the same idea.

2.130 Larger corporations often publish their policies and procedures regarding new product ideas from outside sources. Some have "submitted ideas departments." Most companies would prefer that the inventor merely send them a copy of his patent on a new idea. Alternatively, the inventor can submit a copy of his patent application as soon as it has been filed.

2.131 When submitting an idea which is not patentable, the inventor should be aware of the company's policy regarding unsolicited ideas before he sends it. Some companies reserve the right to make arbitrary payment for ideas as they see fit.

2.132 If a patented idea is accepted, the inventor may be able to choose whether he wishes to sell his patent outright for a lump sum, or enter into a licensing agreement with the company.

Compulsory Licenses

2.133 Licenses that are granted by the owner of the patent are considered "voluntary", as distinguished from "compulsory" or "non-voluntary" licenses. The beneficiary of a voluntary license has the right to perform acts covered by the exclusive right under an authorization from the owner of the patent for invention. The authorization in a contract is generally called a license contract concluded between the owner of the patent for invention and the beneficiary of the license. In contrast, the beneficiary of a non-voluntary license has the right to perform acts covered by the exclusive right under an authorization given by a government authority against the will of the owner of the patent for invention.

2.134 In countries where the grant of non-voluntary licenses is provided for, such licenses generally fall into two categories:

In the Event of Abuse of the Patent: Some countries provide for the grant of compulsory licenses to prevent the abuses which might result from the exercise of the exclusive rights conferred by the patent. Under Article 5A(2) of the Paris Convention, failure to work is given as an example of such an abuse, and

In the Public Interest: Some countries provide for the grant of a non-voluntary license in the case where a non-voluntary license is deemed necessary for reasons of public welfare, including health, defense, and development of the economy.

The Grant of Non-Voluntary Licenses to Remedy Abuses Resulting from the Exercise of the Patent Right

Non-Working of a Patent

2.135 While the definition of “working” is generally a matter of national law, it usually means at least, in the case of a patent directed to a product, the making of the product and, in the case of a patent having been granted in respect of a process, the use of the process. While the laws of some countries specifically provide that the importation of a product that includes the invention does not constitute working, the current trend is away from this requirement. As a rule, the working requirement may be fulfilled through the working of the patented invention either by the owner of the patent for invention or by another entity or person under a license contract.

2.136 At the outset it should be recalled that a patent must disclose the invention in a manner such that one skilled in the art can carry it out. Thus patents, even apart from their being worked, are considered beneficial to industry, as their publication may inspire other inventions. Moreover, the inventions described in patents fall into the public domain after the expiration of their term. That is, after their expiration, the technology disclosed in a patent can be freely used by anyone without obtaining the patent owner’s permission.

2.137 Despite these benefits, it is believed in some countries that, in order to be fully justified the patented invention should be worked in the country where the patent is granted, and not serve only as an exclusive right to prevent others from doing so or to control importation. The principal goal of requiring local working of a patented invention is the transfer of technology, the actual working of patented inventions in a given country being seen as the most efficient way of accomplishing such a transfer to that country.

2.138 The arguments against compulsory working of an invention in a particular country are twofold: first, that such compulsory working of inventions may work against the goal of transferring technology and secondly, that it may not be economically feasible to do so.

2.139 The first argument against non-voluntary licenses is that they are less effective than voluntary licensing in encouraging the transfer of technology, and may, indeed, even be counter-productive to that goal. Stated another way, voluntary licensing clearly offers one means whereby the transfer of technology can be facilitated, whereas non-voluntary licensing should not be viewed as playing such a role but should be limited to correcting abuses which may arise in the exercise of patent rights.

2.140 The transfer of technology is best done in an atmosphere of cooperation between the transferor and the transferee. In the present context, that means between the patent owner and

the potential licensee. That cooperation generally leads to the disclosure of non-patented “know-how” which is necessary to make a commercially viable product, but which was not necessary to satisfy the disclosure requirement to obtain the patent. In the case of a non-voluntary license the atmosphere of cooperation, and hence the disclosure of non-patented know-how, is absent. Thus the grant of a non-voluntary license under a patent results in a bare right to work the patented invention, which is likely to be an insufficient vehicle for the full transfer of technology.

2.141 Moreover, it may not be economically feasible to require a patent owner to manufacture products in accordance with his patent in every country in which patent protection has been obtained. Such a requirement does not allow cognizance to be taken of regional or international integration of markets or of comparative advantages of countries or regions. That is, a patent owner may find that products incorporating a patented invention, or made by a patented process, may be made cheaper if production is consolidated in one facility in one country, with the demand in other countries being satisfied by importation. Indeed, the patent owner may find that individual components of his product, which are themselves protected by patents, may be best manufactured in several countries or regions, with final assembly being conducted in one facility or on a regional or national basis.

2.142 In response to these criticisms of non-voluntary license provisions, two points are often made. First, since in countries with such provisions they are seldom applied for and even less likely to be granted, they are of little practical importance. Secondly, such provisions do serve as a legal possibility which may encourage a patent owner to more readily enter into a voluntary license agreement, even if those provisions are seldom applied. Nonetheless, the environment of cooperation usually found in the case of voluntary licensing is more effective than the environment of coercion in promoting the full and continuing transfer of technology.

2.143 Article 5A(2) of the Paris Convention specifically provides that countries of the Paris Union may provide for the grant of non-voluntary licenses to prevent abuses resulting from the exercise of patent rights, including failure to work. Article 5A(4) provides that compulsory licenses for failure to work or insufficient working of the invention may not be requested before a certain period of time of non-working or insufficient working has elapsed. This time limit expires either four years from the date of filing of the patent application or three years from the date of the grant of the patent for invention. The applicable time is the one which, in the individual case, expires last.

2.144 The time limit of three or four years is a minimum time limit which recognizes that it may take some time for the owner of a patent to begin working the patented invention in each country where he has obtained patent protection. The patent owner must be given a longer time limit, if he can give legitimate reasons for his inaction, for example, that legal, economic or technical obstacles prevent working, or working more intensively, the invention in the country. If that is proven, the request for a compulsory license must be rejected, at least for the time being. The time limit of three or four years is a minimum time limit also in that sense that national law can provide for a longer time limit.

2.145 Article 5A(4) further provides that the compulsory license for non-working or insufficient working must be a non-exclusive license and can only be transferred together with the part of the enterprise benefiting from the compulsory license. The patent owner must retain the right to grant other non-exclusive licenses and to work the invention himself. Moreover, because the compulsory license has been granted to a particular enterprise on the basis of its known capacities, it is bound to that enterprise and cannot be transferred separately from that enterprise. These limitations are intended to prevent a compulsory licensee from obtaining a stronger position on the market than is warranted by the purpose of the compulsory license, namely to ensure sufficient working of the invention in the country.

Procedural Safeguards and Compensation

2.146 The grant of a non-voluntary license results in the use of a very valuable property right of the patent owner. Since the grant of such a license is without the consent of the patent owner, reasonable procedural safeguards, including an effective appeal procedure, should be established to ensure that non-voluntary licenses are properly granted and executed. Safeguards are also provided under Article 31 of the TRIPS Agreement (see below, under *Compulsory Licenses under the TRIPS Agreement*).

2.147 In particular, the granting authority, such as a patent office, should ensure that the conditions for the grant of a non-voluntary license are met, allowing the patent owner to state his position in this regard. Moreover, the granting authority should ensure that adequate payment by the beneficiary of the non-voluntary license is made to the patent owner, and should provide means whereby the non-voluntary license may be cancelled if the grounds for the grant of the non-voluntary license no longer exist or if the obligations under the non-voluntary license are not met by the beneficiary thereof.

2.148 The grant of a non-voluntary license does not mean that the beneficiary (the licensee) need not pay royalties. On the contrary, national laws dealing with this question generally require that the licensee make payments to the patent owner on the basis of the working of the invention.

Forfeiture or Revocation of the Patents in the Event of Abuses

2.149 While it is anticipated that the grant of a compulsory license would, in most instances, be sufficient to correct abuses, Article 5A(3) envisages the forfeiture or revocation of the patent in cases where the grant of such compulsory licenses is not sufficient. That paragraph further provides that "No proceedings for the forfeiture or revocation of a patent may be instituted before the expiration of two years from the grant of the first compulsory license."

The Grant of Non-Voluntary Licenses in the Public Interest

2.150 Some countries provide for a compulsory license when there has been no "abuse" of the patent right but where the grant of a non-voluntary license is deemed necessary to protect the public interest. In general, non-voluntary licenses granted in the public interest can be divided into those that are granted in favor of private parties and those that are granted in favor of the government itself, or in favor of a person acting on behalf of the government.

Non-Voluntary Licenses Granted in the Public Interest in Favor of Private Parties

2.151 One example of a non-voluntary license granted in the public interest, but in favor of private parties, is in the case of the so-called "dependent patents." Such non-voluntary licenses are granted to remedy the situation that arises when it is not possible, without performing acts covered by one patent (the "dominant patent"), to work an invention claimed in another patent (the "dependent patent"). In such a situation, and if the owner of the dependent patent has not been able to conclude a license contract with the owner of the dominant patent on reasonable terms, the owner of the dependent patent may obtain a non-voluntary license under the dominant patent. Without that possibility, the owner of the dominant patent could prevent the working of the invention claimed in the dependent patent by refusing to grant a license. This inability to work a dependent patent is seen, in some countries, as being contrary to the public interest in having the unencumbered working of all patented inventions.

2.152 Some national laws grant such non-voluntary licenses any time a situation of dependency arises. Other national laws require that the dependent patent must serve a different purpose from that of the dominant patent or constitute a real technical advance in relation to the invention claimed in the dominant patent. That latter condition serves the purpose of avoiding abuses which could result from applicants filing patent applications on trifling inventions for the sole purpose of being able, thanks to a compulsory license, to work an important invention.

2.153 In order to introduce a certain balance between the positions of the owners of the two patents for invention, it is often provided in national laws that the owner of the dominant patent may obtain a compulsory license under the dependent patent, if the owner of the dependent patent has obtained a compulsory license under the dominant patent.

2.154 In addition to non-working, some countries provide that the use of a patent in violation of competition (anti-trust) laws is contrary to the public interest, warranting the compulsory licensing of that patent, its unenforceability or its invalidity, as a consequence of the anti-trust violation.

Non-Voluntary Licenses Granted in the Public Interest in Favor of the Government, or on its Behalf

2.155 A number of countries allow the government to exploit inventions without the consent of the owner of the patent, or to have third parties exploit the invention on its behalf, in the public interest. There are typically three fields in which this may occur: national defense, national economy and public health.

2.156 In most cases of public interest, it should be sufficient for the State to authorize, against the will of the owner of the patent for invention, any entity or person designated by the Government, to perform any of the acts which are covered by the patent for invention. In each specific case, the Government will decide which of those acts may be performed.

2.157 This kind of measure in the public interest suits situations that arise in cases of national emergency particularly well. To take the example of medical equipment, it might be necessary to import that equipment very quickly in case of a sudden epidemic. If the owner of the patent is not willing to import or to conclude a license contract for importation on reasonable terms, the Government might decide to ask another entity to import the apparatus or might decide to import it itself. Once the epidemic has been brought under control, however, there is no reason to maintain the measure, and the owner of the patent for invention will recover the full control of the rights attached to the patent.

Procedural Safeguards and Compensation

2.158 Because the grant of non-voluntary licenses confers the right to use a valuable property right of the patent owner, without his consent, procedural safeguards should be established to ensure that the grant of such licenses is only when, and for as long as, the conditions warrant it. Moreover, provisions should be made for the compensation of the patent owner for the use of his property rights. Safeguards are also provided under Article 31 of the TRIPS Agreement (see below).

Compulsory Licenses under the TRIPS Agreement

2.159 Reference is made to the section in Chapter 5 which explains the TRIPS Agreement. Article 31 of the TRIPS Agreement allows Members to authorize third persons to exploit a patented invention, even against the will of the patent owner, provided certain conditions are respected. The Agreement does not prescribe nor limit the grounds on which such authorizations may be granted.

2.160 Where the law of a Member allows for such compulsory licenses, including compulsory licenses by or on behalf of the government, or provides for other uses of the patented invention without the authorization of the patent owner, the following conditions must be complied with:

- (a) Authorization of a compulsory license must be considered on its individual merits. This means that applications for compulsory licenses must be considered on a case-by-case basis.
- (b) A compulsory license can only be granted if the proposed compulsory licensee has made efforts to obtain authorization from the right holder on reasonable commercial terms and conditions and if such efforts have not been successful within a reasonable period of time. This requirement may be waived by a Member in the cases of a national emergency or other circumstances of extreme urgency, or in cases of public non-commercial use.
- (c) The scope and duration of a compulsory license must be limited to the purpose for which it was authorized. However, in the case of semi-conductor technology a compulsory license may only be granted for public non-commercial use, or to remedy a practice determined to be anti-competitive.
- (d) A compulsory license must be non-exclusive.
- (e) A compulsory license may not be assigned without that part of the enterprise or goodwill which produces the product under that license.
- (f) A compulsory license must be authorized predominantly for the supply of the domestic market of the Member that grants the license.
- (g) A compulsory license must be liable to be terminated, subject to adequate protection of the legitimate interests of the compulsory licensee, if the circumstances that justified its grant have ceased to exist and are unlikely to recur.
- (h) The patent owner must be paid adequate remuneration in the circumstances of each case, taking into account the economic value of the allowed use.
- (i) The legal validity of any decision relating to the grant of a compulsory license must be subject to judicial review or other independent review by a distinct higher authority in the Member that granted the license.
- (j) Any decision relating to the remuneration in respect of a compulsory license must be subject to judicial review or other independent review by a distinct higher authority in the Member that granted the license.
- (k) A Member is not obliged to apply the conditions set forth in items (b) and (f) above where the compulsory license is granted to remedy a practice determined to be anti-competitive. The need to correct anti-competitive practices may be taken into account in determining the amount of remuneration in such cases. The competent authority of the Member must have the power to refuse termination of a compulsory license if the conditions that justified its grant are likely to recur.
- (l) In cases of dependency between two patents belonging to different owners, so that the later patent cannot be exploited without infringing the earlier patent, the following additional conditions must be applied:

- the invention claimed in the second patent must involve an important technical advance of considerable economic significance in relation to the invention claimed in the first patent;
- the owner of the first patent is entitled to a cross-license on reasonable terms to use the invention claimed in the second patent; and
- the use authorized in respect of the first patent may not be assigned except with the assignment of the second patent.

Utility Models

2.161 In a number of countries protection may be obtained for “utility models.” In essence “utility model” is merely a name given to certain inventions, namely—according to the laws of most countries which contain provisions on utility models—inventions in the mechanical field. This is why the objects of utility models are sometimes described as devices or useful objects. Utility models differ from inventions for which patents for invention are available mainly in two respects. First, the technological progress required is smaller than the technological progress (“inventive step”) required in the case of an invention for which a patent for invention is available. Second, the maximum term of protection provided in the law for a utility model is generally much shorter than the maximum term of protection provided in the law for an invention for which a patent for invention is available. The document that the inventor receives in the case of a utility model may be called, and in several countries is called, a patent. If it is called a patent, one must, in order to distinguish it from patents for invention, always specify that it is a “patent for utility model.”

Copyright and Related Rights

Introduction

2.162 Copyright law is a branch of that part of the law which deals with the rights of intellectual creators. Copyright law deals with particular forms of creativity, concerned primarily with mass communication. It is concerned also with virtually all forms and methods of public communication, not only printed publications but also such matters as sound and television broadcasting, films for public exhibition in cinemas, etc. and even computerized systems for the storage and retrieval of information.

2.163 Copyright deals with the rights of intellectual creators in their creation. Most works, for example books, paintings or drawings, exist only once they are embodied in a physical object. But some of them exist without embodiment in a physical object. For example music or poems are works even if they are not, or even before they are, written down by a musical notation or words.

2.164 Copyright law, however, protects only the form of expression of ideas, not the ideas themselves. The creativity protected by copyright law is creativity in the choice and arrangement of words, musical notes, colors, shapes and so on. Copyright law protects the owner of rights in artistic works against those who “copy”, that is to say those who take and use the form in which the original work was expressed by the author.

Copyright Protection

2.165 Copyright protection is above all one of the means of promoting, enriching and disseminating the national cultural heritage. A country's development depends to a very great extent on the creativity of its people, and encouragement of individual creativity and its dissemination is a *sine qua non* for progress.

2.166 Copyright constitutes an essential element in the development process. Experience has shown that the enrichment of the national cultural heritage depends directly on the level of protection afforded to literary and artistic works. The greater the number of a country's intellectual creations, the higher its renown; the greater the number of productions in literature and the arts, the more numerous their so-called "auxiliaries" (the performers, producers of phonograms and broadcasting organizations) in the book, record and entertainment industries; and indeed, in the final analysis, encouragement of intellectual creation is one of the basic prerequisites of all social, economic and cultural development.

2.167 Legislation could provide for the protection not only of the creators of intellectual works but also of the auxiliaries that help in the dissemination of such works, in respect of their own rights. The protection of these auxiliaries of intellectual creators is also of importance to developing countries since the cultural achievement of some of these countries includes, in no small measure, performance, sound recording and broadcasting of different creations of their folklore as well. While developing countries are often in need of foreign books, especially in the field of science, technology, education and research, they could offer to the world an abundance of their national cultural heritage, which can be protected, within the framework of copyright legislation, through protection of the rights of these auxiliaries or of related (or neighboring) rights as they are called.

2.168 Adoption of the law is the first step. The practical value of the law depends on its effective and efficient application. This can be achieved through setting up of appropriate authors' organizations for collection and distribution of authors' fees. Copyright, if effectively implemented, serves as an incentive to authors and their assignees (the publishers) to create and disseminate knowledge. It is something that society must necessarily accept if it wishes to encourage intellectual creativity, to ensure the progress of the sciences, the arts and of knowledge in general, to promote the industry using authors' works and to render it possible to distribute such works in an organized manner among the widest possible circle of interested persons.

2.169 Copyright protection, from the viewpoint of the creator of works, makes sense only if the creator actually derives benefits from such works, and this cannot happen in the absence of publication and dissemination of his works and the facilitation of such publication and dissemination. This is the essential role of copyright in developing countries.

2.170 There are several factors influencing intellectual creativity in developing countries, apart from the pecuniary condition of most of the authors and intellectual creators themselves, who need to be offered incentives and subsidies. There is the shortage of paper for the production of textbooks for the process of continuing education (both formal and non-formal), and for production of prescribed and recommended books as also general books, which are to be placed within the reach of the common man in these countries.

2.171 The role of governments in this activity could include financial assistance in the creation and production of textbooks and other educational literature, inputs for training and also help for expansion of the library system, the creation of mobile libraries to serve far-flung and remote rural areas, etc. In this whole chain, the various links, namely authorship, publishing, distribution and

fostering of the library movement on a broad base, cannot be underrated, and need to be carefully nurtured and coordinated.

2.172 In the late nineteenth and in the twentieth century considerable socio-economic and political changes on the one hand, and rapid strides in technological development on the other, have brought about substantial changes of outlook in relation to copyright. The freedom and expansion of the press, the gradual disappearance of the feudal order, the growth of adult training and mass education schemes, the raising of standards in higher education, the increase in the number of universities, institutions of higher learning and libraries, the emphasis on the use of national languages, the development of science and technology, the changed map of the world with the birth of a number of newly independent developing nations—all these factors have caused conceptual changes.

2.173 The challenge in this new situation is to maintain a balance between provision of adequate rewards to creators of works and ensuring that such rewards are in harmony with the public interest and the needs of modern society.

Subject Matter of Copyright Protection

2.174 The subject-matter of copyright protection includes every production in the literary, scientific and artistic domain, whatever the mode or form of expression. For a work to enjoy copyright protection, however, it must be an original creation. The ideas in the work do not need to be new but the form, be it literary or artistic, in which they are expressed must be an original creation of the author. And, finally, protection is independent of the quality or the value attaching to the work—it will be protected whether it be considered, according to taste, a good or a bad literary or musical work—and even of the purpose for which it is intended, because the use to which a work may be put has nothing to do with its protection.

2.175 Works eligible for copyright protection are, as a rule, all original intellectual creations. A non-exhaustive, illustrative enumeration of these is contained in national copyright laws. To be protected by copyright law, an author's works must originate from him; they must have their origin in the labor of the author. But it is not necessary, to qualify for copyright protection, that works should pass a test of imaginativeness, of inventiveness. The work is protected irrespective of the quality thereof and also when it has little in common with literature, art or science, such as purely technical guides or engineering drawings, or even maps. Exceptions to the general rule are made in copyright laws by specific enumeration; thus laws and official decisions or mere news of the day are generally excluded from copyright protection.

2.176 Practically all national copyright laws provide for the protection of the following types of work:

literary works: novels, short stories, poems, dramatic works and any other writings, irrespective of their content (fiction or non-fiction), length, purpose (amusement, education, information, advertisement, propaganda, etc.), form (handwritten, typed, printed; book, pamphlet, single sheet, newspaper, magazine); whether published or unpublished; in most countries "oral works," that is, works not reduced to writing, are also protected by the copyright law;

musical works: whether serious or light; songs, choruses, operas, musicals, operettas; if for instructions, whether for one instrument (solos), a few instruments (sonatas, chamber music, etc.), or many (bands, orchestras);

artistic works: whether two-dimensional (drawings, paintings, etchings, lithographs, etc.) or three-dimensional (sculptures, architectural works), irrespective of content (representational or abstract) and destination (“pure” art, for advertisement, etc.);

maps and technical drawings;

photographic works: irrespective of the subject matter (portraits, landscapes, current events, etc.) and the purpose for which they are made;

motion pictures (“cinematographic works”): whether silent or with a soundtrack, and irrespective of their purpose (theatrical exhibition, television broadcasting, etc.), their genre (film dramas, documentaries, newsreels, etc.), length, method employed (filming “live,” cartoons, etc.), or technical process used (pictures on transparent film, videotapes, DVDs, etc.).

computer programs (either as a literary work or independently).

2.177 Many copyright laws protect also “works of applied art” (artistic jewelry, lamps, wallpaper, furniture, etc.) and choreographic works. Some regard phonograph records, tapes and broadcasts also as works.

Rights Comprised in Copyright

2.178 The owner of copyright in a protected work may use the work as he wishes—but not without regard to the legally recognized rights and interests of others—and may exclude others from using it without his authorization.

2.179 Therefore, the rights bestowed by law on the owner of copyright in a protected work are frequently described as “exclusive rights” to authorize others to use the protected work.

2.180 The original authors of works protected by copyright also have “moral rights”, in addition to their exclusive rights of an economic character.

2.181 What is meant by “using” a work protected by copyright? Most copyright laws define the acts in relation to a work which cannot be performed by persons other than the copyright owner without the authorization of the copyright owner.

2.182 Such acts, requiring the authorization of the copyright owner, normally are the following: copying or reproducing the work; performing the work in public; making a sound recording of the work; making a motion picture of the work; broadcasting the work; translating the work; adapting the work.

Right of Reproduction and Related Rights

2.183 The right of the owner of copyright to prevent others from making copies of his works is the most basic right under copyright. For example, the making of copies of a protected work is the act performed by a publisher who wishes to distribute copies of a text-based work to the public, whether in the form of printed copies or digital media such as CD-ROMs. Likewise, the right of a phonogram producer to manufacture and distribute compact discs (CDs) containing recorded performances of musical works is based, in part, on the authorization given by the composers of

such works to reproduce their compositions in the recording. Therefore, the right to control the act of reproduction is the legal basis for many forms of exploitation of protected works.

2.184 Other rights are recognized in national laws in order to ensure that the basic right of reproduction is respected. For example, some laws include a right to authorize distribution of copies of works. The right of distribution is usually subject to exhaustion upon first sale or other transfer of ownership of a particular copy, which means that, after the copyright owner has sold or otherwise transferred ownership of a particular copy of a work, the owner of that copy may dispose of it without the copyright owner's further permission, for example, by giving it away or even by reselling it. Another right which is achieving wider and wider recognition, including in the TRIPS Agreement (see chapter 5, paragraph 5.241), is the right to authorize rental of copies of certain categories of works, such as musical works included in phonograms, audiovisual works, and computer programs. The right of rental is justified because technological advances have made it very easy to copy these types of works; experience in some countries has shown that copies were made by customers of rental shops, and therefore, that the right to control rental practices was necessary in order to prevent abuse of the copyright owner's right of reproduction. Finally, some copyright laws include a right to control importation of copies as a means of preventing erosion of the principle of territoriality of copyright; that is, the legitimate economic interests of the copyright owner would be endangered if he could not exercise the rights of reproduction and distribution on a territorial basis.

Performing Rights

2.185 Another act requiring authorization is the act of public performance—for example, public readings, dramatic and musical performances before an audience. The right to control this act of public performance is of interest not only to the owners of copyright in works originally designed for public performance, but also to the owners of copyright, and to persons authorized by them, when others may wish to arrange the public performance of works originally intended to be used by being reproduced and published. For example, a work written originally in a particular way in order to be read at home or in a library may be transformed ("adapted") into a drama designed to be performed in public on the stage of a theater.

Recording Rights

2.186 The third act to be examined is the act of making a sound recording of a work protected by copyright. So far as music is concerned, sound recording is the most favored means of communicating a work to a wide public. This serves much the same purpose for musical works as books serve for literary works.

2.187 Sound recordings can incorporate music alone, words alone or both music and words. The right to authorize the making of a sound recording belongs to the owner of the copyright in the music and also to the owner of the copyright in the words. If the two owners are different, then, in the case of a sound recording incorporating both music and words, the maker of the sound recording must obtain the authorization of both owners.

2.188 Under the laws of some countries, the maker of a sound recording must also obtain the authorization of the performers who play the music and who sing or recite the words. This is another example of the fact that the owner of copyright in a work cannot use it or authorize the use of it in a way which is contrary to the legal rights of others.

Motion Picture Rights

2.189 A "motion picture" is a visual recording, giving to viewers an impression of motion. In the technical language of copyright law it is often called a "cinematographic work" or an "audiovisual work." In some countries the word "film" is used instead of the expression "motion picture." The expression "motion picture" is perhaps preferable, because such productions are, today, frequently made with technological methods (such as magnetic tape) which do not require the use of photographic film.

2.190 A drama originally written for performance by performers to an immediately present audience ("live performance") can be visually recorded and shown to audiences far larger in numbers than those who can be present at the live performance; such audiences can see the motion picture far away from the place of live performance and at times much later than the live performance.

Broadcasting Rights

2.191 A major category of acts restricted by copyright consists of the acts of broadcasting works and of communicating works to the public by means of wires or cables.

2.192 When a work is broadcast, a wireless signal is emitted into the air which can be received by any person, within range of the signal, who possesses the equipment (radio or television receiver) necessary to convert the signal into sounds or sounds and images.

2.193 When a work is communicated to the public by cable, a signal is diffused which can be received only by persons who possess such equipment linked to the cables used to diffuse the signal.

2.194 In principle, according to the Berne Convention for the Protection of Literary and Artistic Works, owners of copyright have the exclusive right of authorizing both the wireless broadcasting and the diffusion by cable of their works.

2.195 The broadcasting and diffusion by cable of works protected by copyright have given rise to new problems resulting from technological advances which may require a review by governments of their national copyright legislation. The advances include the use of space satellites to extend the range of wireless signals, the increasing possibilities of linking radio and television receivers to signals diffused by cable, and the increasing use of equipment able to record sound and visual images which are broadcast or diffused by cable.

Translation and Adaptation Rights

2.196 The acts of translating or of adapting a work protected by copyright require the authorization of the copyright owner.

2.197 "*Translation*" means the expression of a work in a language other than that of the original version.

2.198 "*Adaptation*" is generally understood as the modification of a work from one type of work to another, for example adapting a novel so as to make a motion picture, or the modification of a work so as to make it suitable for different conditions of exploitation, for example adapting an instructional textbook originally prepared for higher education into an instructional textbook intended for students at a lower level.

2.199 Translations and adaptations are themselves works protected by copyright. Therefore, in order, for example, to reproduce and publish a translation or adaptation, the publisher must have the authorization both of the owner of the copyright in the original work and of the owner of copyright in the translation or adaptation.

Moral Rights

2.200 The Berne Convention requires member countries to grant to authors:

- the right to claim authorship of the work;
- the right to object to any distortion, mutilation or other modification of, or other derogatory action in relation to, the work which would be prejudicial to the author's honor or reputation.

2.201 These rights, which are generally known as the moral rights of authors, are required to be independent of the usual economic rights and to remain with the author even after he has transferred his economic rights.

Related Rights

2.202 There exist rights related to, or "neighboring on", copyright. These rights are generally referred to as "related rights" (or "neighboring rights,") in an abbreviated expression.

2.203 It is generally understood that there are three kinds of related rights: the rights of performing artists in their performances, the rights of producers of phonograms in their phonograms, and the rights of broadcasting organizations in their radio and television programs. Protection of those who assist intellectual creators to communicate their message and to disseminate their works to the public at large, is attempted by means of related rights.

2.204 Works of the mind are created in order to be disseminated among as many people as possible. This cannot be done generally by the author himself, for it requires intermediaries whose professional capability gives to the works those forms of presentation that are appropriate to make them accessible to a wide public. A play needs to be presented on the stage, a song needs to be performed by artists, reproduced in the form of records or broadcast by means of radio facilities. All persons who make use of literary, artistic or scientific works in order to make them publicly accessible to others require their own protection against the illegal use of their contributions in the process of communicating the work to the public.

2.205 Let us examine why such protection of those that thus assist intellectual creators was found necessary and how it developed. The protection of authors' interests does not consist merely in preventing the use of their creations and cannot be limited to prohibiting infringements of the rights that laws afford to the authors. Their works are intended to be made available to the public at large. Various categories of works are made accessible to the public in various ways. A publisher reproduces a manuscript in its final form without adding to the expression of the work as created by the author. The interests of book publishers are protected by means of copyright itself and laws do recognize that copyright is essential as a stimulus to creative writing, as also to support the economies of publishing.

2.206 The position is slightly different with regard to dramatic and musical works, pantomimes, or other types of creative works intended for either auditive or visual reception. Where some of such works are communicated to the public, they are produced or performed or recited with the aid of performers. In such cases, there arises the interest of the performers themselves in relation to the use of their individual interpretation in the performed work.

2.207 The problem in regard to this category of intermediaries has become more acute with rapid technological developments. Where, at the very beginning of the 20th century, the performance of dramatists, actors, or musicians ended with the play or concert in which they performed, it is no longer so with the advent of the phonograph, the radio, the motion picture, the television, the videogram and satellites.

2.208 These technological developments made possible the fixing of performances on a variety of material, viz., records, cassettes, tapes, films, etc. What was earlier a localized and immediate phase of a performance in a hall before a limited audience became an increasingly permanent manifestation capable of unlimited and repeated reproduction and use before an equally unlimited audience that went beyond national frontiers. The development of broadcasting and more recently, television, also had similar effects.

2.209 These technological innovations, since they have made it possible to reproduce individual performances by performing artists and to use them without their presence and without the users being obliged to reach an agreement with them, have led to a reduction in the number of live performances. This creates what has come to be known as technological unemployment among professional artists, thus giving a new dimension to the protection of the interests of performers.

2.210 Likewise by the very same token, the increasing technological development of phonograms and cassettes and, more recently, compact discs (CDs), and their rapid proliferation, was pointing to the need of protection of producers of phonograms. The appeal of the phonogram, as also the easy availability in the market of the variety of increasingly sophisticated recording devices, created the growing problem of piracy, which by now has become a worldwide scourge. In addition, there is the increasing use of records and discs by broadcasting organizations; while the use of these by the latter provides publicity for the phonograms and for their producers, these also have, in turn, become an essential ingredient of the daily programs of broadcasting organizations. Consequently, just as the performers were seeking their own protection, the producers of phonograms began to pursue the case of their protection against unauthorized duplication of their phonograms, as also for remuneration for the use of phonograms for purposes of broadcasting or other forms of communication to the public.

2.211 Finally, there were the interests of broadcasting organizations as regards their individually composed programs. The broadcasting organizations required their own protection for these as well as against retransmission of their own programs by other similar organizations.

2.212 Thus the need was felt for special protection for performers, producers of phonograms and broadcasting organizations. The performers through their organizations at the international level sought a study leading to their protection. While a performer would be paid once for recording a performance, and the recording of the performance could be played repeatedly for the benefit of a third party, the performers felt that they would not only not derive any income from such secondary use, but would also be placed in the awkward position of having to compete with their own recordings in respect of their employment potential for live performances in theaters, restaurants, cafés, etc.

2.213 Unlike most international conventions, which follow national legislation and provide a synthesis of existing laws, the Rome Convention was an attempt to establish international regulations in a new field where few national laws existed. This meant that most States would have to draft and enact laws before adhering to the Convention. Since the adoption of the Convention in 1961, a large number of States have legislated in matters related to the Convention, and a number of others are considering such legislation.

2.214 The notion of Related Rights is understood as meaning rights granted in an increasing number of countries to protect the interests of performers, producers of phonograms and broadcasting organizations in relation to their activities in connection with the public use of authors' works, all kinds of artists' presentations or the communication to the public of events, information, and any sounds or images. The most important categories are: the right of performers to prevent fixation and direct broadcasting or communication to the public of their performance without their consent; the right of producers of phonograms to authorize or prohibit reproduction of their phonograms and the import and distribution of unauthorized duplicates thereof; the right of broadcasting organizations to authorize or prohibit rebroadcasting, fixation and reproduction of their broadcasts. An increasing number of countries already protect some or all of these rights by appropriate rules, codified mainly within the framework of their copyright laws. Several countries also grant a sort of moral right to performers to protect them against distortion of their performances and grant them the right to claim the mention of their name in connection with their performances. Some countries also protect the interests of broadcasting organizations by preventing the distribution on or from their territory of any program-carrying signal emitted to or passing through a satellite, by a distributor for whom the signal is not intended. No protection of any related right can, however, be interpreted as limiting or prejudicing the protection secured to authors or beneficiaries of other related rights under a national law or an international convention.

2.215 Protection of performers is provided in order to safeguard the interests of actors, singers, musicians, dancers, or other persons who act, sing, deliver, declaim, play in or otherwise perform literary or artistic works, or expressions of folklore, against certain unlawful uses of their performances. The term "producer of phonograms" denotes a person who, or a legal entity which, first fixes the sounds of a performance or other sounds. A phonogram is any exclusively aural fixation of sounds of a performance or of other sounds. A duplicate of a phonogram is any article containing sounds taken directly or indirectly from a phonogram and which embodies all or a substantial part of the sounds fixed in that phonogram. Gramophone records (discs), magnetophone cassettes and compact discs are duplicates of a phonogram. Broadcasting is usually understood as meaning telecommunication of sounds and/or images by means of radio waves for reception by the public at large. A broadcast is any program transmitted by broadcasting, in other words, transmitted by any wireless means (including satellite transmissions) for public reception of sounds and of images and sounds.

2.216 Communication to the public by wire is generally understood as meaning the transmission of a work, performance, phonogram or broadcast by sounds or images through a cable network to receivers not restricted to specific individuals belonging to a private group.

2.217 By first fixation of sounds is meant the original embodiment of sounds of a live performance, or of any other sounds not taken from another existing fixation, in some enduring material form such as tapes, records or any other appropriate device permitting them to be perceived, reproduced or otherwise repeatedly communicated. First fixation of sounds is not to be confused with first publication of a phonogram.

2.218 Another notion, that of rebroadcasting, is either simultaneous transmission of a broadcast of a program being received from another source, or a new, deferred broadcast of a formerly recorded program transmitted or received earlier.

2.219 Finally, it must be stated that since in the cultural life of countries, including the developing countries, due importance is attached to the artistic heritage, the protection of related rights affords rights to those who contribute to the interpretation and dissemination of that heritage. It is particularly important for some developing countries whose tradition is largely oral and where the author is often the performer as well. In this context, the place occupied by works of folklore must be borne in mind, and the interests of the artists performing and thus perpetuating them must be safeguarded when use is made of their performances. By also protecting the producers of phonograms, particularly in developing countries, the basis for setting up an industry in the tertiary sector of the economy is ensured. Such an industry, while guaranteeing the dissemination of national culture, both within the country and throughout the world, can additionally constitute a substantial source of revenue for the country's economy and, in those cases where its activities extend beyond the country's frontiers, can represent an inflow of foreign currency. The part played by the broadcasting organizations in developing countries should also not be forgotten, nor that such organizations have a natural interest in the protection of their programs against rebroadcasting, reproduction and communication to the public.

Ownership of Copyright

2.220 The owner of copyright in a work is generally, at least in the first instance, the person who created the work, that is to say, the author of the work.

2.221 There can be exceptions to this general principle. Such exceptions are regulated by the national law. For example, the national law may provide that, when a work is created by an author who is employed for the purpose of creating that work, then the employer, not the author, is the owner of the copyright in the work.

2.222 It is to be noted, however, that the "moral rights" always belong to the author of the work, whoever may be the owner of the copyright.

2.223 In many countries, copyright (with the exception of moral rights) may be assigned. This means that the owner of the copyright transfers it to another person or entity, who becomes the owner of the copyright.

2.224 In some other countries, an assignment of copyright is not legally possible. However, very nearly the same practical effect as the effect of assignment can be achieved by licensing. Licensing means that the owner of the copyright remains the owner but authorizes someone else to exercise all or some of his rights subject to possible limitations. When such authorization or license extends to the full period of copyright and when such authorization or license extends to all the rights (except, of course, the moral rights) protected by copyright, the licensee is, vis-à-vis third parties and for all practical purposes, in the same position as an owner of copyright.

Limitations on Copyright Protection

Temporal

2.225 Copyright does not continue indefinitely. The law provides for a period of time, a duration, during which the rights of the copyright owner exist.

2.226 The period or duration of copyright begins with the creation of the work. The period or duration continues until some time after the death of the author. The purpose of this provision in the law is to enable the author's successors to have economic benefits after the author's death. It also safeguards the investments made in the production and dissemination of works.

2.227 In countries which are party to the Berne Convention, and in many other countries, the duration of copyright provided for by national law is the life of the author and not less than fifty years after the death of the author. In recent years, a tendency has emerged towards lengthening the term of protection.

Geographic

2.228 The second limitation or exception to be examined is a geographical limitation. The owner of the copyright in a work is protected by the law of a country against acts restricted by copyright which are done in that country. For protection against such acts done in another country, he must refer to the law of that other country. If both countries are members of one of the international conventions on copyright, the practical problems arising from this geographical limitation are very much eased.

Permitted Use

2.229 Certain acts normally restricted by copyright may, in circumstances specified in the law, be done without the authorization of the copyright owner. Some examples of such exceptions are described as "fair use." Such examples include reproduction of a work exclusively for the personal and private use of the person who makes the reproduction; another example is the making of quotations from a protected work, provided that the source of the quotation, including the name of the author, is mentioned and that the extent of the quotation is compatible with fair practice.

Non-Material Works

2.230 In some countries, works are excluded from protection if they are not fixed in some material form. In some countries, the texts of laws and of decisions of courts and administrative bodies are excluded from copyright protection. It is to be noted that in some other countries such official texts are not excluded from copyright protection; the government is the owner of copyright in such works, and exercises those rights in accordance with the public interest.

Miscellaneous

2.231 In addition to exceptions based on the principle of "fair use" other exceptions are to be found in national laws and in the Berne Convention. For example, when the broadcasting of a work has been authorized, many national laws permit the broadcasting organization to make a temporary recording of the work for the purposes of broadcasting, even if no specific authorization of the act of recording has been given. The laws of some countries permit the broadcasting of protected works without authorization, provided that fair remuneration is paid to the owner of

copyright. This system, under which a right to remuneration can be substituted for the exclusive right to authorize a particular act, is frequently called a system of "compulsory licenses." Such licenses are called "compulsory" because they result from the operation of law and not from the exercise of the exclusive right of the copyright owner to authorize particular acts.

Piracy and Infringement

2.232 The rights of an owner of copyright are infringed when one of the acts requiring authorization of the owner is done by someone else without his consent. The unauthorized copying of copyright materials for commercial purposes and the unauthorized commercial dealing in copied materials is known as "piracy."

Incidence of Piracy

2.233 An essential part of piracy is that the unauthorized activity is carried on for commercial gain. This element of commercial gain implies that piracy will often be carried out on an organized basis, since not only is the unauthorized reproduction of a work involved, but also the subsequent sale or distribution of the illegally reproduced work, which will require some form of organized distribution network or contact with potential purchasers. To the consumer, often only the end of the chain of such a distribution network will be visible in the form of one sales outlet selling a pirated product. It is important to bear in mind, however, particularly when addressing the question of the means of dealing effectively with piracy, that behind one such outlet will often lie a systematically organized illicit enterprise, which illegally reproduces a copyrighted work and distributes it to the public via a number of such sales outlets.

2.234 While piracy is not a recent phenomenon, two developments have occurred which have caused it to assume alarming proportions, and to threaten the basis of the copyright system.

2.235 The first has been the advances in the means by which intellectual works may be communicated. The medium of the printed word has been supplemented progressively by media for communicating audio and visual recordings in the form of phonograms, music cassettes, films and videograms. Similarly, widespread commercialization of the computer has added a further means of recording and communicating information. Most recently, the advent of digital technology has had a tremendous impact on the creation, dissemination and use of works.

2.236 The copyright system has responded to these developments by progressively enlarging the subjects over which the creators of intellectual works are granted rights. These advances, however, have increased the scope for pirates to interfere in the control which an author exercises over the dissemination and use of his works by the public.

2.237 Simultaneously with the advances in the means of communicating intellectual works have been significant advances in the means of reproducing tangible records of those works. Foremost amongst the latter developments have been:

- the development of the offset technique of printing and of duplicating and photocopying machines;
- the invention of the magnetic tape, the advent of the compact disc, and the development of higher quality and cheaper cassette recorders which enable not only the playing of

pre-recorded cassettes, but also the recording of music from live performances, radio or gramophone records; and

- the invention of the video recorder, which has extensively enlarged the means by which films and other, principally visual, works may be received.

2.238 One consequence of these advances is the difference in cost between, on the one hand, the making of the original recording by an author and his business partners and, on the other hand, the reproduction of such a recording by others. In the case of a film, a producer must, through his own and his partners investment, finance the script writer and any other literary author involved, the musical composer, the actors, the support cast, the cost of location and site facilities, and the use of sophisticated visual and sound recording equipment. Once a tangible record has been made of the film, however, particularly if the record is contained in a videogram recording, further records of the work can be reproduced with considerable ease and at little cost. Thus, advances in recording technology have produced the means whereby pirates can easily produce illegal versions of the original work. Since the pirate has not made, and therefore does not need to recover the cost of, any investment in the production of the original work, the pirated copies are usually sold at reduced prices, thereby undermining the original author's, performer's, investor's and distributor's possibility of obtaining a just moral and economic reward for their work and investment.

Effects of Piracy on Consumers, on Creators and their Promoters, and on Governmental Authorities

2.239 While consumers may sometimes see short-term benefits in the availability of cheaper works as a result of piracy, the quality of reproductions made by pirates is often very inferior. Consumers are also disadvantaged in the long term by piracy as a result of the absence of remuneration given to authors and performers by pirates, and of the misappropriation of the economic returns to publishers and producers. This diversion of economic rewards from authors and their business partners to pirates removes the incentive to the investment of time, effort, skill and resources in the creation of new works.

2.240 Since piracy is a clandestine activity, the profits derived by pirates are not subject to tax collection. Amongst the adverse consequences of this diminution in governmental revenue may be a reduction in the amount of government sponsorship available for the arts, as the level of such sponsorship may in part be determined by reference to the contribution which is made to the government budget by taxation derived from the distribution or sale of works subject to copyright protection.

2.241 Piracy can be seen to have detrimental effects, therefore, on each of the elements that make up the copyright system. In consequence, piracy threatens to stultify the evolution and development of national cultural identity which the copyright system is designed to promote.

Remedies

Introduction

2.242 Remedies for infringement of copyright or for violation of related rights consist of civil redress, as where infringers are obliged by court to cease the infringement and to undertake reparatory action by any appropriate means, for example, rectification in the press or liability for damages. Some laws also provide for penal remedies in the form of fines and/or imprisonment.

Infringing copies, receipts resulting from infringement and any implement used for the same are usually subject to seizure.

2.243 The main remedies which are available to a copyright owner in respect of infringement in common-law jurisdictions are an injunction to restrain the continuation of the infringement, and damages to compensate the copyright owner for the depreciation caused by the infringement to the value of his copyright. In the context of piracy, because it is often carried out as an organized activity, the effectiveness of these remedies may be jeopardized for a number of reasons.

2.244 In the first place, the organizer of the making and distribution of illegal reproductions may be using a large number of sales outlets of an impermanent nature. The copyright owner may be confronted with a situation in which it is possible to locate only a small proportion of these outlets, without being able to prove any linkage between the outlets, or any common source of supply for the outlets. Furthermore, the service of a writ commencing an action for infringement, by giving notice to the pirate or to those distributing the works which he has illegally reproduced, may precipitate the destruction of vital evidence required to indicate the source of supply and the extent of sales which have taken place. In addition, since piracy often involves an international dimension, there is a risk that the financial resources and other assets of a pirate may be removed from the jurisdiction in which legal proceedings are commenced against him, thereby depriving the copyright owner of the possibility of recovering damages.

2.245 These difficulties have accentuated the need for preliminary remedies which may be obtained speedily, which will assist in the collection of evidence against a pirate, and which will prevent the destruction of evidence and the removal of financial resources against which damages may be claimed. In many common-law jurisdictions a number of developments have occurred in recent years in response to this need.

Anton Piller Orders

2.246 Foremost among the new developments which have occurred in preliminary remedies has been the so-called Anton Piller order. The Anton Piller order, named after the case in which the English Court of Appeal sanctioned its use (Anton Piller K.G. v Manufacturing Processes Ltd. [1976] RPC 719), is an order granted by the court permitting the inspection of premises on which it is believed some activity is being carried on which infringes the copyright of the plaintiff. The order has a number of features which make it a particularly appropriate remedy in the context of piracy:

- First, the order will be granted *ex parte*, that is, on the application and in the presence alone of the copyright owner, without prior warning being given to the defendant. The essence of the order is thus that it takes the defendant by surprise, and precludes the defendant from destroying or removing vital evidence.
- Secondly, the terms on which the order is granted enable the copyright owner to inspect the premises of the defendant, and all documents (including business information, such as bills, invoices, sources of supply and customer lists) relating to the alleged infringement. By virtue of these terms, the copyright owner is given the means whereby he may be able to establish the source of supply of pirated works, and the extent of sales which have taken place, which will assist in turn in establishing the amount of damages to which he may be entitled.
- Thirdly, the order for inspection will often be accompanied by an injunction restraining the defendant from altering or removing in any way articles or documents referred to in the order for inspection.

2.247 The Anton Piller order can undoubtedly constitute an important weapon in the armory against piracy. Since it is granted on an *ex parte* basis, however, care needs to be exercised to ensure that the rights of persons against whom it is granted, and whose actions have not yet been judged, are adequately protected. Two safeguards, in particular, which have been required by courts in jurisdictions where it is available, should be noted. First, it will only be granted where it is essential that the plaintiff should have inspection so that justice can be done between the parties. In order to meet this criterion, usually a copyright owner will have to prove that there is clear evidence that the defendants have in their possession incriminating documents or material; that the circumstances are such that there is a real possibility or grave danger that the incriminating materials will be destroyed or hidden if the defendant is forewarned; and that the potential or actual damage to the plaintiff as a result of the defendant's alleged wrongdoings is very serious.

2.248 The second safeguard which is often required is proper respect for the defendant's rights in the execution of the order. In this respect, it may be required that, in executing the order, a copyright owner be attended by his lawyer, give the defendant adequate opportunity of considering the order, and not force entry into the defendant's premises against his will. Of course, if a defendant were to refuse entry into his premises, this would cause extremely adverse inferences to be drawn against him at the subsequent trial.

2.249 In relation to Anton Piller orders, it may finally be noted that the effectiveness of the orders was brought into question in one case when a defendant, pleading the privilege against self-incrimination, successfully applied to discharge orders on the ground that they would expose him to a real risk of prosecution for a criminal offense (Rank Film Distributors Ltd. v Video Information Center [1981] 2 All E.R. 76). In order to overcome the effects of this decision, it may be necessary to pass legislation revoking the privilege against self-incrimination as a basis for refusing to comply with an Anton Piller order, as was done in the Supreme Court Act of 1981 in the United Kingdom.

Discovery Against Third Parties

2.250 In certain common-law jurisdictions it has been decided that an innocent third party, who becomes caught up in the wrongdoings of another, is liable to furnish a plaintiff with evidence in his possession relevant to the prosecution of an action by the plaintiff against the wrongdoer. This decision arose in the English case of Norwich Pharmacal Co. v. Commissioners of Customs and Excise ([1972] RPC 743, [1974] AC 133) where the plaintiffs, the proprietors of a patent covering a chemical compound, discovered that various persons were importing the compound into the country in contravention of their patent, but were unable to establish the identity of these persons. This information was in the possession of the Commissioners of Customs and Excise, since the importers were required under the customs regulations to fill in a form of entry specifying the name of the importer and a description of the goods. The customs authorities refused to disclose the identity of the importers on the ground that the information had been given to them in confidence. Nevertheless, it was decided that an innocent third party, such as the customs authorities, who inadvertently becomes involved in the wrongdoing of another, will be liable to furnish information concerning the wrongdoer to a plaintiff. While this case was concerned with patents, it also has an application to copyright and could be of particular use to copyright owners who are unable to establish the identity of persons importing pirated works into a country.

2.251 A related but more effective procedure is to be found in Section 53 of the Indian Copyright Act 1957. This provision enables the Registrar of Copyrights to order that copies made out of India of a work which, if made in India, would infringe copyright, shall not be imported. The section also authorizes the Registrar to enter any ship, dock or premises for the purpose of examining allegedly infringing works. The use of the section in a case involving the transportation of pirated audio

cassettes over Indian territory was approved by the Indian Supreme Court in Gramophone Company of India Ltd. v. Panday ([1984] 2 SCC 534).

Interlocutory Injunctions

2.252 In order to minimize the damage being inflicted by piracy, it will be important for a copyright owner to take swift action in seeking to prevent its continuation. For as long as piracy continues, he will be deprived of a portion of his potential market, and thus of the capacity to recover the economic reward for his creativity or investment. The aim of the interlocutory injunction is to meet this need by granting speedy and temporary relief during the period before a full trial of an infringement action takes place, thus preventing irreparable damage from occurring to the plaintiff's rights.

2.253 One of the difficulties which has been experienced with interlocutory proceedings is that they have tended to become themselves lengthy inquiries involving rather full consideration of the facts of the case, with the result that their effectiveness as a means of obtaining temporary relief is prejudiced. In many common-law jurisdictions, this has caused a reassessment of the principles on which interlocutory relief is granted and, in particular, of the standard of proof which a plaintiff is required to establish in order to obtain interlocutory relief.

2.254 Previously, a plaintiff was required to establish a *prima facie* case that his copyright was being infringed, that is, to establish on the balance of probabilities that his case for infringement could be defended. In order to overcome the delays and the lengthy proceedings which this standard of proof involved, many jurisdictions have now required that a plaintiff establish only that there is a "serious question" to be tried. In other words, the merits of the legal issues involved in the case need only be considered at the interlocutory stage to the point where the court is satisfied that the plaintiff's claim for infringement is not frivolous. Thereafter, the decision as to whether an injunction should be granted is taken on the basis of the factual circumstances of the case, and whether, in particular, each party could be adequately compensated in damages for the temporary impairment of his right were he to be unsuccessful at the interlocutory stage, and later prove to be successful at the trial.

2.255 The adoption of this approach to interlocutory proceedings assists in avoiding excessive delays in obtaining relief during the period which is most important for the copyright owner, namely, the period immediately following the initial publication and marketing of his work.

Final Remedies

2.256 The two usual remedies which are available for copyright owners in common-law jurisdictions following the final trial of an infringement action are a perpetual injunction and damages. The perpetual injunction is granted in order to prevent any further repetition of the infringing action. In order to make the injunction effective, it is often coupled with an order for the delivery by the infringer of all infringing copies of the copyright work, which are then subject to destruction so as to ensure that they cannot be re-used or sold.

2.257 The object of an award of damages to a copyright owner is to restore the copyright owner to the position he would have been in had his copyright not been infringed. A difficulty often encountered in obtaining a satisfactory judgment in damages is the production of evidence as to the extent of sales which have taken place and thus as to the extent of damage which has been caused to the plaintiff's copyright. It is for this reason that the recent developments in preliminary remedies, such as the Anton Piller order, which are aimed at enabling a plaintiff to acquire evidence of infringement, are particularly important.

2.258 Of particular relevance to piracy, is the provision in some jurisdictions for additional damages in the case of a flagrant infringement of copyright. Before an award of additional damages can be made in such jurisdictions, however, it is necessary to establish that the infringer's conduct has been deliberate and calculated, and that he has obtained a pecuniary advantage in excess of the damages that he would otherwise have to pay.

Intellectual Property and Traditional Cultural Expressions

Introduction

2.259 The cultural heritage of a community or nation lies at the heart of its identity and links its past with its present and future. Cultural heritage is also "living" – it is constantly recreated as traditional artists and practitioners bring fresh perspectives and experiences to their work.

2.260 So, while it may be considered that tradition is only about imitation and reproduction, it is also about innovation and creation within the traditional framework. Tradition can be an important source of creativity and innovation for indigenous, local and other cultural communities. The mere re-creation and replication of past traditions is not necessarily the best way of preserving identity and improving the economic situation of indigenous, local and other cultural communities. Handicrafts, for instance, exemplify the ability of many tradition-bearing communities to combine tradition with the influences and cultural exchanges characteristic of modernity for the purpose of maintaining their identity and improving their social and economic circumstances.

2.261 Cultural heritage is also a source of inspiration and creativity for parties outside the traditional or customary context, such as the entertainment, fashion, publishing, design and other cultural industries. Many businesses today, small, medium and large, create wealth using the forms and materials of traditional cultures – local cooperatives that produce and market handmade crafts, industrial textile manufacturers that employ traditional designs, producers of audio recordings of traditional music, pharmaceutical manufacturers who use indigenous knowledge of healing plants, promoters of tourism, and entertainment conglomerates that employ various forms of traditional representations for motion pictures, amusement theme parks and children's toys.

2.262 The relationship between tradition, modernity and the marketplace may not, however, always be a happy one. Indigenous and traditional communities express concerns that the distinct and diverse qualities of the world's multiple cultural communities are threatened in the face of uniformity brought on by new technologies and the globalization of culture and commerce.

2.263 It is also argued by some that expressions of traditional cultures and traditional forms of creativity and innovation are not adequately protected by or in relation to existing intellectual property laws. In particular, Indigenous and traditional communities refer *inter alia* to the:

- unauthorized adaptation, reproduction and subsequent commercialization of traditional cultural expressions, with no sharing of economic benefits;
- use of traditional cultural expressions in ways that are insulting, degrading and/or culturally offensive;

- appropriation of the reputation or distinctive character of traditional cultural expressions in ways that evoke an authentic traditional product, by use of misleading or false indications as to authenticity or origin, or adoption of their methods of manufacture and "style"; and,
- failure to acknowledge the source of a tradition-based creation or innovation.

2.264 It can be seen from these examples that the protection of expressions of traditional cultures may refer to protection of:

- the expressions themselves; and/or,
- the reputation or distinctive character associated with them; and/or,
- their method of manufacture (in the case of a handicraft, for example).

2.265 All branches and forms of intellectual property are therefore relevant, whether copyright, related rights, trademarks, industrial designs, patents or unfair competition, for the protection of traditional cultural expressions. This section will, however, focus more on copyright and related rights, although other intellectual property rights will also be briefly referred to where relevant.

2.266 The protection of traditional cultural expressions is complex and raises fundamental policy and legal questions. To whom, if anyone, does a nation's cultural heritage "belong" – by whom and in which circumstances may it be used as a source of creativity (the results of which, such as a new musical work or design, may be protected by intellectual property rights)? What is the relationship between intellectual property "protection" and "preservation"/"safeguarding" in the cultural heritage sense? Which intellectual property policies best serve cultural diversity and cultural pluralism, a particular challenge for societies with both Indigenous and immigrant communities? How best can the needs and expectations of Indigenous and traditional communities be met? And, which intellectual property policies and mechanisms best foster creativity, including tradition-based creativity, as a component of sustainable development? This last question is perhaps the key – how best can intellectual property be used as a tool for tradition-based creation and innovation and, therefore, economic development?

2.267 This section will explore these questions in greater detail with reference to:

- a working description of "traditional cultural expressions";
- previous and current activities of the World Intellectual Property Organization;
- the intellectual property-related needs and strategies of Indigenous peoples and local communities;
- trends and experiences in the protection of traditional cultural expressions;
- conceptual and policy questions, and,
- possible future directions of WIPO's work in this area.

Describing "traditional cultural expressions"

2.268 The meaning and scope of terms such as "traditional cultural expressions," otherwise known as "expressions of folklore," "indigenous culture and intellectual property" and "intangible

and tangible cultural heritage” (which is perhaps the most comprehensive term) have been discussed at local, national and international levels. They potentially cover an enormous variety of customs, traditions, forms of artistic expression, knowledge, beliefs, products, processes of production and spaces that originate in many communities throughout the world. There are no widely-accepted definitions of these terms, since what is considered “cultural heritage” or “traditional cultural expressions” depends upon the context and the purpose for which the definition is developed.

2.269 The terms “traditional cultural expressions” and “expressions of folklore” are used synonymously in international policy discussions concerning this area of intellectual property. “Traditional cultural expressions” (or TCEs) is used as a neutral working term in this section because some communities have expressed reservations about the negative connotations of the word “folklore.” TCEs/expressions of folklore may often be associated with traditional knowledge and know-how of a technical nature (such as ecological or medical knowledge), but traditional knowledge in this narrower sense is conceptually separate and its protection raises distinct policy questions. The present chapter does not directly address the protection of technical traditional knowledge.

Tangible and Intangible Expressions of Culture

2.270 “Expressions of” traditional culture (or “expressions of” folklore) may be either intangible, tangible or, most usually, a combination of the two. Examples from North America of TCEs that combine tangible and intangible elements include African-American quilts depicting Bible stories in appliquéd designs, the practice of “mumming” in Newfoundland during the Christmas season when villagers act out elaborate charades, play music, eat, drink, dance and make disguising costumes, and the Mardi Gras “Indians” of New Orleans who exhibit a true example of tangible (costumes, instruments, floats) and intangible (music, song, dance, chant) elements of folklore that cannot be separated.

Use of the Term “Traditional”

2.271 Culture is in a permanent process of production; it is cumulative and innovative, as noted above. Thus, the term “traditional” does not mean “old” but rather that the cultural expressions derive from or are based upon tradition, identify or are associated with an indigenous or traditional people and may be made or practised in traditional ways.

2.272 This is relevant from an intellectual property perspective because, unlike the pre-existing, underlying traditional culture of a community (which may be referred to as traditional culture or folklore *stricto sensu*), literary and artistic productions created by current generations of society and based upon or derived from pre-existing traditional culture or folklore are more easily protected as intellectual property.

2.273 Pre-existing traditional culture is generally trans-generational (that is, old), collectively “owned” by one or more groups or communities and is likely to be of anonymous origin, to the extent that the notion of authorship is relevant at all. Pre-existing traditional culture as such and particular expressions thereof are generally not protected by current copyright laws and are treated, from the perspective of the intellectual property system, as part of the “public domain.” This is the approach followed in the national laws of States such as Australia, Belgium, Canada, Colombia, the Czech Republic, Honduras, Italy, the Netherlands, Japan, Kyrgyzstan, the Republic of Korea, the Russian Federation and Viet Nam.

2.274 On the other hand, a contemporary literary and artistic production based upon, derived from or inspired by traditional culture that incorporates new elements or expression is a “new” work in respect of which there is generally a living and identifiable creator or creators. Such a contemporary production may include a new interpretation, arrangement, adaptation or collection of pre-existing cultural heritage and expressions in the public domain, or even their “re-packaging” in the form of digital enhancement, colorization and the like. Contemporary, tradition-based expressions and representations of traditional cultures are generally protected by existing copyright for which they are sufficiently “original.” The law makes no distinction based on “authenticity” or the identity of the author – that is, the originality requirement of copyright could be met by an author who is not a member of the relevant cultural community in which the tradition originated.

2.275 Several national copyright laws, such as those of Hungary and Tunisia, recognize this distinction and explicitly provide copyright protection for folklore-based literary and artistic works. The Tunis Model Law of 1976 similarly protects, as original copyright works, derivative works which include “works derived from national folklore,” whereas folklore itself, described as “works of national folklore,” is accorded a *sui generis* (meaning “special” or “of its own kind”) type of copyright protection. This distinction is also implicit in the 1982 Model Provisions (see below).

A Working Description of Traditional Cultural Expressions

2.276 Cultural expressions include music, musical instruments, stories, art, handicrafts, words, names and insignia, performances, textile, carpet and jewelry designs and forms of architecture, to name only a few examples. The description of “expressions of folklore” in the Model Provisions of 1982 is a useful starting point for the following:

“‘traditional cultural expressions’ means productions consisting of characteristic elements of the traditional artistic heritage developed and maintained by a community of [name of country] or by individuals reflecting the traditional artistic expectations of such a community, in particular:

- (a) verbal expressions, such as folk tales, folk poetry and riddles, signs, symbols and indications;
- (b) musical expressions, such as folk songs and instrumental music;
- (c) expressions by actions, such as folk dances, plays and artistic forms or rituals; whether or not reduced to a material form; and
- (d) tangible expressions, such as:
 - (i) productions of folk art, in particular, drawings, paintings, carvings, sculptures, pottery, terracotta, mosaic, woodwork, metalware, jewelry, basket weaving, needlework, textiles, carpets, costumes;
 - (ii) crafts;
 - (iii) musical instruments;
 - (iv) architectural forms.”

Previous and Current Activities of WIPO

2.277 Previous activities of WIPO in the field of intellectual property and TCEs, several of which were undertaken in cooperation with the United Nations Educational, Scientific and Cultural Organization (Unesco), have over a period of more than 30 years identified and sought to address legal, conceptual, operational and administrative needs and issues.

Provision of International Protection for “unpublished works” in the Berne Convention

2.278 The 1967 Stockholm Diplomatic Conference for Revision of the Berne Convention for the Protection of Literary and Artistic Works made an attempt to introduce copyright protection for folklore at the international level. As a result, Article 15(4) of the Stockholm (1967) and Paris (1971) Acts of the Berne Convention contains the following provision:

“(4)(a) In the case of unpublished works where the identity of the author is unknown, but where there is every ground to presume that he is a national of a country of the Union, it shall be a matter for legislation in that country to designate the competent authority which shall represent the author and shall be entitled to protect and enforce his rights in the countries of the Union.

(b) Countries of the Union which make such designation under the terms of this provision shall notify the Director General [of WIPO] by means of a written declaration giving full information concerning the authority thus designated. The Director General shall at once communicate this declaration to all other countries of the Union.”

2.279 This Article, according to the intentions of the revision Conference, implies the possibility of granting protection for TCEs. Its inclusion in the Berne Convention responds to calls made at that time for specific international protection of TCEs. Only one country, India, has made the designation referred to.

The Tunis Model Law on Copyright for Developing Countries

2.280 To cater for the specific needs of developing countries and to facilitate the access of those countries to foreign works protected by copyright while ensuring appropriate international protection of their own works, the Berne Convention was revised in 1971. It was deemed appropriate to provide States with a text of a model law to assist States in conforming to the Convention’s rules in their national laws.

2.281 Thus, in 1976, the Tunis Model Law on Copyright for Developing Countries was adopted by the Committee of Governmental Experts convened by the Tunisian Government in Tunis, with the assistance of WIPO and Unesco. The Tunis Model Law provides specific protection for works of national folklore. Such works need not be fixed in material form in order to receive protection, which is without limitation in time.

The Model Provisions

2.282 Model Provisions for National Laws on the Protection of Expressions of Folklore Against Illicit Exploitation and Other Prejudicial Actions were adopted in 1982 under the auspices of WIPO and Unesco, in a Committee of Governmental Experts.

2.283 It had been agreed beforehand by a Working Group convened by WIPO and Unesco that adequate legal protection of folklore was desirable and could be promoted at the national level by

model provisions for legislation. Such model provisions were to be elaborated so as to be applicable both in countries where no relevant legislation was in force and in those where existing legislation could be further developed. They were also to allow for protection by means of copyright and neighboring rights where possible. These provisions for national laws were to pave the way for sub-regional, regional and international protection of creations of folklore.

2.284 The Model Provisions were drafted in response to concerns that expressions of folklore were susceptible to various forms of illicit exploitation and prejudicial actions. More specifically, as stated in the Preamble to the Model Provisions, the Expert Committee believed that the dissemination of folklore might lead to improper exploitation of the cultural heritage of a nation, that any abuse of a commercial or other nature or any distortion of expressions of folklore was prejudicial to the cultural and economic interests of a nation, that expressions of folklore constituting manifestations of intellectual creativity deserved to be protected in a manner inspired by the protection provided for intellectual productions, and that the protection of folklore had become indispensable as a means of promoting its further development, maintenance and dissemination.

2.285 Several countries have used the Model Provisions as a basis for national legal regimes for the protection of folklore. However, some have expressed the need for their improvement and updating.

Attempts to Establish an International Treaty

2.286 A number of participants stressed, at the meeting which adopted the Model Provisions, that international measures would be indispensable for extending the protection of expressions of folklore of a given country beyond the borders of the country concerned. WIPO and Unesco acted accordingly when they jointly convened a Group of Experts on the International Protection of Expressions of Folklore by Intellectual Property, which met in December 1984. While there was a general recognition of the need for international protection of expressions of folklore, the great majority of the participants considered it premature to establish an international treaty in view of insufficient national experience, particularly in the implementation of the Model Provisions. Two main problems were identified by the Group of Experts: these were the lack of appropriate sources for the identification of the expressions of folklore to be protected, and the lack of workable mechanisms for settling the questions of expressions of folklore that can be found not only in one country, but in several countries of a region. The Executive Committee of the Berne Convention and the Intergovernmental Committee of the Universal Copyright Convention, at their joint sessions in Paris in June 1985, agreed with the Group's findings, considering that only a recommendation, rather than an international treaty, would be realistic at that stage.

The Adoption of the WIPO Performances and Phonograms Treaty (the WPPT)

2.287 The WIPO Performances and Phonograms Treaty (the WPPT), which was adopted in December 1996 and came into force on May 20, 2002 (see below, Chapter 5), provides that the definition of "performer" for the purposes of the Treaty includes the performer of an expression of folklore. This addressed a problem in respect of the key notion of "performers" (and the notion of "performances" following indirectly from the notion of "performers") as determined in the International Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations, 1961 (the Rome Convention). Under Article 3(a) of the Rome Convention, "'performers' means actors, singers, musicians, dancers, and other persons who act, sing, deliver, declaim, play in, or otherwise *perform literary or artistic works*" (emphasis added). Since expressions of folklore do not correspond to the concept of literary and artistic works proper, the WPPT has widened the definition.

2.288 In the Diplomatic Conference at which the WPPT, as well as the WIPO Copyright Treaty (the WCT) were adopted in December 1996, the WIPO Committee of Experts on a Possible Protocol to the Berne Convention and the Committee of Experts on a Possible Instrument for the Protection of the Rights of Performers and Producers of Phonograms recommended that “provision should be made for the organization of an international forum in order to explore issues concerning the preservation and protection of expressions of folklore, intellectual property aspects of folklore, and the harmonization of the different regional interests.”

WIPO-Unesco World Forum on the Protection of Folklore

2.289 Pursuant to the recommendation made during the 1996 Diplomatic Conference, the WIPO-Unesco World Forum on the Protection of Folklore was held in Phuket, Thailand, in April 1997. The Forum adopted a “Plan of Action” which identified *inter alia* certain needs and issues: these were the need for a new international standard for the legal protection of folklore, and the importance of striking a balance between the community owning the folklore and the users of expressions of folklore.

2.290 The Plan of Action also suggested that “regional consultative fora should take place....” in order to make progress towards addressing these needs and issues.

WIPO Fact-finding Missions

2.291 During 1998 and 1999, WIPO conducted fact-finding missions (“FFMs”) in 28 countries to identify the needs and expectations of traditional knowledge holders relating to intellectual property. Indigenous and local communities, non-governmental organizations, governmental representatives, academics, researchers and private sector representatives were among the groups of persons consulted on these missions. For the purpose of these missions, “traditional knowledge” included TCEs as a specific form. Much of the information obtained related either directly or indirectly to TCEs.

2.292 The results of the missions have been published by WIPO in a report entitled “Intellectual Property Needs and Expectations of Traditional Knowledge Holders: WIPO Report on Fact-finding Missions (1998-1999)” (the “FFM Report”).

WIPO-Unesco Regional Consultations on the Protection of Expressions of Folklore

2.293 Pursuant to the suggestion included in the Plan of Action adopted at the WIPO-Unesco World Forum on the Protection of Folklore, 1997, WIPO and Unesco organized four Regional Consultations on the Protection of Expressions of Folklore in 1999. Each of the regional consultations adopted resolutions or recommendations which identify intellectual property needs and issues, as well as proposals for future work, related to expressions of folklore. Three of the four regional consultations recommended the establishment within WIPO of a separate committee on folklore and traditional knowledge to facilitate future work in these areas.

The WIPO Intergovernmental Committee on Intellectual Property and Genetic Resources, Traditional Knowledge and Folklore

2.294 Accordingly, and following certain other developments in the area of genetic resources, in late 2000, the Member States of WIPO established an Intergovernmental Committee on Intellectual Property and Genetic Resources, Traditional Knowledge and Folklore.

2.295 The Committee is making significant progress in articulating in intellectual property terms the needs and expectations of Indigenous peoples and traditional communities in relation to their TCEs, marking out a conceptual framework within which to view those needs and expectations, and methodically developing policy options and practical tools in response to them.

2.296 The Committee has considered detailed Secretariat analysis of the use of existing intellectual property and *sui generis* approaches for the legal protection of TCEs. This analysis was based on the national experiences of 64 Member States, surveyed through a questionnaire issued by WIPO in 2001, and presentations made during Committee sessions, and a set of case studies. One of these, entitled "Minding Culture – Case Studies on Intellectual Property and Traditional Cultural Expressions," comprises practical studies of actual cases in which Indigenous Australians have sought to use intellectual property to protect their TCEs. In addition, WIPO has also published a study of practical experiences in India, Indonesia, and the Philippines. The Committee has received detailed briefings by New Zealand, Nigeria, Panama, the Russian Federation, Tunisia, the United States of America and the Secretariat of the Pacific Community on their recent legislative experiences with the legal protection of TCEs.

Intellectual Property Needs and Expectations of Indigenous and Traditional Communities

2.297 In the course of the extensive fact-finding and consultations undertaken by WIPO, Indigenous peoples and traditional communities have expressed various needs related to intellectual property, such as:

- intellectual property protection to support economic development: some communities wish to claim and exercise intellectual property in their tradition-based creations and innovations to enable them to exploit their creations and innovations commercially as a contribution to their economic development;
- intellectual property protection to prevent unwanted use by others: some communities may wish to claim intellectual property in order to be able to actively exercise intellectual property rights that prevent the use and commercialization of their cultural heritage and TCEs by others, including culturally offensive or demeaning use; uses which may need to be prevented could include, for example, uses that falsely suggest a connection with a community, derogatory, libellous, defamatory or fallacious uses, and uses of sacred and secret TCEs;
- prevention of others acquiring intellectual property rights over TCEs: communities are also concerned to prevent others from gaining or maintaining intellectual property over derivations and adaptations of TCEs and representations, which entails the use of defensive mechanisms to block or pre-empt third parties' intellectual property rights that are considered prejudicial to the community's interests, and to the integrity of their cultural heritage and cultural expressions.

This latter kind of strategy is distinct from positive intellectual property protection, in which a community actively obtains and exercises intellectual property rights (the two first cases given above). Both defensive and positive protection strategies may be used in parallel by the one community, depending on their assessment of their overall objectives and interests. Specific defensive protection mechanisms may also be built into national or regional intellectual property laws: for instance, specific measures to prevent the acquisition of trademark rights over Indigenous or traditional symbols have been already adopted by New Zealand, the United States of America and the Andean Community.

2.298 The work of the WIPO Intergovernmental Committee has highlighted the need to clarify and articulate the distinct notions of “intellectual property protection” and “preservation/safeguarding” when applied to cultural heritage. The term “protection” is widely used, but this can mask a wide range of potential objectives. It is important to be clear to what extent and in which cases intellectual property protection is relevant to meeting the needs of Indigenous and traditional communities, as some of them are perhaps more concerned with preservation and safeguarding than intellectual property protection. Unfair competition law and marketing, labelling and other consumer protection laws may be particularly relevant and valuable, especially since concerns about commercial misuse of TCEs often arise from the perception that they are being used to create a misleading impression that a product is “authentic” or produced or endorsed by a traditional community.

2.299 Generally speaking, one single form of protection for TCEs is unlikely to meet all the needs of a traditional community: it may need to use a range of positive and defensive legal tools to achieve its chosen objectives in protecting and preserving its traditional culture.

Trends and Experiences in the Protection of TCEs

2.300 Several States already provide specific legal protection for TCEs as intellectual property in their national laws or regulations, largely within their national copyright legislation, although the modalities of protection may differ.

2.301 In some cases, TCEs are simply referred to as a form of copyright work, and most of the usual rules of copyright apply to them. Examples of these countries would include Barbados, Côte d'Ivoire, Indonesia and the Islamic Republic of Iran. Another group of States have included within their copyright legislation provisions specifically designed for expressions of folklore. Examples would include Burkina Faso, Ghana, Kenya, Mexico, Mozambique, Namibia, Nigeria, Senegal, Sri Lanka, Togo, the United Republic of Tanzania, and Viet Nam. In most of these cases, the provisions are based upon the Tunis Model Law of 1976 or the 1982 Model Provisions.

2.302 A third category comprises States that provide protection for expressions of folklore in distinct *sui generis* legislation, such as Panama and the Philippines. Panama's Law of 2000 provides perpetual and collective protection of the intellectual property type, based upon a registration requirement, for the handicrafts and other creations of its Indigenous peoples. The Bangui Agreement of the African Intellectual Property Organization (OAPI), as revised in 1999, establishes *sui generis* protection for TCEs. More recently, the Secretariat of the Pacific Community has developed a *sui generis* model law for the Pacific Island countries.

2.303 However, when it comes to implementation, even in those countries which provide specific legal protection for TCEs, it appears from the results of the WIPO questionnaire that there are few countries in which such provisions are actively utilized or effective in practice. There appears to be little practical experience with the implementation of existing systems and measures which countries have established in law. States have cited a variety of legal, conceptual, infrastructural and other operational difficulties they experience in implementing workable and effective legislative provisions at the national level. States have requested enhanced legal-technical cooperation in this respect. Some have argued that it is necessary to provide States and regional organizations with updated and improved guidelines or model provisions for national laws, taking into account the 1982 Model Provisions as a starting point.

2.304 Many States argue, however, that existing and conventional intellectual property systems are adequate for the protection of TCEs, if their full potential is explored, and that no special systems are needed. There are many examples of traditional communities successfully protecting songs, graphic works and other literary and artistic works through copyright and performers' rights, for example. The current balance of interests in the intellectual property system means that members of cultural communities as well as others are free to create and innovate on the basis of their cultural traditions, and acquire and benefit from any intellectual property that may subsist in the creations and innovations. This contributes to their economic development, as well as meeting certain objectives of cultural heritage and cultural exchange policies. Intellectual property protection provides incentives for the creation and dissemination of new intellectual creations, including tradition-based creations. Indeed, as mentioned earlier, current copyright law appears able to protect contemporary tradition-based forms of creativity, at least those that are fixed in jurisdictions requiring fixation. On the other hand, pre-existing cultural heritage remains, from a strictly intellectual property perspective, in the "public domain."

2.305 For example, the Australian case *Milpururru v Indofurn Pty Ltd (1995) 30 IPR 209* involved the importation into Australia of carpets manufactured in Viet Nam which reproduced (without permission) either all or parts of well-known works, based on creation stories, created by Indigenous artists. The artists successfully claimed infringement of copyright as well as unfair trade practices, for the labels attached to the carpets claimed that the carpets had been designed by Aboriginal artists and that royalties were paid to the artists on every carpet sold. In awarding damages to the plaintiffs, the judgement recognized the concept of "cultural harm" and awarded collective damages to all the artists to distribute according to their cultural practices.

2.306 Apart from copyright and related rights, other forms of intellectual property are relevant too, such as trademarks, geographical indications and unfair competition. For example, Australia, Canada, New Zealand and Portugal have provided examples of the use of trademarks, particularly certification marks, to ensure the authenticity and quality of Indigenous arts and crafts. In Kazakhstan, the external appearance of national outer clothes, head-dresses, carpets, decorations of saddles, national dwellings and their structural elements, as well as women's apparel accessories, like bracelets, national children's cots, crib-cradles and table wares, are protected as industrial designs. The designations containing elements of Kazakh ornament are registered and protected as trademarks. In China, a traditional craftsman has received industrial design protection for his tradition-based silver tea-sets.

2.307 Some of these States consider that some adaptations to existing rights and/or some specific measures within the intellectual property system may be necessary and desirable to meet particular needs – for instance, copyright protection for collective works or works that have not been fixed (for example, works that have been passed on only in oral form) and special remedies for copyright infringement that is also culturally offensive. In the trademark area, as noted above, the United States of America has, for example, established a database that may be searched and thus prevent the registration of a mark confusingly similar to an official insignia of a Federally and state-recognized Native American tribe. In New Zealand a recent amendment to the Trade Marks Act allows the Commissioner of Trade Marks to refuse to register a trademark where its use or registration would be likely to offend a significant section of the community, including Maori.

2.308 WIPO's fact-finding, other consultations and the 2001 questionnaire also evidenced a strong demand from among many countries for the effective international protection of TCEs. Similar calls have been made within the context of the WIPO Intergovernmental Committee, and it may be that eventually, on the basis of successful national and regional experiences and a consolidation of approaches, it will be possible to develop a suitable framework for international protection.

Conceptual and Policy Questions

2.309 National and regional experiences appear to reflect two broad approaches to the protection of TCEs: on the one hand, existing and conventional intellectual property systems are adequate because they protect contemporary, tradition-based cultural expressions, and no intellectual property-type property rights over the “public domain” are warranted or necessary. Some adaptations or enhancements of existing intellectual property systems may be necessary to meet particular needs; and, on the other hand, property rights over the “public domain” are appropriate and, as conventional intellectual property systems are inadequate, *sui generis* measures and systems are required. While there is a tendency to characterize these as opposing viewpoints, they are not necessarily mutually exclusive, and a comprehensive solution may draw on both points of view.

2.310 A key policy question is whether limiting intellectual property protection to contemporary, tradition-based cultural expressions adequately meets the identified cultural and intellectual property policy objectives. Does it offer the greatest opportunities for creativity and economic development? Does it best serve cultural diversity and cultural preservation? Does it address the concerns of the custodians of traditional cultures? These questions turn on whether intellectual property protection should be available for TCEs that are now in the so-called “public domain” — in other words, those TCEs which would not qualify for protection by current intellectual property. An integral part of developing an appropriate policy framework within which to view intellectual property protection of TCEs is a clearer understanding of the role, contours and boundaries of the public domain.

2.311 For example, as the European Community and its Member States have stated: “the fact that folklore for the most part is in the public domain does not hamper its development - to the contrary, it allows for new creations derived from or inspired by it at the hands of contemporary artists.” Canada has expressed the similar view that “copyright encourages members of a community to keep alive ‘pre-existing cultural heritage’ by providing individuals of the community with copyright protection when they use various expressions of ‘pre-existing cultural heritage’ in their present-day creations or works.” According to these views, neither members of the relevant cultural communities nor the cultural industries would be able to create and innovate based on cultural heritage if private property rights were to be established over it. A robust public domain allows too for the kind of cultural flows and exchanges that have forever marked music and other cultural forms. Musical traditions such as jazz emerged in the early twentieth century in cultural crossroads such as New Orleans, combining elements of African-American, Afro-Caribbean and European cultures. Rock music evolved from blues, valuing or rewarding imitation, revision and improvisation. So too, cultural expressions and practices from “dominant cultures” continue to be absorbed and popularized in less dominant cultures. Is it intended to control or require compensation for all these kinds of flows and exchanges?

2.312 On the other hand, TCE holders and practitioners challenge the “public domain” status of traditional cultures under intellectual property law. They argue that the “public domain” is purely a construct of intellectual property systems and that it does not take into account private domains established by Indigenous and customary legal systems. Their TCEs were never protected and are thus not part of a “public domain.” Furthermore, they question whether the “public domain” status of cultural heritage offers the greatest opportunities for creation and development. Should all historic materials be in the public domain and be denied protection simply because they are not recent enough? Merely providing intellectual property protection for contemporary, tradition-based cultural expressions is an inappropriate “survival of the fittest” approach that does not best serve cultural diversity and cultural preservation, it is argued. Almost everything created has cultural and

historic antecedents, and systems should be established that yield benefits to cultural communities from all creations and innovations that draw upon tradition.

Recent and Possible Future Developments

2.313 Based on the results of the 2001 questionnaire, and as mandated by the WIPO Intergovernmental Committee, the WIPO Secretariat provides legal-technical cooperation for the establishment, strengthening and effective implementation of existing systems and measures for the legal protection of TCEs at the national and regional levels, and as a component of this program, is developing a "Practical Guide" for national lawmakers, policy makers, communities and other stakeholders on the effective protection of TCEs. The Secretariat is also undertaking case studies on the relationship between customary laws and protocols and conventional intellectual property systems in so far as TCE protection is concerned. In addition, the development of model contracts, codes of conduct and guidelines for use by cultural heritage archives, museums and other institutions, to assist them in managing the intellectual property aspects of their cultural heritage collections, is being explored.

2.314 At a policy level, the wealth of the legal analyses, national and regional submissions, reports and other materials considered by the WIPO Intergovernmental Committee makes it possible to begin to distill and annotate the various policy and legislative options available to States and regional organizations wishing to offer enhanced protection of TCEs under adapted or expanded conventional intellectual property systems and/or under stand-alone *sui generis* systems. These options, based on actual national and regional experiences, could, should Member States so wish, form the basis for the development of recommendations, guidelines or model provisions for national and regional laws, and, eventually, for the development of frameworks for the regional and international protection of TCEs.

Trademarks

Introduction

2.315 Trademarks already existed in the ancient world. Even at times when people either prepared what they needed themselves or, more usually, acquired it from local craftsmen, there were already creative entrepreneurs who marketed their goods beyond their localities and sometimes over considerable distances. As long as 3,000 years ago, Indian craftsmen used to engrave their signatures on their artistic creations before sending them to Iran. Manufacturers from China sold goods bearing their marks in the Mediterranean area over 2,000 years ago and at one time about a thousand different Roman pottery marks were in use, including the FORTIS brand, which became so famous that it was copied and counterfeited. With the flourishing trade of the Middle Ages, the use of signs to distinguish the goods of merchants and manufacturers likewise expanded several hundred years ago. Their economic importance was still limited, however.

2.316 Trademarks started to play an important role with industrialization, and they have since become a key factor in the modern world of international trade and market-oriented economies. Industrialization and the growth of the system of the market-oriented economy allow competing manufacturers and traders to offer consumers a variety of goods in the same category. Often without any apparent differences for the consumer, they do generally differ in quality, price and

other characteristics. Clearly consumers need to be given the guidance that will allow them to consider the alternatives and make their choice between the competing goods. Consequently, the goods must be named. The medium for naming goods on the market is precisely the trademark.

2.317 By enabling consumers to make their choice between the various goods available on the market, trademarks encourage their owners to maintain and improve the quality of the products sold under the trademark, in order to meet consumer expectations. Thus trademarks reward the manufacturer who constantly produces high-quality goods, and as a result they stimulate economic progress.

Definitions

Trademarks

2.318 "A trademark is any sign that individualizes the goods of a given enterprise and distinguishes them from the goods of its competitors." This definition comprises two aspects, which are sometimes referred to as the different functions of the trademark, but which are, however, interdependent and for all practical purposes should always be looked at together.

2.319 In order to individualize a product for the consumer, the trademark must indicate its source. This does not mean that it must inform the consumer of the actual person who has manufactured the product or even the one who is trading in it. It is sufficient that the consumer can trust in a given enterprise, not necessarily known to him, being responsible for the product sold under the trademark.

2.320 The function of indicating the source as described above presupposes that the trademark distinguishes the goods of a given enterprise from those of other enterprises; only if it allows the consumer to distinguish a product sold under it from the goods of other enterprises offered on the market can the trademark fulfill this function. This shows that the distinguishing function and the function of indicating the source cannot really be separated. For practical purposes one can even simply rely on the distinguishing function of the trademark, and define it as "any visible sign capable of distinguishing the goods or services of an enterprise from those of other enterprises."

2.321 This is the approach chosen by Section 22(1) of WIPO's Draft Industrial Property Act (the Draft Law).

Service Marks

2.322 In modern trade consumers are confronted not only with a vast choice of goods of all kinds, but also with an increasing variety of services which tend more and more to be offered on a national and even international scale. There is therefore also a need for signs that enable the consumers to distinguish between the different services such as insurance companies, car rental firms, airlines, etc. These signs are called service marks, and fulfill essentially the same origin-indicating and distinguishing function for services as trademarks do for goods.

2.323 Since service marks are signs that are very similar in nature to trademarks, basically the same criteria can be applied, so service mark protection has sometimes been introduced by a very short amendment to the existing trademark law, simply providing for the application to service marks, *mutatis mutandis*, of the provisions on the protection of trademarks.

2.324 It follows from the above principle that service marks can be registered, renewed and canceled in the same way as trademarks; they can moreover be assigned and licensed under the same conditions. Rules devised for trademarks therefore apply equally, in principle, to service marks.

Collective Marks and Certification Marks

2.325 Trademarks typically identify individual enterprises as the origin of marked goods or services. Some countries provide for the registration of collective and certification marks, which are used to indicate the affiliation of enterprises using the mark or which refer to identifiable standards met by the products for which a mark is used.

2.326 The following are the common features in the relevant provisions of national law on this topic.

Collective Marks

2.327 A collective mark may be owned by an association which itself does not use the collective mark but whose members may use the collective mark; the members may use the collective mark if they comply with the requirements fixed in the regulations concerning the use of the collective mark. An enterprise entitled to use the collective mark may in addition also use its own trademark.

2.328 The regulations concerning the use of the collective mark normally have to be included in an application for the registration of the collective mark and any modifications to the regulations have to be notified to the Trademark Office. In several countries (for example, the Federal Republic of Germany, Finland, Norway, Sweden and Switzerland), the registration of a collective mark may be canceled if that mark is used contrary to the provisions of the regulations or in a manner which misleads the public. Collective marks, therefore, play an important role in the protection of consumers against misleading practices.

2.329 The Paris Convention contains provisions on collective marks in its Article 7*bis*. Those provisions, in particular, ensure that collective marks are to be admitted for registration and protection in countries other than the country where the association owning the collective mark has been established. This means that the fact that the said association has not been established in accordance with the law of the country where protection is sought is no reason for refusing such protection. On the other hand, the Convention expressly states the right of each member State to apply its own conditions of protection and to refuse protection if the collective mark is contrary to the public interest.

Certification Marks

2.330 The certification mark may only be used in accordance with the defined standards. The main difference between collective marks and certification marks is that the former may be used only by particular enterprises, for example, members of the association which owns the collective mark, while the latter may be used by anybody who complies with the defined standards. Thus, the users of a collective mark form a "club" while, in respect of certification marks, the "open shop" principle applies.

2.331 An important requirement for the registration of a certification mark is that the entity which applies for registration is "competent to certify" the products concerned. Thus, the owner of a certification mark must be the representative for the products to which the certification mark applies. This is an important safeguard for the protection of the public against misleading practices.

2.332 The definition of “certification mark” is not the same in all countries. In the United States of America, for instance, a certification mark may not be used by anybody who complies with the defined standards, but only by enterprises which have been authorized by the owner of the certification mark to use that mark. Thus, in the United States of America, the difference between a certification mark and a collective mark is smaller than in other countries; it only relates to the purpose of those two kinds of marks: the certification mark refers to certain standards of products or services, while the collective mark refers to the membership of its users in a particular organization.

Signs which May Serve as Trademarks

2.333 It follows from the purpose of the trademark that virtually any sign that can serve to distinguish goods from other goods is capable of constituting a trademark. Trademark laws should not therefore attempt to draw up an exhaustive list of signs admitted for registration. If examples are given, they should be a practical illustration of what can be registered, without being exhaustive. If there are to be limitations, they should be based on practical considerations only, such as the need for a workable register and the need for publication of the registered trademark.

2.334 If we adhere strictly to the principle that the sign must serve to distinguish the goods of a given enterprise from those of others, the following types and categories of signs can be imagined:

- *Words:* This category includes company names, surnames, forenames, geographical names and any other words or sets of words, whether invented or not, and slogans.
- *Letters and Numerals:* Examples are one or more letters, one or more numerals or any combination thereof.
- *Devices:* This category includes fancy devices, drawings and symbols and also two-dimensional representations of goods or containers.
- Combinations of any of those listed above, including logotypes and labels.
- *Colored Marks:* This category includes words, devices and any combinations thereof in color, as well as color combinations and color as such.
- *Three-Dimensional Signs:* A typical category of three-dimensional signs is the shape of the goods or their packaging. However, other three-dimensional signs such as the three-pointed Mercedes star can serve as a trademark.
- *Audible Signs (Sound Marks):* Two typical categories of sound marks can be distinguished, namely those that can be transcribed in musical notes or other symbols and others (e.g. the cry of an animal).
- *Olfactory Marks (Smell Marks):* Imagine that a company sells its goods (e.g. writing paper) with a certain fragrance and the consumer becomes accustomed to recognizing the goods by their smell.
- *Other (Invisible) Signs:* Examples of these are signs recognized by touch.

2.335 As mentioned before, countries may set limits on registrability for practical purposes. The majority of countries allow the registration only of signs that can be represented graphically, since only they can be physically registered and published in a trademark journal to inform the public of the registration of the trademark.

2.336 A number of countries allow the registration of three-dimensional trademarks, obliging the applicant either to submit a two-dimensional representation of the three-dimensional sign (drawing, picture or any other representation which can be printed) or a description, or both. In practice, however, it is not always clear what is protected by the registration of a three-dimensional sign.

2.337 A similar problem exists for audible signs. A sequence of notes can of course be registered as a device mark, but that registration does not normally give protection to the actual musical phrases so expressed. What is protected is the sequence of notes, as registered, against the use of similar devices. Sound marks clearly can serve as trademarks, however, and the United States of America, for example, allows the registration of sound marks. In practical terms, this means that the sound must be recorded and the cassette submitted to the U.S. Patent and Trademark Office for registration.

2.338 The United States of America is the first country to have recognized the registrability of a smell mark—fresh floral fragrance reminiscent of Plumeria blossoms for sewing thread and embroidery yarn—TTAB(1990). In a decision on 11 February 1999, the Board of Appeal of the Office for Harmonization in the Internal Market (Trademarks and Designs) of the European Community supported the registrability of the smell mark “the smell of fresh cut grass” for tennis balls (R 156/1998-2).

Criteria of Protectability

2.339 The requirements which a sign must fulfill in order to serve as a trademark are reasonably standard throughout the world. Generally speaking, two different kinds of requirement are to be distinguished.

2.340 The first kind of requirement relates to the basic function of a trademark, namely, its function to distinguish the products or services of one enterprise from the products or services of other enterprises. From that function it follows that a trademark must be distinguishable among different products.

2.341 The second kind of requirement relates to the possible harmful effects of a trademark if it has a misleading character or if it violates public order or morality.

2.342 These two kinds of requirement exist in practically all national trademark laws. They also appear in Article 6*quinquies* B of the Paris Convention where it is stated that trademarks enjoying protection under Article 6*quinquies* A may be denied registration only if “they are devoid of any distinctive character” or if “they are contrary to morality or public order and, in particular, of such a nature as to deceive the public.”

Requirement of Distinctiveness

2.343 A trademark, in order to function, must be distinctive. A sign that is not distinctive cannot help the consumer to identify the goods of his choice. The word “apple” or an apple device cannot

be registered for apples, but it is highly distinctive for computers. This shows that distinctive character must be evaluated in relation to the goods to which the trademark is applied.

2.344 The test of whether a trademark is distinctive is bound to depend on the understanding of the consumers, or at least the persons to whom the sign is addressed. A sign is distinctive for the goods to which it is to be applied when it is recognized by those to whom it is addressed as identifying goods from a particular trade source, or is capable of being so recognized.

2.345 The distinctiveness of a sign is not an absolute and unchangeable factor. Depending on the steps taken by the user of the sign or third parties, it can be acquired or increased or even lost. Circumstances such as (possibly long and intensive) use of the sign have to be taken into account when the registrar is of the opinion that the sign lacks the necessary distinctiveness, that is, if it is regarded as being not in itself distinct enough for the purpose of distinguishing between goods and services.

2.346 There are, of course, different degrees of distinctiveness, and the question is how distinctive a sign must be in order to be registrable. In that connection a distinction is generally made between certain typical categories of marks—fanciful or coined trademarks which are meaningless and the others. A famous example of the first category is the KODAK trademark.

2.347 These trademarks may not be the favorites of the marketing people, since they require heavy advertising investment to become known to consumers. They inherently enjoy very strong legal protection, however.

2.348 Common words from everyday language can also be highly distinctive if they communicate a meaning that is arbitrary in relation to the products on which they are used. The same is true of the corresponding devices. Examples are the famous CAMEL trademark for cigarettes (and the equally famous device mark) and the previously-mentioned APPLE mark (both the word and the device) for computers.

2.349 Marketing people are generally fond of brand names that generate a positive association with the product in the mind of the consumer. They tend therefore to choose more or less descriptive terms. If the sign is exclusively descriptive, it lacks distinctiveness and cannot be registered as such as a trademark. However, not all signs that are neither meaningless nor arbitrarily used necessarily lack distinctiveness: there is an intermediate category of signs that are suggestive, by association, of the goods for which they are to be used, and of the nature, quality, origin or any other characteristic, of those goods, without being actually descriptive. Those signs are registrable. The crucial question in practice is whether a trademark is suggestive or descriptive of the goods applied for. This question has to be judged according to the local law and jurisprudence of the country and all the circumstances of the specific case. As a general rule, it can be said that a descriptive term is distinctive for the goods concerned if it has acquired a secondary meaning, that is, if those to whom it is addressed have come to recognize it as indicating that the goods for which it is used are from a particular trade source.

2.350 In case of doubt as to whether a term is descriptive or suggestive, the very fact that the mark has been used in the course of trade for a certain period of time may be sufficient for accepting it for registration.

2.351 However, the more descriptive the term is, the more difficult it will be to prove secondary meaning, and a higher percentage of consumer awareness will be necessary.

Lack of Distinctiveness

2.352 If a sign is not distinguishable, it cannot function as a trademark and its registration should be refused. The applicant normally need not prove distinctiveness. It is up to the registrar to prove lack of distinctiveness, and in the case of doubt the trademark should be registered. Some trademark laws put the onus on the applicant to show that his mark ought to be registered. This practice may be considered strict, however, and sometimes prevents the registration of marks that are demonstrably capable of distinguishing their proprietor's goods. And yet the modern trend, as reflected in Article 3 of the EC Harmonization Directive and also in Section 23.2(1) of the Draft Law, is clearly to treat lack of distinctiveness as a ground for refusing an application for registration of a trademark.

2.353 What are the criteria governing the refusal of registration for lack of distinctiveness?

Generic Terms

2.354 A sign is generic when it defines a category or type to which the goods belong. It is essential to the trade and also to consumers that nobody should be allowed to monopolize such a generic term.

2.355 Examples of generic terms are "furniture" (for furniture in general, and also for tables, chairs, etc.) and "chair" (for chairs). Other examples would be "drinks", "coffee" and "instant coffee", which shows that there are larger and narrower categories and groups of goods, all having in common that the broad term consistently used to describe them is generic.

2.356 These signs are totally lacking in distinctiveness, and some jurisdictions hold that, even if they are used intensively and may have acquired a secondary meaning, they cannot be registered since, in view of the absolute need of the trade to be able to use them, they must not be monopolized. For these reasons the High Court of Delhi, India, in 1972 refused registration of the JANTA trademark as in Hindi the word means cheap in price.

Descriptive Signs

2.357 Descriptive signs are those that serve in trade to designate the kind, quality, intended purpose, value, place of origin, time of production or any other characteristic of the goods for which the sign is intended to be used or is being used.

2.358 In line with the definition of the distinctive sign given earlier, the test to be applied must establish whether consumers are likely to regard a sign as a reference to the origin of the product (distinctive sign) or whether they will rather look on it as a reference to the characteristics of the goods or their geographical origin (descriptive sign). The term "consumer" is used here as an abbreviation denoting the relevant circles to be considered in a specific case, namely those to whom the sign is addressed (and in certain cases also those who are otherwise reached by the sign).

2.359 The fact of other traders having a legitimate interest in the fair use of a term can therefore be used as a kind of additional ground when making the decisive test of whether consumers are likely to regard the sign as a reference to origin or as a reference to characteristics of the goods. It should not, however, be used on its own as a basis for a decision to refuse the registration of a term when it is not clear that consumers are also likely to regard the term as descriptive.

Other Signs Lacking Distinctiveness

2.360 Signs may lack distinctiveness for other reasons. This is true of a device which, owing to its simplicity or pure illustrative or ornamental character, may not capture the consumer's attention at all as a sign referring to the origin of the product, but rather as a mere illustrative part of the packaging of the goods offered to him.

2.361 An example (with regard to words) would be a relatively long advertising slogan recommending the goods to the consumer which, even when reproduced on the packaging, would be much too complex to be understood by consumers as a reference to the origin of the product.

2.362 In practice the authorities have to deal with certain other typical categories of cases which in many laws are expressly listed as grounds for refusal, and which are dealt with below.

Reference to Geographical Origin

2.363 References to geographical origin (as opposed to the origin of the goods in the sense of the origin-indicating function) are basically not distinctive. They convey to the consumer an association with the geographical name, indicated either as the place of manufacture of the goods in question or of ingredients used in their production, or—depending on factual circumstances—with certain characteristics of the goods attributable to their origin.

2.364 For such an association to be conveyed to the consumer, the geographical location referred to must of course—at least to a certain extent—be first known to him. Signs referring to practically unknown localities are therefore distinctive. References to areas where nobody would expect the goods concerned to be manufactured are also distinctive.

2.365 Even if a geographical area is known to the consumer, a sign that makes a reference to it can either be or become distinctive if there is no other manufacturer or trader in the same field of activity, and no potential for competitors to settle there in the future.

2.366 A geographical denomination may also, through long and intensive use, be associated with a certain enterprise to such an extent that it becomes distinctive as a trademark for it, even if competitors already exist or establish themselves in the future.

Letters, Numerals and Basic Geometrical Shapes

2.367 These signs are often regarded as being indistinctive and therefore unregistrable. Some trademark laws (such as the former German trademark law) even expressly excluded them from registration or accepted them only if at least three letters and/or numerals are combined, or in the case of letters, if the sequence is pronounceable.

2.368 It is certainly true that consumers will not normally regard letters, numerals or simple geometrical shapes as indications of the origin of the goods. Nevertheless, letters, numerals and their combinations can become distinctive through use and—as said before—the so-called legitimate interest of other traders in making fair use of them should be no reason for refusal. The recent international trend therefore goes towards accepting the registration of such signs more liberally.

2.369 Furthermore, even without any use, letters and numerals can be registrable if they are applied for in a fanciful device.

Foreign Script and Transliterations

2.370 Imagine the use of a Thai script mark in India or Sri Lanka, the use of Chinese characters in Switzerland, Singhala characters in the United States of America or Japanese characters (Katakana, Kandi) anywhere but in Japan. For the great majority of ordinary consumers these marks are purely fanciful devices. Consequently, they are in principle distinctive, except where the sign has no more than an ornamental effect, depending on its graphic presentation.

2.371 Since these marks are distinctive, they are basically registrable. The registrar may, however, ask for a translation (a description of its meaning) in local script.

Colors

2.372 The use of words and/or devices in colors or combined with colors generally increases their distinctiveness. Consequently, applications for such signs claiming the colors shown or described in the application are easier to register. The first trademark registered in the United Kingdom in 1876 (and still on the register) was a triangle (a basic geometrical shape) in red. However, protection is then in principle restricted to the actual colors in which the mark is registered. Signs that might have been regarded as confusingly similar to the registered mark, had it been in black and white, may therefore fall outside the scope of protection in view of the use of different colors. Since signs registered in black and white are protected against the registration and use of confusingly similar signs regardless of color, and since the registered owners of such signs can normally use them in any color they may wish to use, the usual practice is not to register signs in color. However, a given color or combination of colors may be an important element of a trademark, constantly used by its owner, and therefore liable to be imitated by competitors. This shows that a trademark owner may have a real interest in registering his mark in the distinctive colors in which it is used, even where the mark was distinctive enough to be registrable in black and white. In order to eliminate the previously-mentioned risk of restricting the scope of protection of such a mark, its owner may register the mark both in black and white and in the colors actually used.

2.373 Signs consisting exclusively of individual colors or of color combinations can be registrable trademarks. It is a matter for practice in the various countries to determine whether they are considered inherently distinguishable or—more probably—basically descriptive with the possibility of becoming distinctive through use.

Names, Surnames

2.374 Company names and trade names are registrable, except where they are deceptive or not distinctive.

2.375 Common surnames are not registrable in some countries, since they are not distinctive. As for less common surnames, it is, in such countries, important to establish whether another meaning in everyday language will be overwhelmingly recognized by consumers. If there is such a dominant meaning, the sign is registrable on the condition that the meaning in question is not descriptive of the goods for which the mark is to be used.

Exclusions from Registration on other Grounds: Public Interest

Deceptiveness

2.376 Trademarks that are likely to deceive the public as to the nature, quality or any other characteristics of the goods or their geographical origin do not, in the interest of the public, qualify for registration.

2.377 The test here is for intrinsic deception, inherent in the trademark itself when associated with the goods for which it is proposed. This test should be clearly distinguished from the test for the risk of confusing customers by the use of identical or similar trademarks for identical or similar goods.

2.378 It is true that fanciful trademarks or marks with an arbitrary meaning for the goods proposed cannot be deceptive. And yet trademarks that have a descriptive meaning, even if they are only evocative or suggestive and therefore distinctive, may still be deceptive. Such trademarks have therefore to be examined from two angles: first they must be distinctive, and secondly they must not be deceptive.

2.379 As a rule, it can be said that the more descriptive a trademark is, the more easily it will deceive if it is not used for the goods with the characteristics described.

Reference to Geographical Origin

2.380 Signs that are descriptive or indicative of geographical origin are false for products that do not come from the region described or indicated. In such cases the consumer will be deceived if the reference to the geographical origin has the wrong connotations for him.

2.381 This is particularly true if the region or locality has a reputation. Famous examples of such signs are "Champagne" and "Swiss Chocolate."

2.382 In practice, such cases of direct reference to geographical origin are relatively rare. More often indirect references are made, and these cases are more problematic. A reference to a famous Swiss mountain for chocolate would still deceive consumers, as would a device mark consisting of a typical alpine landscape.

2.383 Indeed even the use of foreign words can, under certain circumstances, be deceptive without any reference to a specific geographical origin. The very fact that a word comes obviously from a particular foreign language may give consumers the impression that the product comes from the country where that language is spoken. Consumers will therefore be deceived if the country concerned has a reputation for the goods concerned.

2.384 However, it should be realized that, in addition to being spoken in many different countries all over the world, English is also the modern international marketing language, with the result that many trademarks have an English-language connotation quite independent of the geographical origin of the goods marked with it, and that consumers are generally aware of the fact.

Partial Deceptiveness

2.385 We have seen that the question whether or not a trademark is inherently deceptive must be examined in relation to the goods in respect of which the application is made. Depending on the list of goods, therefore, an application may be distinctive for some, descriptive for others and/or

deceptive for still others. In such cases the examiner has to require a limitation of the list of goods. Should the applicant not agree to such limitation, the examiner refuses the whole application in some countries. In others, he accepts the application only for the goods for which, in his opinion, the mark is not deceptive and refuses it for the others.

Signs Contrary to Morality or Public Policy

2.386 Trademark laws generally deny registration to signs that are contrary to morality or public policy. The Draft Law also lists this ground for refusal under Section 23.2(ii).

Signs Reserved for Use by the State, Public Institutions or International Organizations

2.387 A country generally protects its national flag, its official name and the names of official institutions in its own interest. Furthermore, countries are obliged by Article 6~~ter~~ of the Paris Convention also to protect the notified signs of other member States and international intergovernmental organizations (such as the United Nations Organization).

Protection of Trademark Rights

2.388 A trademark can be protected on the basis of either use or registration. Both approaches have developed historically, but today trademark protection systems generally combine both elements. The Paris Convention places contracting countries under the obligation to provide for a trademark register. Over one hundred and fifty States have adhered to the Paris Convention. Nearly all countries today provide for a trademark register, and full trademark protection is properly secured only by registration.

2.389 Use does still play an important role, however: first of all, in countries that have traditionally based trademark protection on use, the registration of a trademark merely confirms the trademark right that has been acquired by use. Consequently, the first user has priority in a trademark dispute, not the one who first registered the trademark.

Use Requirements

Need for an Obligation to Use

2.390 Trademark protection is not an end in itself. Even though trademark laws generally do not require use as a condition for the application for trademark registration, or even the actual registration, the ultimate reason for trademark protection is the function of distinguishing the goods on which the trademark is used from others. It makes no economic sense, therefore, to protect trademarks by registration without imposing the obligation to use them. Unused trademarks are an artificial barrier to the registration of new marks. There is an absolute need to provide for a use obligation in trademark law.

2.391 At the same time trademark owners need a grace period after registration before the use obligation comes into effect. This is especially true of the many companies that are active in international trade. In order to avoid loopholes in the protection of their new trademarks of which competitors could take advantage, they must from the very beginning apply for the registration of their new trademarks in all countries of potential future use. Even in their own countries companies

often need several years before they can properly launch a newly-developed product on the market. This is especially true of pharmaceutical companies, which have to make clinical tests and have to apply for approval of their product by the health authorities.

2.392 The grace period granted in trademark laws that provide for a use obligation is sometimes three years, but more often five years.

Consequences of Non-Use

2.393 The principal consequence of unjustified non-use is that the registration is open to cancellation at the request of a person with a legitimate interest. There is moreover a tendency to require of the registered owner that he prove use, since it is very difficult for the interested third party to prove non-use. In the interest of removing "deadwood" from the register, such reversal of the burden of proof is justified.

2.394 The burden of proof should be on the trademark owner not only in cancellation proceedings but also in any other proceedings where the owner is alleged to have taken advantage of his unused trademark right (opposition procedure, infringement action).

2.395 No evidence of use should be required for the renewal of a trademark registration, however. This is an administrative complication which is unnecessary in view of the fact that an interested person can at any time at all take appropriate action against an unused trademark registration.

2.396 Non-use does not always lead to invalidation of the trademark right. Non-use can be justified in the case of *force majeure*, and any other circumstance that is not due to fault or negligence on the part of the proprietor of the mark, such as import restrictions or special legal requirements within the country.

Proper Use of Trademarks

2.397 Non-use can lead to the loss of trademark rights. Improper use can have the same result, however. A mark may become liable for removal from the Register if the registered owner has provoked or tolerated its transformation into a generic name for one or more of the goods or services in respect of which the mark is registered, so that, in trade circles and in the eyes of the appropriate consumers and of the public in general, its significance as a mark has been lost.

2.398 Basically, two things can cause genericness: namely, improper use by the owner, provoking transformation of the mark into a generic term, and improper use by third parties that is tolerated by the owner.

2.399 In order to avoid improper use, everyone in the company owning the trademark, who is involved in advertising or publicizing the brand, must follow some rules.

2.400 The basic rule is that the trademark should not be used as, or instead of, the product designation. By systematically using a product designation in addition to the trademark, the proprietor clearly informs the public that his mark identifies a specific product as one in a certain category. This is especially important if the trademark proprietor has invented a totally new product which at the outset is the only one in the category. Trademarks such as FRIGIDAIRE, CELLOPHANE and LINOLEUM became generic terms because they were the only product in their category, and no additional name was given to the category by its proprietors. When instant coffee, also called soluble coffee, was invented in 1938, the first product marketed by the company that invented it

was called NESCAFÉ. However, from the start the company systematically used a product designation such as “instant coffee” or “soluble coffee” on its labels.

2.401 A second important rule is that trademarks should always be used as true adjectives and never as nouns, in other words the trademark should not be used with an article, and the possessive “s” and the plural form should be avoided. It would be wrong to talk about NESCAFÉ’s flavor or about three NESCAFÉs instead of three varieties of NESCAFÉ.

2.402 Furthermore, it is advisable always to highlight the trademark, that is, to make it stand out from its surroundings.

2.403 Finally, a trademark should be identified as such by a trademark notice. Only a few laws provide for such notices, and making their use on goods compulsory is prohibited by Article 5D of the Paris Convention. Trademark law in the United States of America allows the use of a long statement (such as “Registered with the United States Patent and Trademark Office”) to be replaced by a short symbol, namely, the circled R, or ®. Over the years this symbol has spread throughout the world and become a widely recognized symbol for a registered trademark. Its use is recommended for registered trademarks as a warning to competitors not to engage in any act that would infringe the mark.

2.404 However, it is not enough just to follow these rules: the trademark owner must also ensure that third parties and the public do not misuse his mark. It is specifically important that the trademark should not be used as or instead of the product description in dictionaries, official publications, journals, etc.

Trademark Registration

Application for Registration

2.405 Applications for registration of a trademark are to be filed with the competent government authority which in most countries is the same as the authority competent for processing patent applications. Usually, it is called “Industrial Property Office” or “Patent and Trademark Office” or “Trademark Office.”

2.406 In general, countries provide for an application form, the use of which is mandatory in certain countries. The application form has to be completed with the name and address of the applicant. Foreigners have either to give an address for service in the country or to use an agent holding a power of attorney to be signed by the applicant. Often further formalities are imposed. The Trademark Law Treaty (TLT) contains, in Article 3, an exhaustive list of information which Trademark Offices of Contracting Parties may require for a trademark registration, and expressly prohibits certain formalities, such as authentication or legalization, which are considered unnecessary and particularly burdensome. The TLT also provides Model International Forms which contain all relevant information and which have to be accepted by Offices of Contracting Parties.

2.407 The sign filed for registration must appear in the application form or in an annex to it. If it is intended that the sign should be registered in color, the colors must be claimed and a specimen in color or the description of the color(s) must be submitted.

2.408 If a three-dimensional sign is filed for registration, it is necessary to claim protection of the sign in its three-dimensional form. The sign must moreover be graphically represented in a manner

that allows it to be reproduced for a twofold purpose: it must be possible to register it (regardless of the form in which the register is established, that is, whether the marks are entered in a book, collected in a card index or integrated in a computerized system). Owners of prior rights must be able to take note of the trademark application, which normally is ensured by its publication in a trademark journal.

2.409 The applicant has also to list the goods for which the sign is to be registered. Trademark laws provide generally for a classification of goods for the purposes of registration. In some countries a separate application has to be made for each class, while in others one application is sufficient for several classes.

2.410 An important treaty for international trade is the Nice Agreement Concerning the International Classification of Goods and Services for the Purposes of the Registration of Marks, which establishes an international classification of goods and services for the purpose of registration of trademarks. The document in the back flap of this publication shows the Contracting States of this treaty.

2.411 Finally, one or more lots of fees have to be paid for the registration of a trademark. A country may provide for a single, all-embracing fee or several (application fee, class fee, examination fee, registration fee, etc.). Both systems have advantages and disadvantages. On the one hand, it is simpler and more cost-efficient to charge a single fee. On the other hand, this may lead to unjust consequences for applicants who decide to withdraw the application totally or partially during the registration procedure, for example, because of an objection from the owner of a prior right, or because of insurmountable objections from the registrar.

Examination

Examination as to Form

2.412 Countries generally accept an application for registration of a trademark only if the formal requirements are fulfilled.

Examination as to Substance

2.413 Most countries examine trademark applications as to substance in the interest of both the public and competitors.

2.414 One has to make a clear distinction between two types of grounds for refusal.

2.415 Trademarks may be examined for absolute, objective grounds for refusal, that is, whether they are sufficiently distinctive, not deceptive, not immoral, etc. Such an examination is highly desirable in the interest of consumer protection, but for competitors too, and for the trade in general, it is important that nobody should be able to have an exclusive right in a descriptive or even a generic term by a simple administrative act.

2.416 The laws of many countries provide also for examination on relative grounds, that is, whether the rights applied for are identical or similar to prior rights that have been applied for or granted for identical or similar goods. Such examination may either be made *ex officio* and/or on the basis of an opposition procedure.

2.417 In general, three typical approaches can be observed internationally.

2.418 The British system, providing for examination by the office for absolute and relative grounds, and also for an opposition procedure. This system is also applied, in Europe, by countries such as Portugal, Spain and the Northern European countries.

2.419 Under a second approach the office examines only for absolute grounds, the law provides for no opposition procedure and it is left to the owner of the prior rights to bring a cancellation or infringement action against the registration or use of a more recent sign. This system has been used under the old trademark laws of France and Switzerland—both countries introduced opposition procedures in their new laws.

2.420 The third system is the German one, which provides for examination by the office for absolute grounds and also for an administrative opposition procedure, in which the owner of prior rights can oppose the infringing trademark application by means of a simplified and not too costly procedure. This system is a compromise between the more extreme systems mentioned before, and follows a modern trend which is reflected in the European Community Trade Mark system.

2.421 Industry in general prefers the latter system, since it is less time-consuming and much more flexible. In view of the many trademarks on the registers of countries all over the world, it is in any case advisable to carry out a search for prior rights before applying for registration of a trademark, and even more so before beginning to use it. Most applicants do such searches regularly, while companies have at least their more important registered trademarks watched, either by their trademark agents or by one of the international watching services, in order to keep themselves informed of applications for registration of potentially conflicting similar marks.

2.422 The standards to be applied by the registrar when examining whether a trademark application is to be refused because of a prior right are the same, in principle, as those to be applied in an opposition procedure or by a judge in an infringement action, even though in the latter case the factual circumstances of the infringement will play an additional role.

2.423 Since one of the basic rights of the owner of a registered mark is to prevent others from using his mark or a confusingly similar one, it is more adequate to deal with all aspects of trademark similarity in Chapter 6, which deals with the rights deriving from trademark registration.

Refusal of Registration

2.424 Before issuing a total or partial refusal of the application, the office should give the applicant an opportunity to make observations.

2.425 The decision refusing an application either partly or totally must be open to appeal. Depending on the legal system of the country, the appeal may be lodged with the registrar, with an administrative appeal board or with the court.

Date of Registration

2.426 If the application leads to registration, the office issues a certificate to the owner. The owner's exclusive right exists from the date of registration. However, the priority of the right should date back to the date of filing for registration. While it is true that the application is not normally a sufficient basis for bringing an infringement action against a later right, it must be a valid basis for an opposition procedure. And, even more importantly, the date of the application for registration will be decisive in a later court case. The time that passes before an application leads to registration varies a great deal, and in certain cases can be very long. A later application can for various reasons lead to registration sooner (for instance where the earlier application was refused by the examiner

and finally granted on appeal). Clearly, the owner of the earlier application must have the prior right in relation to the owner of a later application.

2.427 Furthermore, the applicant can claim the priority of his national registration under Article 4 of the Paris Convention if the application in the foreign country is made within six months of the filing date of the first application.

Duration and Renewal

2.428 Since trademarks do not grant an exclusive right that could be exploited, there is no need to limit their validity. For administrative reasons, a time limit is generally provided for in trademark laws, but it is possible to renew registrations when the time limit expires.

2.429 One of the reasons for imposing such time limits is that the office can charge a fee for renewal, and this is a welcome source of revenue. Furthermore, the registration of trademarks without a time limit would lead to an undesirable amount of trademark registrations that are no longer of any interest to their owners. Even if unused marks may be removed from the register, such a procedure would be costly and time-consuming for the interested party, and not always successful.

2.430 Consequently, the requirement of renewal and the payment of a renewal fee is a welcome opportunity for a trademark owner to consider whether it is still worth having his registration renewed, as the trademark may have been superseded in its graphic form, or may even be no longer in use. Excessive fees should also be avoided, however. In any case, renewals should be made simply on payment of the fee, without any new examination of the mark for absolute or relative grounds for refusal. Of course, it should be possible for the owner to make a voluntary restriction of the list of goods of the original registration, especially if he can save fees by doing so.

Publication and Access to the Register

2.431 It is important for owners of prior rights and the public that all relevant data contained in the register, concerning applications, registrations, renewals and changes of name, address and ownership, should be published in an official gazette. This enables owners of prior rights to take the necessary steps, including opposition (if provided for) or an action for cancellation. The publication of applications and registrations should contain all the important data, such as the name and address of the applicant, a representation of the mark, the goods grouped according to the classification system, the colors claimed, where the mark is three-dimensional a statement to that effect, and where the priority of any other mark is claimed (Paris Convention, Article 4) a statement to that effect.

2.432 The register of marks should, moreover, be accessible to the public. To ensure that owners of prior rights are properly informed it is indispensable that the register contain up to date information, namely all recorded data not only on registrations, but also on the contents of pending applications, regardless of the medium on which the data are stored.

Removal of the Trademark from the Register

2.433 The cancellation of a trademark registration is a serious matter for its owner, as it leads to a loss of his rights under the registration. Nevertheless, there are a number of grounds on which a trademark can be removed from the register.

Removal for Failure to Renew

2.434 It has been shown that, for administrative reasons, a trademark is registered for a certain period of time only. If the owner fails to renew his trademark registration and more specifically fails to pay the renewal fee, this leads to the removal of the trademark from the register. Registries generally allow a period of grace for payment of the renewal fee (usually with a surcharge) in accordance with Article 5*bis* of the Paris Convention.

2.435 If the law permits renewal of the trademark registration for just some of the registered goods (to be encouraged as a means of removing "deadwood" from the register), this leads to a partial cancellation of the trademark registration for all the goods in respect of which it is not renewed.

Removal at the Request of the Registered Owner

2.436 The registered owner can himself, at any time, renounce his registration for either all or some of the goods for which the mark is registered. At the request of the registered owner, therefore, the authorities will in principle remove the mark from the register either wholly or in part.

Removal for Failure to Use

2.437 If the owner of a trademark fails to use his mark within the grace period provided for in the law, any interested party can, in principle, ask for its cancellation. If the owner cannot justify the non-use, removal of the registration is ordered by the court. If the owner can prove use or justify the non-use, but only for some of the registered goods, the court orders partial cancellation. Partial cancellation extends either to all registered goods for which use cannot be proved or at least to all those not similar to the goods that the registered owner has used.

2.438 This does not mean that the registered owner's rights would be strictly limited to the goods used, or even to a single product on which his trademark has been used. Even if his registration is canceled for all but the one product for which he can prove use, he can still defend his exclusive right to his registered trademark against the registration and use of an identical or confusingly similar trademark by a competitor for all goods that are identical or similar to the product for which his trademark is registered and used.

Cancellation on Account of Nullity

2.439 If a trademark consists of a sign that should not have been registered, it can be declared null and void by the court at the request of any interested party. Sometimes trademark laws also provide an *ex officio* procedure for that purpose. As a consequence of the declaration, the trademark is removed from the register.

2.440 If the grounds for invalidity exist only with respect to some of the registered goods, the registration is removed for those goods only.

2.441 Normally, removal from the register is ordered only if the grounds for invalidity already existed when the trademark was registered. Moreover, even if the trademark should not have been registered owing to lack of distinctiveness, its cancellation is excluded if in the meantime it has become distinctive by use.

2.442 Such acquired distinctiveness cannot, however, prevent the removal from the register of trademarks that consist of generic or deceptive terms. And yet there can be exceptional cases in

which the deceptive meaning that would have prevented trademark registration at the outset has been lost in the meantime.

Removal of a Mark that has Lost its Distinctiveness

2.443 If the registered owner has provoked or tolerated the transformation of a mark into a generic name for one or more of the goods or services in respect of which the mark is registered, the mark becomes liable for removal from the register. This is explained under "Proper Use of Trademarks", paragraph 2.382.

Rights Arising from Trademark Registration

2.444 The registered owner has the exclusive right to use the trademark. This short definition of the specific subject matter of trademark rights encompasses two things: the right to use the trademark and the right to exclude others from using it.

The Right to Use the Trademark

2.445 This positive right of use belonging to the trademark owner is recognized in most trademark laws. It would indeed be contradictory not to grant such a positive right of use while imposing an obligation to use. Of course, the right of use is subject to other laws and rights, as is any other right provided by law. What is allowed under trademark law may be prohibited under competition law or by public enactment.

2.446 What does the right of use mean? It means first the right of the owner of the mark to affix it on goods, containers, packaging, labels, etc. or to use it in any other way in relation to the goods for which it is registered.

2.447 It means also the right to introduce the goods to the market under the trademark.

2.448 It is important to make a distinction between these two rights, both derived from the right to use a trademark.

2.449 When the trademark owner has launched a product on the market under his mark, he cannot object to further sales of the product in the course of trade. This is the essence of the so-called principle of exhaustion of the trademark right which is expressed in Section 26(3) of the Draft Law. Some countries do not allow objections to parallel imports of products marketed in a foreign country by the trademark owner or by a third party with his consent. Other countries do allow such parallel imports to be objected to, namely by applying the principle of territoriality of rights. Still other countries make the decision on whether the trademark owner can object to parallel imports dependent on whether consumers are likely to be mistaken as to the characteristics or quality of the imported goods.

2.450 Apart from this special aspect of parallel imports of goods marketed for the first time in a foreign country, the principle of exhaustion of trademark rights clearly applies within the country. However, it is a principle that applies only to the right to launch the product bearing the trademark on the market for the first time. The owner's exclusive right to affix the trademark on the goods and their packaging, containers, labels, etc. continues to exist. Consequently, he can object to acts that infringe that right, such as the repacking of goods bearing his mark, the destruction of his mark on the goods, or the alteration and subsequent sale of his products under his mark. Altering the product and selling it under the same mark has the same effect as affixing the mark to goods,

that is, it gives the consumer the impression that the genuine product has been marketed by the trademark owner under his mark. If that is not true, the trademark owner has a right to intervene.

2.451 Finally, a third right out of the series of rights incorporated in the right to use a trademark is the trademark owner's right to use his mark in advertising, on business papers, documents, etc.

The Right to Exclude Others from Using the Mark

2.452 It follows from the mark's basic function of distinguishing the goods of its owner from those of others that he must be able to object to the use of confusingly similar marks in order to prevent consumers and the public in general from being misled. This is the essence of the exclusive right afforded to the trademark owner by registration. He must be able to object to any use of his trademark by a third party for goods for which it is protected, to the affixing of the mark on such goods, to its use in relation to the goods and to the offering of the goods for sale under the mark, or the use of the mark in advertising, business papers or any other kind of document. Furthermore, since consumers are to be protected against confusion, protection generally extends to the use of similar trademarks for similar goods, if such use is likely to confuse the consumer.

2.453 It must be underlined, however, that the trademark owner cannot unconditionally object to the use of his trademark or a similar mark for the goods for which his trademark is registered or for similar goods. His trademark must be protected for the goods specified in the registration. Such protection operates automatically for all registered goods during the user's grace period, which is generally laid down by law. When that period has expired, protection has to be reduced to the goods on which the mark is actually used and goods similar to them. Any goods for which the trademark was registered but which are not in use should no longer be a valid basis for asserting exclusive trademark rights. Depending on the procedural system in the country, the trademark owner may be able to rely on those formal rights for goods for which the mark is registered but not used, but he could face a counterattack leading to partial cancellation of his trademark for non-use.

2.454 The exclusive rights of the trademark owner can be exercised by means of an infringement action. The trademark is infringed if, owing to the use of an identical or similar sign for identical or similar goods, there is a risk or a likelihood of the public being misled. The test is not a hypothetical one, but has to deal with the reality of infringement in the marketplace.

2.455 Many laws not only provide for an infringement action, but also offer an administrative opposition procedure against an application for the registration of a confusingly similar trademark. In that case, the test is much broader, because allowance has to be made for the risk of confusion that could arise from any use that the applicant might possibly make of his trademark if it were registered. The test is in fact the same as is applied by the office in its examination for prior third-party rights.

2.456 Together with the question whether a trademark is distinctive, the question whether a trademark is confusingly similar to an earlier right is one of the cornerstones of practical trademark protection.

Similarity of Goods

2.457 Trademarks are registered for goods in certain classes which have been established for purely administrative purposes. The classification of goods cannot therefore be decisive for the question of similarity. Sometimes totally different goods are listed in the same class (for instance computers, eyeglasses, fire extinguishers and telephones in class 9), while similar goods can clearly be listed in different classes (adhesives may fall into classes 1, 3, 5 and 16).

2.458 The test of whether goods are similar is based on the assumption that identical marks are used. Even identical marks are unlikely to create confusion as to the origin of the goods if the goods are very different. As a general rule goods are similar if, when offered for sale under an identical mark, the consuming public would be likely to believe that they came from the same source. All the circumstances of the case must be taken into account, including the nature of the goods, the purpose for which they are used and the trade channels through which they are marketed, but especially the usual origin of the goods, and the usual point of sale.

2.459 A further aspect is the nature and composition of goods. If they are largely made of the same substance, they will generally be held to be similar, even if they are used for different purposes. Raw materials and finished goods manufactured out of the raw materials are not normally similar, however, since they are generally not marketed by the same enterprise.

Similarity of Trademarks

2.460 Trademarks can be more or less similar to each other. The test, of course, is whether they are confusingly similar. A trademark is confusingly similar to a prior mark if it is used for similar goods and so closely resembles the prior mark that there is a likelihood of consumers being misled as to the origin of the goods. If the consumer is confused, the distinguishing role of the trademark is not functioning, and the consumer may fail to buy the product that he wants. This is bad for the consumer, but also for the trademark owner who loses the sale.

2.461 No intention to confuse on the part of the infringer is necessary, nor is actual confusion. The likelihood of confusion is the test. That is the only way for the system to function.

2.462 Of course, phrases such as "likelihood of confusion of the consumer" (or "of the public") have to be interpreted. "The consumer" does not exist, and the public as such cannot be confused. Confusion arises, or is likely to arise, always in a section of the public. It has to be determined in the specific case what the relevant part of the public is that has to be considered, in other words who are actually addressed or reached by the trademark.

2.463 Since it is very difficult to work in practice with the broad definition of confusing similarity, some rules have been developed which help to define in specific cases whether, in view of the similarity of the two marks, confusion is likely to arise.

2.464 The most important point is that the consumer does not compare trademarks side by side; he is generally confronted with the infringing mark in the shop without seeing the product bearing the mark that he knows and remembers more or less accurately. He mistakes the products offered under the infringing mark for the genuine product that he actually wants to buy. In this context it must be taken into account that the average consumer also has an average memory, and that it must be sufficient for him to doubt whether the trademark with which he is confronted is the one he knows.

2.465 Since the average consumer generally does not at first glance recognize differences between the marks that he might spot if he took his time to study the mark and the product offered under it more carefully, the first impression that he gains must be decisive. This is especially true for mass-consumption goods offered in self-service stores.

2.466 Furthermore, unsophisticated, poorly-educated consumers and also children are more liable to be confused. The purchaser of a sophisticated and costly machine, car or aircraft will no doubt be more attentive than the consumer in the self-service store. In those fields, therefore, very similar

trademarks do coexist, which would probably be easily confused if applied to mass-consumption goods.

2.467 Another interesting example of how the category of goods can influence the testing of confusing similarity is to be found in the field of pharmaceuticals. Prescription drugs are normally sold to the consumer (on prescription by doctors) by educated pharmacists, who are less likely to be misled by relatively similar brand names used for medicines for different indications, so the testing of similarity can be more generous. For drugs sold over the counter, the contrary is true. In view of the potentially serious consequences for the uneducated consumer if he buys a wrong product, the testing of similarity must be particularly strict.

2.468 The second important point when testing the similarity of trademarks is that they should be compared as a whole, and that more weight should be given to common elements which may lead to confusion, while differences overlooked by the average consumer should not be emphasized. Notwithstanding this basic rule of comparing trademarks as a whole and not dividing them into parts, the structure of the signs is important. Common prefixes are normally more important than common suffixes; if two signs are very similar or identical at the beginning, they are more likely to be confused than if the similarity is in their endings. Long words with common or similar beginnings are more likely to be confused than short words with different initial letters.

2.469 The third important point is that highly distinctive marks (coined or arbitrarily used marks) are more likely to be confused than marks with associative meanings in relation to the goods for which they are registered.

2.470 The same is true if a mark contains a highly distinctive part (part of the word mark or one of several words forming the mark), and that highly distinctive element is exactly or almost exactly duplicated by the infringing mark. If, on the other hand, the common element of the two signs is descriptive, the consumer's attention tends to focus on the rest of the mark.

2.471 When trademarks with a common element are compared, it also has to be established whether there are other trademarks on the register and used by different owners that have the same common element. If so the consumer will have become accustomed to the use of this element by different proprietors, and will no longer pay special attention to it as a distinctive element of the mark.

2.472 The situation is different, however, if all marks having such a common element (normally a prefix or suffix) are registered and used by the same proprietor (or with his consent). This is the special case of the series mark, where the consumers may have become accustomed to associate the series with a common source, and will tend to make the same assumption about any new trademark containing the same element. However, the mere fact of somebody using a series of trademarks that have a common element is not, as such, sufficient to exclude the use of the same element by a competitor as a component of a mark which on the whole is very different. The use of such a common element can only constitute infringement if consumers really have come to recognize the common element of the series of marks used by the registered owner as indicating the source of the goods offered by him under the different marks containing that element.

2.473 The fourth important point is that confusion can arise from similarity in the writing, the pronunciation and in the meaning of the sign, and that similarity in one of those areas is sufficient for infringement if it misleads the public.

2.474 With regard to similarity in writing, the graphic presentation of the trademark plays an important part. Similarity in pronunciation is important because trademarks that are written

differently may be pronounced in the same way, and pronunciation counts in oral communication: even if similarity in writing is avoided by the use of very different graphic presentations, this does not make any difference when the two trademarks are compared orally.

2.475 A totally different meaning can preclude confusion between two marks that would normally be regarded as confusingly similar.

2.476 Independently of the above rules, some special aspects have to be taken into account for figurative marks (devices).

2.477 For purely fanciful marks the graphical impression conveyed by the two marks is decisive.

2.478 For composite marks the similarity of the word part is normally sufficient, as similarity in pronunciation constitutes trademark infringement. Similarity in the figurative part can only lead to confusion if that figurative part is a distinctive element of the mark. Furthermore, in the case of composite marks any similarity in the word parts of the two marks is likely to be emphasized if the figurative parts of the marks are also similar. Even though the words might not be confused in writing or pronunciation, the marks as a whole can be confusingly similar in view of the similarity of their figurative elements.

2.479 A special case is the device that can be named by a word, such as a star device and the word "star." The question arises whether the corresponding word as a trademark should be prohibited, and whether the owner of the word mark "star" should be able to object to all possible graphic presentations of a star in a device mark. The situation is different when two device marks are compared in which both feature, for instance, the same animal. Two such devices, for instance two tiger or lion or cow devices (there are numerous cow devices registered for milk products) must be sufficiently similar for there to be confusion.

Influence of Use and Non-Use

2.480 Confusion in the marketplace can only arise from actual use on similar goods. To prevent confusion, however, it is still necessary that the trademark protection system allow the trademark owner to object to an application for registration of a trademark which is based on mere intention to use the mark.

2.481 For the same preventive purpose, many trademark laws allow the owner of a registered trademark to object in opposition procedures to the filing, and in infringement actions to the use, of similar marks for goods identical or even similar to all goods covered by the existing registration, regardless of the use of the latter. The defendant who is aware of the total or partial non-use must therefore counterattack by introducing an invalidation action seeking partial or total cancellation of the existing trademark registration for non-use.

2.482 More modern conceptions allow the trademark owner, after the grace period has expired, to object by opposition or court action to an application for registration, or to the use, of an identical or similar mark for goods identical or similar only to those on which the owner is actually using his. If the owner is not using his trademark, the opposition is refused, and if he is using it on one or several of the goods for which it is registered, only those on which it is used are taken into consideration for the test of confusing similarity. The burden of proof of use in an opposition procedure is on the owner of the right.

2.483 Many laws also allow the defendant in trademark infringement actions to claim non-use of the trademark on which the action is based, and the owner can then only succeed in his infringement action if he can prove use of his mark.

2.484 If the infringed trademark is being used, the extent of the use can influence the test of confusing similarity. Intensive use increases the distinctiveness of the mark, and confusion with well-known marks is more likely even if the goods on which the infringing mark is used are less similar or if the similarity of the marks is less apparent.

Protection Beyond the Scope of Confusing Similarity

2.485 Well-known or famous marks, which are highly reputed, are in some countries given protection that goes beyond the scope of similarity of the goods. Such far-reaching protection should only be given if the use of the same mark or a nearly identical mark for other, dissimilar goods would be prejudicial to its distinctiveness or its reputation. This extended protection does not necessarily cover all possible goods. It could well be that the use of a mark identical to the well-known mark would do unjustified harm in relation to a certain category of goods, whereas the same use on totally dissimilar goods might not be against the interests of the registered owner of the well-known mark. The decision has to be determined by all the circumstances of the specific case, including the extent of reputation of the mark, the type of goods for which it is used by the infringer, the manner in which he presents his goods, and so on.

2.486 Yet reputation is not sufficient on its own, of course; broader protection is justified only where the use of a sign without due cause would take unfair advantage of, or be detrimental to, the distinctive character or the reputation of the trademark.

2.487 In September 1999 the WIPO General Assembly and the Assembly of the Paris Union adopted a Joint Recommendation Concerning Provisions on the Protection of Well-Known Marks which provides guidance for determining whether a particular mark is well-known, and determines the scope of protection of well-known marks (see Chapter 5, paragraphs 5.731 and 5.732).

Restriction of the Exclusive Right in the Public Interest

2.488 In the same way as the owner's right to use his trademark can be restricted by other rights, his right to prevent third parties from using his mark can be restricted by the legitimate interests of others. A provision is contained in many trademark laws which states that the registration of the mark does not confer on its registered owner the right to preclude third parties from using *bona fide*, for example, their names, addresses, or pseudonyms.

2.489 The trademark owner also cannot prevent third parties who are not his competitors from referring to his trademark by acts such as the listing of the mark in a compendium of trademarks, or from using it in newspaper articles or in books or other publications.

Remedies for Trademark Infringement

2.490 A successful infringement action leads to prohibition of the use of the confusingly similar mark. If the infringing mark is registered, cancellation of the registration is ordered.

2.491 The trademark owner can also, in principle, ask for compensation for damages. Damages are difficult to prove in trademark infringement cases, however, so this remedy is not very important in practice.

2.492 The situation is of course different in cases of counterfeiting, which will be dealt with below.

Trademark Piracy, Counterfeiting and Imitation of Labels and Packaging

Trademark Piracy

2.493 Trademark piracy means the registration or use of a generally well-known foreign trademark that is not registered in the country or is invalid as a result of non-use.

2.494 The Paris Convention provides in its Article 6*bis* that a well-known trademark must be protected even if it is not registered in the country. Article 6*bis* is restricted to identical and similar goods, however. Often well-known trademarks are used by pirates on totally different goods, or for services. Furthermore, courts sometimes require a trademark to be well-known in the country where piracy is discovered, and deny protection, even if the true owner of the trademark can prove that it is internationally well-known in a considerable number of other countries. Improved protection against trademark piracy is therefore needed. The Joint Recommendation Concerning Provisions of the Protection of Well-Known Marks which was adopted by the WIPO General Assembly and the Assembly of the Paris Union in September 1999 provides some guidance in this respect.

Counterfeiting

What is Counterfeiting?

2.495 Counterfeiting is first of all the imitation of a product. The counterfeit is not only identical in the generic sense of the term. It also gives the impression of being the genuine product (for instance a LOUIS VUITTON bag), originating from the genuine manufacturer or trader.

2.496 The offering of such a counterfeit product is only meaningful, of course, if the genuine product is known to the consumer. Consequently, counterfeit goods often belong to the category of luxury goods and bear a well-known trademark. In fact, however, this is only a coincidence: counterfeit goods can just as well be mass-consumption goods, or goods not sold under a trademark but protected by other intellectual property rights such as copyright or design protection. They can also be known to a small group of specialized consumers only, such as brakes to be used for cars, or aircraft, or pesticides known to clients in agriculture. These examples show at the same time how dangerous the use of counterfeit goods can be - a whole year's crop in a large part of Africa was once destroyed by the use of a counterfeit pesticide.

2.497 Some very typical and widely-known examples of counterfeit goods, have been, for example, the false LOUIS VUITTON bags, the false ROLEX, CARTIER and other luxury watches, the false PUMA and REEBOK sports shoes, the false LACOSTE sports shirts and so on. Worldwide sales of some counterfeit products may exceed those of the genuine products. This shows that counterfeiting is an economic phenomenon of worldwide importance, which can represent an alarming percentage of world trade. Indeed, it is important to recognize that counterfeiting is an economic crime, comparable to theft. Counterfeiters not only deceive the consumer but also damage the reputation of the genuine manufacturer, apart from which they do not pay taxes and other duties to the State.

Legal Protection Against Counterfeiting

2.498 Although it is not a condition and not always the case, counterfeit goods generally bear a trademark. This has the advantage of making counterfeiting actionable as trademark infringement, which is generally easier than fighting against infringement of other intellectual property rights, which may also be involved. However, since counterfeiting is an economically serious and important problem, the remedies specified in trademark laws are often not sufficient to serve as an effective deterrent. This is a problem that concerns three areas of law enforcement, all of which are essential if counterfeiting is to be successfully combated.

2.499 Laws must provide for severe criminal sanctions, including imprisonment. Most trademark laws provide for criminal sanctions for trademark infringement, but they were often enacted long ago and are no longer realistic. Counterfeiters pay fines, and imprisonment is rarely ordered.

2.500 Rapid, far-reaching remedies are necessary. Counterfeiters do not operate from a normal business address, and in the event of prosecution are difficult to trace. Often they can only be found after a long and thorough investigation. There is therefore a pressing need for provisional measures such as interim injunctions: in the United Kingdom the so-called Anton Piller order is a very useful measure. By such provisional measures the counterfeit goods may be confiscated and the person who has them in his possession is obliged to inform the genuine trademark owner of their source.

2.501 Since counterfeiting is a phenomenon that occurs in international trade, it is also necessary to empower the customs authorities to check goods at the border of their country and confiscate counterfeit goods at the request of the owner of the trademark affixed to them.

Imitation of Labels and Packaging

2.502 The cases discussed in this section lie between normal trademark infringement and counterfeiting, sometimes coming very close to counterfeiting. As in the case of counterfeiting, the label or packaging of the competing product is imitated, but in this case the imitation does not give the impression of being the genuine one. If one compares the genuine product and the imitation side by side, although consumers seldom proceed in this way, one can distinguish them and the imitator does not usually hide behind the manufacturer of the genuine product; he trades under his own name. He is not a criminal, but rather a competitor who uses unfair methods of competition.

2.503 Instead of developing at his own expense a label and packaging with an image of his own for his product, the imitator tries to take advantage of the reputation of the competing product by giving his product an appearance so similar to it that confusion arises in the marketplace.

2.504 Often the imitator uses a trademark (in the sense of a product name) which is confusingly similar to that of his competitor. If he does that he is committing trademark infringement.

2.505 In a number of cases the word mark used by the imitator is somewhat, but not confusingly, similar to the one used by his competitor, but may even be totally different from it. In such situations the confusion in the marketplace arises only, or mainly, from the use of colors and graphic elements that are identical or very similar to those of the competitor's label or packaging. Labels and packaging are rarely registered as trademarks, which means that trademark law mostly offers no basis for intervention in such cases. They have to be dealt with under the rules of unfair competition.

2.506 In principle, it is generally recognized as being unlawful (unfair competition) to pass off one's own goods as being those of a competitor. If a label or the packaging of a product is confusingly similar to that of a competitor's product, this requirement is normally fulfilled.

Change of Ownership

Reasons for Change of Ownership

2.507 The ownership of a trademark can change for different reasons and in different ways.

2.508 Trademark rights may, on a natural person's death, pass to his heir. Such a change of ownership is only possible where trademark laws allow the private ownership of trademarks. Similarly, a trademark may pass to a new owner in the case of bankruptcy. Another automatic change of ownership may result from the merging of two companies. No automatic change takes place, however, in the case of a company takeover effected by the acquisition of shares, or when certain assets of a company, including the intellectual property rights, are acquired.

Voluntary Change of Ownership: Assignment

2.509 Assignments are the most common form of change of ownership. They are normally, but not necessarily, part of a purchase contract, whereby trademarks are sold against payment of a certain amount of money.

2.510 The law of some countries allows trademark assignment only together with the goodwill related to the mark. It is argued that consumers are accustomed to the product sold under the trademark, so that an assignment without transfer of the enterprise, or part of the enterprise, using the mark would deceive consumers. Nevertheless, there is a clear tendency towards allowing free assignments of trademarks. Trademarks that are assigned without goodwill have often been unused for many years. Apart from that, companies often have a complicated legal structure and, when one company is taken over by another, it may well be that the trademarks are transferred to the new parent company, while the factories in which the products sold under those trademarks are manufactured, remain the property of the company taken over. As long as the new parent and trademark owner ensures that the consistent quality of the products sold under the assigned trademarks continues, consumers will then not be deceived.

2.511 There is therefore no absolute need to link the assignment of trademarks to the goodwill related to them.

2.512 Partial assignments are more problematic. In order to avoid confusion of the public in such cases, trademark laws sometimes allow transfers only where the goods involved are not similar to those remaining with the former owner. Confusion of the consumer is thus clearly avoided, as the two trademarks could have been registered by different owners from the very beginning.

Recordal of Change of Ownership

2.513 In principle, a change of trademark ownership takes effect without any recording. This is clear in the case of the foreign owner's death or bankruptcy or a merger. Even a voluntary change of ownership by means of assignment does not, in principle, need to be recorded to become effective, at least *inter partes*. Nevertheless, trademark laws generally provide for the recording of changes of ownership for two reasons:

- the new owner cannot normally exercise his trademark rights if he is not the recorded owner;
- in principle, the transfer is not binding on third parties as long as it is not recorded.

2.514 This principle cannot be applied without restriction: if the new owner has completed all the necessary formalities, that is, if he has submitted the necessary documents to the office for registration of the change of ownership, he must be able to take action to defend his trademark against infringement. The recording procedure is sometimes very long and drawn-out, and some jurisdictions do not permit recordal of pending applications. In such cases, the new owner would often be totally blocked, as the former owner might no longer exist, or at least might no longer be interested in proceeding against infringements of his former trademark rights.

2.515 Trademark laws generally provide that the registrar refuses to record an assignment that in his opinion is liable to deceive consumers.

2.516 If the assignment really does deceive the consumer, it is usually automatically null and void and therefore cannot be validly recorded. However, the registrar should not refuse to record assignments if in his opinion there is only a risk of confusion for the public. Such cases obviously depend on factual circumstances that go beyond what he knows from the file, such as how the new owner will use the trademark, whether consumers will really be deceived, and so on, which establish that the deception of consumers is not inherent in the assignment.

2.517 A partial transfer is different from the situation where the registered owner of several trademarks assigns some of them which, if the test of trademark similarity is applied, could be regarded as confusingly similar.

2.518 In such a case, deception of the consumer is not really inherent in the assignment. Whether or not the consumer will be deceived depends not only on how the new owner will make use of the trademark assigned to him, but also on how the former owner will make use of the trademark of which he is still the proprietor. The parties to the assignment will usually, in their own interest, include provisions in the contract of assignment that regulate the future use of both trademarks in such a manner as to avoid confusion amongst the consumers involved. In such cases the registrar should not have the power to refuse to record an assignment, and the matter should be left to the discretion of the courts.

2.519 If a trademark assignment is null and void because it inherently deceives the public, or for any other legal reason outside trademark law, but has been recorded, the question that arises is what the consequences of such recording are.

2.520 Nullity of the assignment does not lead to nullity of the trademark rights as such. The trademark rights do, however, remain with the assignor, the former owner. This means that any use of the trademark by the newly registered owner is not actually a use, and, after the grace period for use of the trademark has expired, the trademark is open for cancellation. Of course, the assignor and former registered owner of the trademark, who has remained the owner, could in fact use it, but he is unlikely to do so as the parties are usually unaware of the invalidity of the assignment.

Formalities

2.521 In the interest of legal security, assignments should be evidenced in writing. The application for recording of the assignment must also be made in writing, either by the assignor or by the assignee. If it is the assignor who applies, a simple written request signed by himself or his legal representative should be sufficient. If on the other hand it is the assignee or any other new trademark owner who asks for the change of ownership to be recorded, the request generally needs to be accompanied by supporting documents (the contract of assignment signed by the assignor, or any other proof of the change of ownership). However, in such cases the mere signature of the demand for change of ownership by the new trademark owner or his legal representative should also be sufficient, without any need for authentication, legalization or other certification. The Trademark Law Treaty contains, in Article 11, an exhaustive list of formalities which Trademark Offices may require in respect of an application for the registration of a change in ownership.

Trademark Licensing

Importance of Licensing

2.522 It is common practice for trademark owners to license third parties to use their trademarks locally in the country where they exercise their own business. However, the main importance of the possibility of licensing the use of trademarks lies in its usefulness in international business relations. Licensing is indeed the principal means whereby the trademarks of foreign companies are used by local businesses. Such license agreements are very common between partners from different developed countries, and they do exist between partners who both originate in developing countries, or even between a licensor in a developing country and a licensee in a developed country.

2.523 The most important role they play, however, is in the relations between licensors in developed countries and licensees in developing countries. In these situations they are not normally simple trademark licenses, but general agreements including the licensing of patents, trademarks, know-how and possibly other intellectual property rights, as well as technical assistance to be given to the licensee. These agreements are a key factor in the economic development of developing countries and are usually characterized by the transfer of technology, the creation of jobs and the use of local raw materials. They are often regulated by special provisions of local laws which provide for the control or approval of the agreement by a local authority, such as a ministry responsible for technology transfer.

2.524 To the extent that such general agreements confer the right to use the licensor's trademarks, they have to comply with the relevant licensing provisions of the trademark law of the licensee's country (even though the above-mentioned special provisions may also apply). The trademark laws of many countries contain provisions on trademark licensing. The general guiding

principles of trademark licensing are dealt with hereunder, independently of its foreign ownership and technology transfer aspects.

Basic Concept: Control by the Owner

2.525 To safeguard the origin-indicating function of the trademark, it is necessary and sufficient for the owner to exercise control over the use of the mark by the licensee, particularly with respect to the quality of the goods (compliance with quality standards set by the licensor) and the conditions under which they are marketed. If that control is effective, the registered owner of a trademark need not use it himself. Use of the mark by his licensee can be deemed to be use by himself for all trademark protection purposes. This means more particularly that the trademark cannot be attacked for alleged non-use, and the licensee cannot himself claim ownership rights in relation to the mark.

Formal Requirements

2.526 Basically, the trademark protection system does not impose any formalities on trademark licensing. The only important point, which is inherent in the system, is that the owner exercises effective control over the licensee. The importance of this principle is generally recognized, although only a few trademark laws provide for quality control in their provisions on trademark licensing (those of the United States of America and Sri Lanka, for instance). Indeed no purpose is served by the existence of a written agreement, which may even be recorded in the trademark register and which may contain all sorts of control provision, if the law does not provide for the legal consequences of failure to exercise control. Many trademark laws do nevertheless provide for obligatory recording of the license, and often the registrar carefully studies the conditions imposed on the licensee by the licensor.

2.527 In September 2000 the WIPO General Assembly and the Assembly of the Paris Union adopted a Joint Recommendation Concerning Trademark Licenses (see Chapter 5, paragraphs 5.733 and 5.734) which provides a maximum list of indications and elements that an Office may require for the recordal of a license (Article 2(1)) and contains a Model International Form. The Recommendation also attempts to limit the effect of non-compliance with recordal requirements to the license agreement itself by stipulating that non-recordal of a license should not affect (i) the validity of the trademark which is the subject of the license (Article 4(1)), (ii) any right that a licensee might have under the legislation of Member States to join infringement proceedings initiated by the holder (Article 4(2)(a)), and (iii) the question whether use of a mark by a third person can be considered as use by the trademark holder which can be relevant in the context of use requirements (Article 5).

2.528 A special variety of trademark licensing formality is the British system of registered user agreements. If such an agreement is recorded, use of the trademark by the registered user is deemed to be use by the trademark owner. However, it is not the actual license agreement between the parties, governing their commercial relations, that has to be registered; the law provides for a kind of simplified form, with certain conditions to be fulfilled before the registrar recognizes the registered user agreement. Since the register is open to inspection, the parties to a license agreement do not normally register the agreement but rather the simplified form.

Restrictions on the Licensee

2.529 Licensees are not usually allowed to assign the license or grant sub-licenses, but such rights can of course be expressly granted in the agreement.

2.530 Licenses can be exclusive or non-exclusive.

2.531 In the case of an exclusive license the trademark owner is not allowed to license the mark to any other person in the territory and cannot even use the mark himself.

2.532 In the case of a non-exclusive license, of course, the owner may use the mark himself and even allow others to use it. In the case of multiple licenses, very strict quality control is necessary in the interest of the consuming public.

2.533 Exclusive as well as non-exclusive licenses can be concluded for the whole territory of a country or part of it, and they can cover all or some only of the goods for which the trademark is registered. Unlike in the case of assignments, there is no risk of confusion of the public to be considered, on condition that the trademark owner exercises efficient quality control.

Trade Names

2.534 Enterprises may own and use one, several or many different trademarks to distinguish their goods and services from those of their competitors. However, they also need to distinguish themselves from other enterprises. For that purpose they will adopt a trade name.

2.535 Trade names have in common with trademarks and service marks that they exercise a distinguishing function. Unlike trademarks and service marks, however, trade names distinguish one enterprise from others, quite independently of the goods or services that the enterprise markets or renders.

Legal Requirements

2.536 Countries generally lay down certain requirements to be met for a trade name to be permissible and accepted for registration in the register of company names, which may exist on a national level, but in fact is often kept on a regional or even local level. The character of the enterprise must be mentioned (for instance with the abbreviation Ltd for limited company), and often the purpose of the business has also to be given. Trade names are generally quite lengthy, and are therefore not a very practical tool for use in daily business life as a reference to the company.

2.537 Enterprises therefore tend to use a shorter business name or some other kind of corporate identifier in addition to the full, duly-registered trade name.

2.538 The trade name is not normally required to be distinctive as a condition of registration and subsequent use.

Legal Protection

2.539 If a trade name or business name is distinctive it is protected by use, whether registered or not. If it is not distinctive, it can be protected after distinctiveness has been acquired by use. Distinctiveness in this context means that the consuming public recognizes the name as being a reference to a particular trade source.

2.540 A trade name or a business name can also be afforded protection by registration as a trademark. Usually, both the full corporate name and the short business name can be registered. To safeguard such a registration, it is of course necessary actually to use the trade name as a trademark. This requirement is normally not met by making a reference, somewhere on the label or packaging of a product, to the manufacturing or trading company with its full address in small print, as is often required by labelling regulations. It is therefore more adequate and commoner in practice to register the shorter business name as a trademark, the more so as that name is often at the same time an important trademark (such as the so-called "house mark") of the company.

2.541 In the same way as enterprises can register trade names and business names as trademarks, they can and often do use them not only to distinguish themselves but also to distinguish the goods or services that they offer and, as mentioned before, this is even necessary in connection with the obligation to use if the name has been registered as a trademark.

2.542 It is therefore inevitable that conflicts between trade names, business names and trademarks arise. If a trade name or business name is used as a trademark (whether registered or not), the general rules of priority and the protection of consumers against confusion as to the origin of the goods or services offered under the signs concerned will determine the outcome of any conflict with a similar trademark.

2.543 Even if an enterprise uses a business name or trade name as such, in other words not as a trademark for the goods or services it offers, it is nevertheless widely recognized that a prior trademark is infringed if the use of the business name or trade name is likely to create confusion as to the origin of the goods or services that the enterprise offers under its name. Conversely, the use of a trademark, service mark or collective mark can in the same way infringe a prior (registered or unregistered) business name or trade name.

Franchising

Introduction

A Brief Explanation of Franchising

2.544 Even if the term "franchising" is unfamiliar to most consumers, they are familiar with the results of franchising. The most widely known results of franchising appear to be fast-food restaurants, hotels or cosmetic retail shops. Franchising extends, however, to industries as diverse as the hiring of formal wear, car tuning, the preparation of taxation statements or returns, lawn care, day-care schools and dentistry. In short, it may apply to any economic activity for which a system can be developed for the manufacture, processing and/or distribution of goods or the rendering of services. It is this "system" that is the subject matter of franchising.

2.545 In developed market economy countries, the sale of goods and services through franchising has grown remarkably since the 1950s, and can account for a very large proportion of all retail sales in certain countries.

2.546 This rapid growth and success of franchising has been attributed to a number of factors, the most basic one being perhaps that franchising combines the depth of knowledge and the strength of one entity, the franchisor, with the entrepreneurial spirit of a businessman, the franchisee.

2.547 Whether there is government-mandated regulation of franchises or not, as in all commercial activities, the best protection against the possibility of abuse is the knowledge held by potential franchisees and their professional advisers as to what franchising is and how it works. Accordingly, the purpose of this chapter is to give a brief general survey of the structure and nature of a franchising arrangement and, in particular, to help prospective franchisees understand franchising and better defend their interests, thereby allowing franchising to fulfill a positive role in the economy. This chapter should not, however, be viewed as a substitute for expert advice on the subject.

An Example of a Franchising Agreement

2.548 In order to illustrate better the discussion on franchising, this chapter uses a fictional franchise from time to time as an example—a restaurant selling Italian food and operating under the name of VESPUCCI. While VESPUCCI is the mark (both for goods and services) and the trade name under which the franchisees operate the restaurants, the company offering the franchise (the franchisor) is referred to as Vespucci, Inc.

2.549 Vespucci, Inc. has developed a system for preparing and selling its food products, which are sold in large volume and in a uniform manner. The system includes various factors that contribute to the success of VESPUCCI restaurants, including recipes and methods of preparing food that produce a product of consistent quality, good seating in the restaurant, the design of employees' uniforms, the design of the buildings and billboards, quality sources for supplies, the design of packaging, an inventory of ingredients used in the preparation of the food, and management and accounting systems.

2.550 Vespucci, Inc. imparts its knowledge and experience to its franchisees to assist them in developing a new business. Without the franchisor's guidance, the local restaurant owner is liable to make serious mistakes which could cause the business to fail. Moreover, Vespucci, Inc. retains the right to supervise and control the way in which the local franchisee is operating the local VESPUCCI restaurant, so that the goodwill of the VESPUCCI mark and trade name is maintained and the value of the local restaurant, indeed of the whole system under which VESPUCCI restaurants are operated, is not reduced.

2.551 Vespucci, Inc. receives a financial benefit in exchange, in the form of a payment by the local franchisee to Vespucci, Inc. That payment may include an advance payment or "up-front fee" and some form of continuing payment based, for example, on a percentage of the franchisee's total sales. Payment in kind might also be envisaged. In addition, depending on the nature of the agreement, the franchisee may have a number of other payments to make for items such as special food spices, rental of equipment (e.g. ovens, cutting machines, etc.), purchase of consumable goods and miscellaneous articles necessary for his business.

Comparison of Retail Sales, Standard Licensing and Franchising Arrangements

2.552 Business transactions can take a variety of forms; franchising arrangements are only one of them. In order to understand what a franchising arrangement is, it may be useful to discuss first two other types of business arrangement which, while different from franchising, share with it certain important features: retail sales arrangements and standard license arrangements.

Retail Sales Arrangements

2.553 Retail sales arrangements are governed by the traditional principles of civil and commercial law, such as contract law. The manufacturer or distributor makes a profit by selling his products to the retailer at a sufficiently high price.

2.554 A retail sales arrangement involves one party that manufactures and/or distributes a product and a second party that sells it. The seller may be an agent of the manufacturer or may be an independent merchant, purchasing the goods for resale. If the seller is an independent merchant, he may have concluded a “distributorship” agreement with the manufacturer or distributor of the goods. If the distributorship is exclusive the merchant is assured that the manufacturer or distributor will deal only with him for the purposes of distributing those goods within the territory (e.g. a province, a region or a whole country) defined in the contract. The exclusive distributor would normally be entitled to announce his special relationship with, and use the marks and trade names of, the manufacturer or distributor for the purposes of advertising and selling the goods.

2.555 Although exclusive distributorships exist, distributorships are typically non-exclusive. From this viewpoint, a franchising arrangement may be more attractive.

Standard License Arrangements

2.556 In its simplest terms, a standard license arrangement is one under which one person (the licensor), who is the owner of a right to prevent other persons from commercially exploiting or using certain intellectual creations (e.g. inventions, designs) or distinctive signs (e.g. marks, trade names), agrees not to exercise that right against a given person (the licensee) in exchange for a fee, and perhaps also subject to the licensor’s control of such commercial exploitation or use. In the case of license agreements involving marks or other distinctive signs, the licensor will not normally exercise any more control over the licensee than is necessary to ensure that the goods being sold, or services provided, under his sign are of a certain quality, and/or that they possess certain specified characteristics.

Franchising Arrangements

2.557 Although different definitions could be proposed, franchising may be described as an arrangement whereby one person (the franchisor), who has developed a system for conducting a particular business, allows another person (the franchisee) to use that system in accordance with the prescriptions of the franchisor, in exchange for compensation. The relationship is a continuing one, as the franchisee operates in accordance with standards and practices established and monitored by the franchisor and with his continuing assistance and support.

2.558 The franchising arrangement therefore relates to a system, which the franchisor allows—or licenses—the franchisee to exploit. This may be referred to as the franchised system, or simply “the system.” The franchised system is a package comprising intellectual property rights relating to one or more marks, trade names, industrial designs, inventions and works protected by copyright, together with relevant know-how and trade secrets, to be exploited for the sale of goods or the provision of services to end users.

2.559 The factors that typically characterize a franchise relationship include the following features.

2.560 *A license to use the system:* In return for an agreed payment, the franchisee is allowed to use the franchised system. He is in effect given a license to use the franchisor’s system to carry out

his business. Where the franchised system is to be exploited at a particular location, such as at a franchised restaurant or shop, that location is usually referred to as the “franchised unit.”

2.561 *An ongoing interactive relationship:* The relationship is ongoing, involving multiple sales of the franchised product (or offering of franchised services) over a period of time, with the franchisor giving continuous assistance to the franchisee in establishing, maintaining and promoting the franchised unit. This includes updating the relevant information as the franchisor develops new or better techniques for operating a franchised unit. The franchisee for his part has a continuing obligation to pay fees to the franchisor for the use of the franchised system or to compensate the franchisor for providing ongoing management services.

2.562 *The franchisor’s right to prescribe the manner of operating the business:* The franchisee agrees to abide by directives issued by the franchisor which set out the manner of operation of the system. Such directives may include quality control, protection of the system, territorial restrictions, operational details and a host of other regulations governing the conduct of the franchisee in relation to the franchise.

Comparison of Types of Arrangement

2.563 The preceding discussion identified three distinguishing characteristics of a typical franchise arrangement: the license to use the uniform system, the ongoing interactive relationship and the following of a prescribed manner of operation. These characteristics may be used to compare a franchise arrangement with a retail sales arrangement and a standard license arrangement. In practice, franchise arrangements may also take a “hybrid” form, borrowing features from two or more types of contract. Moreover, businessmen prepared to engage in franchise arrangements are generally less concerned with the precise legal form of the agreement than with the business aspects of the deal.

Grant of a License to Use the Franchised System

2.564 The heart of a franchising arrangement is a license, granted by the franchisor to the franchisee, to use the franchised system. This is essential to allow the franchisee to conduct his business in the manner developed by the franchisor. In contrast, a retail sales arrangement involves the simple sale of goods and does not necessarily require the grant of a license.

2.565 In this regard the distinction between a franchise arrangement and a standard license arrangement is a more subtle one. It has been stated that franchising is merely a sophisticated form of a standard license arrangement and that a franchising arrangement goes beyond the mere licensing of one or more specific intellectual property rights, such as trademarks, because it is a license to use a system that includes, but is not limited to, intellectual property rights. Indeed, under a franchise arrangement, the franchisee does more than merely selling goods or providing services under another’s mark, although he might not himself do any manufacturing at all. Franchising goes further by allowing the franchisee to manufacture and sell goods or provide services as part of a larger system.

2.566 For example, the licensing by Desk Gear, Inc. (a fictional example) of the manufacture and sale of pens bearing the FLUME mark can be considered a standard license agreement. If, however, Desk Gear, Inc. decides to establish a system including store design and marketing techniques for the sale of its pens and to allow someone to make use of that system to sell FLUME pens, that would be franchising.

2.567 In a retail sales relationship, the first party manufactures the goods and transfers them to the second party at a price which includes its profit and the second party resells the goods at a higher price, thereby making its own profit. In a typical, straightforward franchising relationship, the franchisor explains to each franchisee how to make use of the system and, in return, acquires income by receiving a portion of the franchisees' income, for instance a percentage of sales. In addition, the franchisor may ensure income by selling goods to the franchisee, who becomes a permanent "customer" of the franchisor by agreeing to acquire from him certain goods needed for the operation of the franchise.

Ongoing Interactive Relationship

2.568 In a retail sales arrangement, the manufacturer and the distributor are usually independent of each other. In a standard licensing arrangement and in a franchising arrangement, the parties are independent but have a close working relationship defined by the terms of the license agreement and franchise agreement, respectively. The income of each party is dependent on the combined efforts of both parties. The more successful the licensee's or franchisee's business becomes, the greater the income for both parties.

2.569 In contrast to a standard license arrangement, however, the franchisee's success is also dependent on the franchisor's ability to develop a profitable system, to train the franchisee in the proper operation of the system, to improve and promote the system, to supervise or monitor the franchisee and to assist him during the term of the franchise agreement in order to enhance the likelihood of success. In a franchise arrangement, at least part of the ongoing nature of the relationship presupposes the franchisor continuing to develop the franchised system and communicating the new developments to the franchisee.

Following the Prescribed Method

2.570 In a retail sales arrangement, the seller does not exercise control over the manner in which the goods are sold by the buyer to the end user. In a license arrangement that gives the licensee consent to use the licensor's mark, the owner of the mark will normally exercise some sort of control over the quality of the goods or services produced or offered under the license. This will, in particular, assure the licensor that he can prevent any damage to his mark's goodwill due to diminishing or inconsistent quality of the goods or services produced or offered by the licensee. With respect to marks, the legal systems of some countries require license contracts to contain provisions requiring quality control by the licensor and such provisions are essential under the legal systems of many countries to enforce and avoid the loss of rights in licensed marks.

2.571 Specifically with respect to a franchise arrangement, the franchisor will supervise not only the manner in which specific rights, such as trademark rights, are used by the franchisee, but also prescribe the manner in which the fundamental aspects of the franchised system are implemented and managed. Therefore, the extent of the franchisor's influence over the franchisee is greater than that of a licensor over a licensee.

Types of Franchise

2.572 This chapter deals with only one general category of franchises, which may be referred to as *business format* franchises. This broad category, of course, comprises a number of variations. Such variations may consist of changes in the nature of the franchised system, the scope and content of the license granted, the nature or object of the ongoing relationship and the scope and degree of supervision exercised by the franchisor over the manner in which the franchise is exercised.

2.573 A business format type of franchise has been described as being characterized by an ongoing business relationship between franchisor and franchisee that includes not only the product, service and trademark, but the entire business format itself—a marketing strategy and plan, operating manuals and standards, quality control, and continued two-way communications.

2.574 In order to perceive more clearly the potential of franchising, a brief description of certain basic types of business format franchises is useful. Categorizing franchises on the basis of their function yields three principal types: processing franchises, distribution franchises and service franchises. Franchises could also be categorized in terms of the possible relationship existing between franchisor and franchisee. These include relationships like those between manufacturer and wholesaler, manufacturer and retailer, wholesaler and retailer and service industry and retailer.

2.575 In a processing franchise, sometimes called a “manufacturing” franchise, the franchisor supplies an essential ingredient or technical knowledge to a processor or manufacturer. The franchisor will grant the franchisee authorization to manufacture and sell products under the marks of the franchisor. In certain instances the franchisee may further be licensed to use trade secret information or patented technology held by the franchisor, apart from which he may be provided with training and/or information relating to the marketing, distribution and servicing of the product. Such franchises are common, for example, in the restaurant and fast-food industry.

2.576 In a service franchise, the franchisor develops a certain service which is to be rendered by the franchisee, under the terms of the franchise agreement, to his customers. An example of a service franchise would be one involving the provision of automobile tuning or repair services, or the provision of credit card services.

2.577 In a distribution franchise, the franchisor (or someone else on his behalf) manufactures the product and sells it to the franchisees. The franchisees then sell the products to customers, under the franchisor’s trademark, in their own geographical areas. For example, the distribution of automobile fuel, cosmetics or consumer electronics can be carried out under franchises.

Structures for Carrying out Franchising

2.578 Making a choice between the different possible structures depends very much on the particular circumstances of the franchisor and the franchisee and the nature of the franchise. Several factors should be taken into consideration, including:

- the franchisor’s reasons for franchising;
- the resources of the franchisor;
- the size and resources of the master franchisee or franchise developer;
- the nature of the market to be served (including its location, foreign or domestic, and its relative importance to the franchisor).

Unit Franchising

2.579 Unit franchising is the most straightforward way in which franchising can be carried out, because it involves direct relations between the franchisor and the franchisee, whereby the franchisor enters into a franchise agreement directly with the franchisee. In domestic situations—where the franchisor and franchisee are in the same country—unit franchising is the most commonly used structure.

2.580 However, where the franchisor and franchisee are located in different countries, linguistic, cultural, commercial, legal, political and economic differences between the countries may make it necessary to establish a local presence in the franchisee's country in the form of a master franchisor, or to engage in multiple-unit franchising through a local subsidiary or a joint venture.

2.581 The alternative to establishing such a local presence is for the franchisor to establish within his own organization the expertise that will enable him to adapt his franchise to the needs of each of the local markets in which he wishes to operate. While this approach maximizes the franchisor's supervision of the way in which the franchise is implemented, it significantly increases the administrative burden, and hence the cost, of operating in other countries and would detract from one of the major advantages of franchising, which is not to divert resources to establishing business operations abroad.

Territorial Franchises

2.582 Franchise agreements which aim at covering a substantial territory or geographical area by setting up, simultaneously or successively, a number of units, shops or outlets, over an agreed period of time, may be referred to as "territorial franchising." Two forms of territorial franchises are the "franchise developer agreement" and the "master franchise agreement", which may be combined. These two forms are discussed below.

2.583 The type of structure chosen for a franchise agreement may have a bearing on the manner in which a franchisee or a master franchisee is legally organized. Two organizational forms should be mentioned, particularly in connection with the establishment of international or cross-border franchise agreements: subsidiaries and joint ventures. It should be noted, however, that in a franchise agreement any manner of legal organization or corporate form may be used, depending on business considerations and the applicable legislation—in particular, tax, labor, foreign investment and competition law.

2.584 In international franchising, where the local master franchisor is a subsidiary of the franchisor, the latter will have direct control over the network of franchisees, while still securing the necessary local input. This would require the existence of a subsidiary entity, possibly constituted as a local company, in the country in which the franchisor wishes to operate. The subsidiary would then act as the franchisor, granting franchises to one or more local franchisees.

2.585 Unlike a subsidiary, a *joint venture* is a form of alliance of two separate companies. The companies agree to act together, typically forming a separate legal entity, for a particular purpose. The exact form of the joint venture, in other words the type of legal entity that it is, depends on the wishes of the parties to the joint venture and on national law. The franchisor will actively participate in the joint venture entity to carry out the franchise. The formation of a joint venture can sometimes provide security for the owner of the intellectual property rights because, with the franchisor involved in the management of the joint venture entity, the use of the franchised system by franchisees can be controlled.

2.586 A phenomenon that is unique to joint ventures is the relationship with the franchisor's joint venture partner. Typically, the joint venture partner is a local individual or enterprise chosen by the franchisor as a partner for his experience in local customs and business, and the franchisor shares the management of the joint venture with his partner.

Franchise Developer Agreement

2.587 A franchise developer agreement links the franchisor directly with the franchisee, who is expected to open and operate several units. This franchise will include a "development agreement" whereby the franchisee is required to develop the assigned territory by establishing a number of franchise units or outlets which he will usually own directly. In this case the franchisee will not sub-franchise out to third parties.

2.588 Generally this agreement will include a schedule setting out the time frame for establishing the franchise units and developing the assigned territory. The individual units opened by the franchisee under this type of structure would not have independent legal standing, and could be divisions or branches of the franchisee's enterprise.

Master Franchising

2.589 In a master franchise agreement the franchisor grants another party, usually called the "master franchisee", rights (which may be exclusive) for a given geographical area. The master franchisee is given the right, by the franchisor, to grant franchises to third parties, usually called "sub-franchisees", to exploit fully the potential business opportunities in the larger geographical area. It may be agreed that some of those sub-franchisees will run more than one franchise unit, in which case the sub-franchise agreement is called a "multi-unit franchise."

2.590 A master franchise agreement allows a franchisor to delegate the exploitation of a geographical area to another person, the master franchisee, in situations where that geographical area is remote from or little known to the franchisor, or where it is found to be convenient for business strategy purposes.

2.591 This approach to franchising is particularly important in international franchising, where a franchisor may wish to establish franchise operations in a given country, in which he may have no business experience; but even where this is not the case, it may simply be a choice of business strategy.

2.592 The franchisor's degree of control over the manner in which the franchise is implemented, in the country in which a master franchisee is established, is often regulated by provisions in the master franchise agreement, specifying the latitude that the master franchisee has for making alterations to the franchised system in order to accommodate local needs.

Combined Structures

2.593 A franchise agreement may be based on a combination of the structures mentioned above. It may, for example, combine a master franchise, under which a number of independent sub-franchisees will be established, with a franchise developer agreement under which the same master franchisee, or one of his sub-franchisees, is additionally committed to open a number of his own units in the same territory. A master franchisor could also be mandated to conclude franchise development agreements with one or more of the independent franchisees under the master franchise.

Typical Provisions in a Franchise Agreement

2.594 The terms of a typical franchise agreement must conform to the appropriate national laws, and cover the rights and obligations of both franchisor and franchisee.

2.595 On the franchisor's side, obligations may include the provision of an operating manual, training, assistance with opening the franchised establishment, and continued support. On the franchisee's side, obligations include the payment of fees, compliance with quality control requirements, observance of an agreed degree of confidentiality and of exclusivity, and possibly the provision of a step-by-step schedule for the development of the franchise. The more general terms to be found in other types of agreements, such as provisions on breach of agreement, transfer of agreement and termination, also have their particular application between franchisor and franchisee.

2.596 Competent professional advice should be sought in the context of the aims and particular circumstances of a given franchise agreement, in order to achieve the most appropriate and balanced relationship between the parties.

Character Merchandising

The Notion of Character

Definition

2.597 Broadly speaking, the term "character" covers both fictional human beings (for example, Tarzan or James Bond) or non-human characters (for example, Donald Duck or Bugs Bunny) and real persons (for example, famous personalities in the film or music business, sportsmen).

2.598 In the context of the merchandising of characters, it is mainly the essential personality features easily recognized by the public at large which will be relevant. Those personality features are, for example, the name, image, appearance or voice of a character or symbols permitting the recognition of such characters.

Sources and Primary Use of Characters

2.599 The main sources of fictional characters are:

- literary works (such as Pinocchio by Collodi or Tarzan by E.R. Burroughs);
- strip cartoons (such as Tintin by Hergé or Astérix by Uderzo and Goscinny);
- artistic works (such as paintings, for example, Mona Lisa by Leonardo da Vinci, or drawings, for example, the panda of the World Wide Fund for Nature (WWF));
- cinematographic works (such as Crocodile Dundee, King Kong, Rambo or E.T. with respect to movies, Mcgyver or Columbo with respect to television series or Bambi with respect to motion picture cartoons).

2.600 It should be noted that, in the case of cinematographic works, the character may, and in fact often does originate in a literary work (such as the character Oliver Twist by Charles Dickens) or in a strip cartoon (such as the character Batman).

2.601 As regards the primary use of a fictional character, it can in most cases be referred to as an "entertainment function." Such a character may appear in a novel, a tale or a strip cartoon (for example, the character Tarzan in the novel entitled "Tarzan, the Lord of the Jungle", the character

Mr. Brown in the tale entitled “Squirrel Nutkin” or the characters named James Bond or Tintin), and the success gained by the work depicting the character generally leads to new stories. Such primary use will be made by the creator of the character, although, where a character has reached a high degree of reputation and the creator has died, the heirs if any, or the holders of the publishing rights, may organize by means of contracts the “survival” of the character in new stories (for example the books featuring James Bond after the death of Ian Fleming). Other creators, on the contrary, may wish that the characters they have created should not be the subject of new stories after their death (for example, Hergé, the creator of Tintin). The situation is somewhat different in the case of cinematographic works, where it is seldom the creator of a character (the maker of the original drawings or scripts) who makes the primary use, but exceptions do exist, such as the “little man” character created by Charlie Chaplin.

2.602 In other cases, the primary uses of a fictional character can sometimes be referred to as “promotional, advertising and recognition functions.” This will concern, for example, characters which are closely linked to a certain company (such as the “Michelin Man”, the Exxon (Esso) tiger or the Peugeot lion), to a certain product (such as the character Johnnie Walker to a Scotch whisky) or to a given event (such as the mascots used to personalize Olympic Games or World Cup football). Those characters are created with a view to popularizing legal entities, products or services, and activities. Generally, the primary use will not originate from the creator of the character, i.e. the person entrusted with the task of creating the character.

2.603 The main sources, where the character is a real person, are the movie and show businesses and sporting activities. In the case of real persons, one should speak of “primary activity” in preference to “primary use.” The difficulty with real persons is that actors, for example, may enjoy a reputation both as persons and as the character they may have portrayed in a movie or television series. In some cases, the real person is only referred to under the name of the character portrayed (see developments below on the types of character merchandising).

The Concept of Character Merchandising

Definition

2.604 Character merchandising can be defined as the adaptation or secondary exploitation, by the creator of a fictional character or by a real person or by one or several authorized third parties, of the essential personality features (such as the name, image or appearance) of a character in relation to various goods and/or services with a view to creating in prospective customers a desire to acquire those goods and/or to use those services because of the customers’ affinity with that character.

2.605 It should already be emphasized that the person or legal entity which will organize the merchandising activity (the merchandiser) will very seldom be the creator of the fictional character or the real person concerned. The various property or personality rights vesting in the character will be the subject of contracts (such as transfer or license agreements or product or service endorsement agreements) enabling one or several interested third parties to be regarded as authorized users of the character.

2.606 The following examples of character merchandising can be given:

- a toy is the three-dimensional reproduction of the fictional character Mickey Mouse;
- a T-shirt bears the name or image of fictional characters;
- the label attached to a perfume bottle bears the name of an actor or actress;

- an advertising movie campaign for a drink shows a pop star drinking it.

A Brief History of Character Merchandising

2.607 As an organized system, character merchandising originated and was initiated in the United States of America in the 1930s in the Walt Disney Studios in Burbank (California). When this company created its cartoon characters (Mickey, Minnie, Donald), one of its employees, Kay Kamen, established a department specialized in the secondary commercial exploitation of those characters and, to the surprise of most, succeeded in granting an important number of licenses for the manufacture and distribution of low-priced mass market merchandise (posters, T-shirts, toys, buttons, badges, drinks).

2.608 Of course, the idea of secondary exploitation of the reputation of a character existed before the twentieth century, but the reasons were not directly commercial. In South East Asia, for example, the religious characters of "Ramayana", such as Prince Rama, Vishnu and Sita, have for centuries been represented in the form of sculptures, puppets or toys. Furthermore, in more recent times (late 19th century), some industrialists, with a view to popularizing the goods they manufactured, decided to create fictional characters which would be represented on the goods, the packaging or any documents and would be used to generate secondary exploitation for functional or ornamental goods such as decorative plates, articles of clothing, clocks, puppets, etc., for example in France, the character Pierrot Gourmand (a famous mark for lollipops) or the Michelin Man of the tire manufacturer.

2.609 This phenomenon developed rapidly during the 20th century. In the 1950s, political, movie and show-business personalities authorized, for example, the reproduction of their names or images on articles of clothing (so-called "tie-in advertising").

2.610 The range of goods or services covered by "merchandising" expanded considerably in the 20th Century, and, for example in the United States of America, it concerns at least 29 of the 42 classes of the International Classification of Goods and Services established by the Nice Agreement.

Types of Character Merchandising

2.611 From a commercial or marketing point of view, character merchandising can probably be dealt with in a single category. However, from the legal point of view it is important to differentiate between the various subjects of merchandising, since the scope and duration of legal protection may vary according to the subject involved.

2.612 Two main categories exist depending on whether the merchandising involves the use of fictional characters or of real personalities (generally referred to as "personality merchandising"). Between those two categories, a third hybrid category exists which is generally referred to as "image merchandising."

Merchandising of Fictional Characters

2.613 This is the oldest and the best-known form of merchandising. It involves the use of the essential personality features (name, image, etc.) of fictional characters in the marketing and/or advertising of goods or services.

2.614 Originally, the practice of character merchandising, as an organized system of promotion, developed as a means of exploiting the popularity of cartoon characters, drawings of attractive figures and the like. Such cartoon characters originated:

- in a literary work being adapted to the cartoon form (for the purpose of a movie or a comic strip) such as the characters Pinocchio or Alice in Wonderland;
- in a work created as a cartoon character, originally for films (Mickey Mouse, Donald Duck, Pluto) or for comic strips (Tintin, Snoopy, Astérix, Batman);
- in a film character, later reproduced or adapted as a cartoon for advertising and merchandising purposes (the character Zorro or even a real creature such as the shark in the film "Jaws");
- in a cartoon character created mainly for the purpose of merchandising and not, originally, intended for a movie or comic strip (for example, the numerous mascots created and used in respect of various events, such as sports competitions);
- in a puppet or doll character designed for a film or a television show (for example, the character E.T., the Gremlins or the Muppets).

2.615 Character merchandising with cartoon characters involves mainly the use of the name, image and appearance of the character. The appearance may involve two-dimensional reproduction (drawings, stickers, etc.) or three-dimensional reproduction (dolls, key rings, etc.)

Personality Merchandising

2.616 This more recent form of merchandising involves the use of the essential attributes (name, image, voice and other personality features) of real persons (in other words, the true identity of an individual) in the marketing and/or advertising of goods and services. In general, the real person whose attributes are "commercialized" is well known to the public at large; this is the reason why this form of merchandising has sometimes been referred to as "reputation merchandising." In fact, from a commercial point of view, merchandisers believe that the main reason for a person to buy low-priced mass goods (mugs, scarves, badges, T-shirts, etc.) is not because of the product itself but because the name or image of a celebrity appealing to that person is reproduced on the product.

2.617 This category can be subdivided into two forms. The first form consists in the use of the name, image (in two or three dimensions) or symbol of a real person. This form relates mainly to famous persons in the film or music industries. However, persons connected with other fields of activity may be concerned (for example, members of a royal family). As indicated above, it is not so much the product which is of principal importance to the consumer, but rather the name or image that it bears is the main marketing and advertising vehicle. The second form occurs where specialists in certain fields, such as famous sports or music personalities, appear in advertising campaigns in relation to goods or services. The appeal for the potential consumer is that the personality represented endorses the product or service concerned and is regarded as an expert. Examples are advertising for tennis shoes or rackets by a tennis champion, advertising for an energy drink by a cross-country runner or advertising for high-fidelity equipment or musical instruments by a pop star.

Image Merchandising

2.618 This is the most recent form of merchandising. It involves the use of fictional film or television characters, played by real actors, in the marketing and advertising of goods or services. In those cases, the public sometimes finds it difficult to differentiate the actor (real person) from the role he plays (character portrayed). Sometimes, however, there is a complete association and the real person is referred to and known by the name of the character. The following examples can be

given to illustrate this notion: from the film industries, Laurel and Hardy, the Marx Brothers, Frankenstein's monster by Boris Karloff and Tarzan by Johnny Weissmuller; from television series, Columbo played by Peter Falk, or the character McGyver played by Richard Dean Anderson. In the case of the latter, a T-shirt bearing the image of R.D. Anderson would be referred to as a "McGyver T-shirt", while packs of dairy products reproducing the image of R.D. Anderson would mention the name McGyver, the purchasing of such product giving the possibility of winning secondary "McGyver" products such as T-shirts or travel bags.

Forms of Legal Protection

Copyright

2.619 In the context of copyright, the most relevant aspects of the merchandising of fictional characters and of image merchandising are books, pamphlets and other writings, cinematographic works, works of drawing and photographic works. As regards personality merchandising, the relevance of copyright is primarily in the sphere of photographic works.

2.620 Furthermore, the notion of adaptation is very important. Article 2(3) of the Berne Convention reads as follows:

"Translations, adaptations, arrangements of music and other alterations of a literary or artistic work shall be protected as original works without prejudice to the copyright in the original work."

2.621 The multiplicity of communication media offer, at the present time, a great number of possibilities for the creation of adaptations (derivative works). Many film adaptations are probably more well known than the novel or short story on which they were based (for example, the Pinocchio and Cinderella cartoons by the Walt Disney Studios are probably better known to children than the original stories, written by Collodi and Charles Perrault respectively). Some famous artistic figures have been widely merchandised once they have fallen into the public domain. For some goods or services a fictional character may be the subject of a monopoly (through trademark protection), but generally it may be exploited by anybody. For example, the famous Mona Lisa (La Gioconda) by Leonardo da Vinci has been, and still is, used on various goods or their packaging (postcards, card games, dolls, alcoholic beverages, chocolate or fruit boxes, mineral water, diaries); it has also been the subject of multiple transformations (cartoons, caricatures, fancy photographs, etc.).

2.622 Drawings or cartoons (two-dimensional works) may be protected independently if they meet the substantive requirements of copyright protection. In that respect, it should be emphasized that a work which is original is not necessarily new, since a graphic adaptation of an already existing literary character (whether or not he has fallen in the public domain) may qualify for copyright protection (for example, the literary characters Pinocchio or Cinderella adapted to the cartoon form by the Walt Disney Company). The same will apply to the drawing of a common creature (for example, the cartoon character Donald Duck). Furthermore, it should be noted that, mainly in the case of cartoon strips and animated cartoons, copyright protects each different original pose adopted by the character.

2.623 Three-dimensional works (mainly sculptures, dolls, puppets or robots), which may be original works or original adaptations of two-dimensional or audiovisual fictional characters, will generally enjoy copyright protection independently of the work in which they appear if they meet the required criteria.

2.624 Audiovisual works including fictional characters (films, video games, photographs, film frames or stills) will, as a whole (image and soundtrack), generally enjoy copyright protection if they meet the required criteria. This will be all the more probable since audiovisual fictional characters will often have “started life” as drawings (storyboards or strip cartoons) or been described in a literary work. Copyright protection may extend to the individual visual attributes or to the physical or pictorial appearances (costumes, disguises or masks) of a fictional character.

2.625 The relevance of copyright protection in the case of personality merchandising is limited, because copyright does not vest in the real person concerned but in the person who created the work in which the essential personality features of a real person appear. For example, in the case of a biography, copyright belongs to the author; in the case of a sculpture, drawing or painting representing a real person, the copyright belongs to the artist; in the case of a film or television series, the copyright in the work belongs to the person who made it possible for the work to be made and who supervised and directed the work of the actors—the author or film producer. However, in the latter example, as a performer, an actor has some rights if the law of the country of which he is a national provides for performers’ rights, or if that country is party to the Rome Convention of October 26, 1961, for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations.

2.626 The question is probably more debatable in respect of photographic works. The reply will depend on who owns the copyright. In most cases the author of the photographs (or more accurately of the negatives) will own the copyright. If a photograph is commissioned for private and domestic purposes, the commissioning party has usually a right to prevent the making of copies of the photograph or its being shown in public. A final problem relates to the case where the party commissioning the work is not the person who is the subject of the photograph. In any case, forms of protection other than copyright are available for the control of the commercial use of photographic works.

Trademarks and Service Marks (Marks)

2.627 The essential personality features of a fictional character may, under certain conditions (mainly of a substantive nature) be registered as marks. As regards the essential personality features of a real person, the question seems more debatable, mainly with respect to the image (portrait). In the context of merchandising, the trend has been to adopt stage names and personalized logos which may be more easily registrable (for example, in the pop music area, such stage names as the Beatles and the Rolling Stones with their respective “Apple” and “Tongue and Lip” logos). Another way for a real person to protect his name is to obtain registration of the nickname by which he is known.

2.628 In countries where rights only result from registration, the main impediment, however, is the time needed to obtain registration because, in the context of merchandising, delays should be as short as possible since the public’s recognition of many characters and their popularity are of limited duration. However, there are some exceptions such as the cartoon characters of Walt Disney or the literary characters of Beatrix Potter.

2.629 Some of the conditions of form to be met by a mark which is the subject of an application will have an important impact in the context of merchandising. One of those conditions which exists in a few countries concerns the relation which should exist between the goods or services to which the mark applies and the business of the owner of the mark. Generally, neither a merchandising agency nor the creator of a character will themselves be engaged in the manufacture or marketing of secondary products, and it will therefore be difficult for them to acquire trademark rights in a fictional character because they will not themselves be dealing with

the goods or services. Furthermore, the activity carried out by a licensee will not be considered as business generated by the licensor, unless the latter becomes joint owner of the licensee's business.

2.630 The modern trend is more favorable however, since it is more and more widely recognized that a mark can be applied to an unlimited number of goods or services, independently of the true activity of the applicant but notwithstanding the provisions which may exist with respect to the non-use of a registered mark.

2.631 In view of the "aesthetic functionality" doctrine (mainly in the toy or doll area) or the "primarily functional" external appearance of goods, three-dimensional configurations of goods (applied for in the form of two-dimensional graphic representations) are in principle not accepted for registration as trademarks in many countries, except where the trademark has acquired secondary meaning in connection with the goods.

2.632 Further conditions are of a substantive nature. One of the main conditions is that a mark should be distinctive, in other words, neither generic nor descriptive in respect of the goods or services covered. Furthermore, a mark should not be misleading to the public or contrary to public order or morality.

2.633 In some countries, however, distinctiveness alone is not sufficient and the personality features of a fictional character will be registrable as marks only if they have acquired a secondary meaning. In other countries the acquisition of a secondary meaning can remedy the inherent lack of distinctiveness of the essential features of a fictional character.

2.634 A number of countries have a more favorable approach, and most names and appearances of fictional characters are considered fanciful and therefore sufficiently distinctive.

2.635 As regards the essential features of a real person, the latter, or the person or entity entitled to act in his name, may obtain the registration of his name or appearance as a mark in some countries. However, where a surname (which can also be a trade name) is registered as a mark, the exclusive right of the holder may be limited, since other persons bearing the same name may, under certain conditions, continue to use their names, unless the registered mark concerns a well-known personality and/or trade name and the other persons intend to take advantage of the reputation of the registered mark by parasitic means.

2.636 In countries where proof of use is required in order to obtain protection, the use made by authorized users such as licensees or merchandisers is considered as use of the mark made by its holder. It is this provision which is most relevant to holders engaged in merchandising programs.

Industrial Designs

2.637 Industrial design protection is mainly relevant for cartoon characters represented in the form of aesthetic designs for three-dimensional articles which mainly belong to the toy or costume jewellery areas (dolls, robots, puppets, action figures, brooches, "pins") which generally originate in cartoons, but which may sometimes represent real persons. The relevance of design protection will be of importance notably when copyright protection is excluded or reduced, mainly when a character has been created with the intention of being industrially exploited. Furthermore, since design protection is often subject to registration, a design application will be helpful to establish *prima facie* evidence of ownership as from the date of the application, although effective protection will only commence on the date of registration of the design.

Other Forms of Protection

2.638 Many countries have enacted provisions, either under general law (Constitution, Civil Code, etc.) or under specific statutes, which enable a real person as such to be protected against the unauthorized commercial or advertising use of the essential features of his or her personality (name, pseudonym or nickname, image, symbols, etc.) or a real recognizable person portraying a character against the unauthorized commercial or advertising use of the essential features of the character portrayed. Those rights will, in general, supplement the protection which may be available within the scope of intellectual property in its broadest sense (including marks, industrial designs, copyright, unfair competition). Such protection may be achieved through the notions of defamation or libel, privacy rights and personality or publicity rights.

Industrial Designs and Integrated Circuits

Industrial Designs

Introduction to Industrial Designs

2.639 Industrial design, in a lay or general sense, refers to the creative activity of achieving a formal or ornamental appearance for mass-produced items that, within the available cost constraints, satisfies both the need for the item to appeal visually to potential consumers, and the need for the item to perform its intended function efficiently. In a legal sense, industrial design refers to the right granted in many countries, pursuant to a registration system, to protect the original ornamental and non-functional features of an industrial article or product that result from design activity.

2.640 Visual appeal is one of the considerations that influence the decision of consumers to prefer one product over another, particularly in areas where a range of products performing the same function is available in the market. In these latter situations, if the technical performance of the various products offered by different manufacturers is relatively equal, aesthetic appeal, along with, of course, cost, will determine the consumer's choice. The legal protection of industrial designs thus serves the important function of protecting one of the distinctive elements by which manufacturers achieve market success. In so doing, by rewarding the creator for the effort which has produced the industrial design, legal protection serves as an incentive to the investment of resources in fostering the design element of production.

Evolution of Design Protection

2.641 Historically, the emergence of protection for industrial designs is intimately connected with the growth of industrialization and methods of mass production. In the United Kingdom, the first law giving protection to industrial designs was the Designing and Printing of Linens, Cotton, Calicoes and Muslins Act of 1787, which gave protection for a period of two months to "every person who shall invent, design and print, or cause to be invented, designed and printed, and become the Proprietor of any new and original pattern or patterns for printing Linens, Cottons, Calicoes or Muslins." The contribution and importance of design in the growing textile industries was thereby recognized.

2.642 Growing recognition of the expansion of industrialization and of the possible application of methods of mass production to most areas of manufacture lead to the gradual extension of design

protection to other fields of endeavor (notably sculpted figures used in the pottery and porcelain industries) up until the consolidation achieved in the Designs Act of 1842, which extended protection to “any new and original design whether such design be applicable to the ornamenting of any article of manufacture, or of any substance, artificial or natural, or partly artificial and partly natural, and that whether such design be so applicable for the pattern, or for the shape or configuration, or for the ornament thereof, or for any two or more of such purposes and by whatever means such design may be so applicable, whether by printing, or by painting, or by embroidery, or by weaving, or by sewing, or by modeling, or by casting, or by embossing, or by engraving, or by staining, or by any other means whatsoever, manual, mechanical, or chemical, separate or combined.” Design was thereby recognized as a fundamental element of all production and manufacture.

2.643 A somewhat similar evolution of design protection took place in France. The Law on Literary and Artistic Property of 1793 was applied in certain cases to the protection of designs. The growth of the textile industries, in particular, soon led to the enactment in 1806 of a special law dealing with industrial designs. The Law of March 18, 1806, established a special council (Conciliation Board or *Conseil de Prud’hommes*) in Lyon responsible for receiving deposits of designs and for regulating disputes between manufacturers concerning designs. While initially destined for industries in Lyon, particularly those manufacturing silk, the system of deposit and regulation by special council was extended to other cities and, through judicial interpretation, to two- and three-dimensional designs in all areas of industrial activity.

The Legal Protection of Industrial Designs

2.644 The formulation of a legal system for the protection of industrial designs, like the provision of legal protection for all forms of intellectual property, requires the establishment of a balance of interests. On the one hand, there is the need to provide efficient and effective protection, in order that the law may fulfill its function of promoting the design element in production. On the other hand, there is the need to ensure that the law does not unnecessarily extend protection beyond what is necessary to create the required incentive for design activity, so that the least number of impediments are introduced to the free use of available designs. The establishment of this balance requires careful consideration of a number of matters, of which the most important are:

- the definition of the subject matter of protection;
- the rights which apply to the proprietor of the subject matter;
- the duration of such rights;
- the entitlement to such rights;
- the method of acquisition of such rights.

Definition of Subject Matter of Protection

Design as Conception or Idea

2.645 The subject matter of the legal protection of industrial designs is not articles or products, but rather the design which is applied to or embodied in such articles or products.

2.646 The emphasis is on an abstract conception or idea as the subject matter of design protection. Design protection does not apply to articles or products in such a way as to grant the

proprietor of the design exclusive rights over the commercial exploitation of those articles or products. Rather, design protection only applies to such articles or products as embody or reproduce the protected design. Protection does not, therefore, prevent other manufacturers from producing or dealing in similar articles fulfilling the same utilitarian function, provided that such substitute articles do not embody or reproduce the protected design.

2.647 The conception or idea that constitutes the design may be something which can be expressed either two-dimensionally or three-dimensionally. The definition of “design” which is used in the Registered Designs Act 1949 of the United Kingdom, for instance, refers to “features of shape, configuration, pattern or ornament” (Section 1). It has been generally considered that, in this definition, the words “shape” and “configuration” are synonymous, and that both signify the form in which an article is made or, in other words, something three-dimensional. Likewise, it has also been considered that the words “pattern” and “ornament” are synonymous, and that both refer to something embossed, engraved or placed upon an article for the purpose of its decoration or, in other words, to something essentially two-dimensional.

2.648 The Copyright, Designs and Patents Act 1988, of the United Kingdom, also provides for a “design right.” Design is defined as referring to “any aspect of the shape or configuration (whether internal or external) of the whole or part of an article” (Section 213(2)).

2.649 A similar approach, emphasizing the inclusion of both two-dimensional and three-dimensional designs, is to be found in the laws of other countries. Thus, the Design Law of Japan (Law No. 125 of April 13, 1959, as amended) refers to “design” as meaning “the shape, pattern or color or a combination of these in an article”, and laws of France and Italy refer to both drawings or sketches (dessins—two-dimensional) and models (modèles—three-dimensional).

Application to or Embodiment in an Article

2.650 While the subject matter of design protection is an essentially abstract conception, one of the basic purposes of industrial design protection is the stimulation of the design element of production. It is, accordingly, a usual feature of industrial design laws that a design can be protected only if the design is capable of being used in industry, or in respect of articles produced on a large scale.

2.651 The requirement that a design must be applied to utilitarian articles in order to be protected is one of the principal matters which distinguishes the objectives of industrial design protection from copyright protection, since the latter is purely concerned with aesthetic creations. The requirement is variously expressed in different laws. For example, the Design Law of Japan similarly extends protection to designs “capable of being used in industrial manufacture” (Article 3(1)).

Exclusion of Designs Dictated by Function

2.652 The concern of industrial design protection with appearance only is also apparent from the requirement, commonly found in industrial design laws, that designs which are dictated solely by the function which the article is to perform shall be excluded from protection. In this respect, Article 25.1 of the TRIPS Agreement provides, for example, that Members of the WTO may provide that industrial design protection shall not extend to designs dictated essentially by technical or functional considerations.

2.653 A fundamental purpose is served by the exclusion from protection of designs dictated solely by the function which the article is to perform. Many articles to which designs are applied are not themselves novel, and are produced by a large number of different manufacturers. Belts, shoes,

screws and piston rings, for example, may be produced by hundreds of different manufacturers, and all articles within each class are intended to perform the same function. If a design for one such article, for example, screws, is dictated purely by the function which the screw is intended to perform, protection for that design would have the effect of excluding all other manufacturers from producing items intended to perform the same function. Such an exclusion is not warranted, unless the design is sufficiently novel and inventive to qualify under the rigorous standards for patent protection.

2.654 Since, under certain theories of design, form should follow function, it is often said that the exclusion from protection of designs which are dictated purely by function may have the effect of excluding too broad a range of designs from protection. Such a fear is in practice, however, unwarranted, since the exclusion relates only to those designs which are indispensable for achieving the desired function. In reality, many ways of achieving a given function will be possible. Thus, only if the given function could not be achieved after a design is altered would the design be excluded from protection. The question is thus whether the design for which protection is sought constitutes the sole solution for an intended function.

Novelty or Originality

2.655 It is a requirement of all industrial design laws that protection through registration shall be granted only to designs which are novel or, as it is sometimes expressed, original. The novelty of the design constitutes the fundamental reason for the grant of a reward to the originator through protection by registration of the industrial design.

2.656 While the requirement of novelty is to be found in all laws, the nature of the novelty that is required as a condition of protection differs amongst the laws of various countries. The novelty required is sometimes absolute or universal, meaning that the design for which registration is sought must be new as against all other designs produced in all other parts of the world at any previous time and disclosed by any tangible or oral means. On the other hand, a qualified standard of novelty is sometimes required. In this latter situation, the qualification may relate to time, meaning that novelty is judged by reference to designs published within a limited preceding period of time; or may relate to territory, meaning that novelty is judged by reference to all designs published within the relevant jurisdiction, as opposed to anywhere in the world; or may relate to means of expression, meaning that novelty is assessed by reference to written or tangible disclosures anywhere in the world and to oral disclosures only within the relevant jurisdiction.

2.657 The broad policy argument in favor of a standard of unqualified universal novelty is that exclusive rights by registration should be granted only where the originator of the design has produced something which is truly novel, and which therefore justifies the reward of exclusive rights. The broad policy argument in favor of a qualified standard of novelty is that one purpose of design registration is to encourage new design within the relevant jurisdiction, so that a novel design registered within that jurisdiction should not be deprived of protection by the publication elsewhere of a design which its originator did not introduce into the jurisdiction to add to the designs available to industry. It should be noted, however, that it would not necessarily follow from a qualified standard of novelty that a person could obtain valid rights within the jurisdiction simply by registering a design which he had seen overseas and copied, since it is often also a requirement of design law that the applicant be the author of the design.

Rights in Industrial Designs

2.658 The rights which are accorded to the proprietor of a validly registered industrial design again emphasize the essential purpose of design law in promoting and protecting the design

element of industrial production. Thus, whereas copyright accords to an author the right to prevent the copying of a work, industrial design law accords to the proprietor the exclusive right to prevent the unauthorized exploitation of the design in industrial articles.

Entitlement to Rights

2.659 The right to legal protection in respect of an industrial design belongs to the creator (or author or originator) of the industrial design. Two questions concerning the operation of this principle arise and are often the subject of particular legislative provisions.

2.660 First, there is the question of the entitlement to legal protection in respect of an industrial design that has been created by an employee, or by a contractor pursuant to a commission. In these situations, the law usually provides that the entitlement to legal protection of the design shall belong to the employer, or to the person who has commissioned the design. The basis for this rule is that the creation of the design falls within the duties which the employee is paid to perform, so that the employee should seek the reward for his creative activity in an appropriate level of remuneration, responsibility and other conditions of employment. Likewise, in the case of the contractor, the thing for which the contractor is being paid is the production of the design for the use of the person commissioning the design.

2.661 Much contemporary design is produced with the assistance of computers. The question arises whether it can be said that there is an author or creator who is entitled to legal protection in respect of designs generated with the assistance of a computer. One approach to this question is to treat the computer like any other tool which may be used by a designer to assist in the process of generating a design. On this basis, the person who is responsible for manipulating the computer's capacity to produce a design would be considered to be the author of the design. A provision to this effect is to be found in Section 214(2) of the Copyright, Designs and Patents Act 1988, of the United Kingdom which provides:

"In the case of a computer-generated design the person by whom the arrangements necessary for the creation of the design are undertaken shall be taken to be the designer."

Acquisition of Rights

Registration

2.662 Industrial design protection is usually granted pursuant to a procedure for the registration of such designs. The most commonly adopted examination system provides for a formal examination only of an application for a registered design. According to this system, an application is examined to ensure that it meets with each of the formal requirements for an application which are imposed by the relevant law (for example, whether the requisite number of representations or specimens of the design are filed with the application), but no search is made of the prior art to determine whether the substantive criterion of novelty or originality is satisfied by the design for which registration is sought.

2.663 A system requiring only formal examination has the effect of shifting the burden of assessing novelty to those interested persons in the market who may wish to use, or who may have used, the design or a substantially similar design. Any person interested in using such a design will have the opportunity either to oppose the registration of the design for which application has been made, if the relevant law provides for an opposition procedure, or of bringing proceedings for the cancellation of a registration which it is alleged is invalid. The system thus offers a means of reducing the administrative burden of the maintenance of a system of registration of industrial

designs. It also offers a solution to the problem of maintaining an adequate search file to undertake a substantive examination of the novelty of designs. Such a search file can very often be almost impossible to maintain, since, on the basis of a condition of unqualified universal novelty, it would need to include all designs made at any time in any part of the world since the commencement of recorded history.

2.664 The alternative system of examination provides for a search of past designs and an examination of the design for which registration is sought to ascertain whether it satisfies the required condition of novelty. It necessitates the maintenance of a search file and sufficient skilled manpower to undertake the substantive examination.

Creation and Fixation

2.665 Rights in designs may, under certain laws, also be acquired by the act of creation and fixation of the design, in a document or by embodying the design in an article. These systems do not require any formal registration procedure for the acquisition of exclusive rights in the design. Examples of this system are provided by the Law of France, and the "design law" under the Copyright, Designs and Patents Act 1988, of the United Kingdom.

Nature of the Rights

2.666 The right to prevent others from exploiting an industrial design usually encompasses the exclusive right to do any of the following things for industrial or commercial purposes:

- make articles to which the design is applied or in which the design is embodied;
- import articles to which the design is applied or in which it is embodied;
- sell, hire or offer for sale any such articles.

2.667 In some laws, the exclusive rights of the proprietor also extend to preventing another from stocking any articles to which the design has been applied or in which it is embodied. While this right is sometimes considered as excessive in that it deals only with preparatory acts, it is on the other hand often included in order to facilitate the enforcement of a proprietor's rights, since it may often be easier to locate a stock of infringing articles than to apprehend a person in the act of selling or offering for sale such articles.

2.668 As opposed to copyright, where the subject matter of the right is the work which is created by the author and which is thus defined by the author, the subject matter of the rights of the proprietor of an industrial design are defined by the design which has been registered. However, it is usual to provide that the proprietor's rights extend not only to the unauthorized exploitation of the exact design which has been registered, but also to the unauthorized exploitation of any imitations of such a design which differ from the registered design only in immaterial respects.

Duration of Rights

2.669 The term for an industrial design right varies from country to country. The usual maximum term goes from 10 to 25 years, often divided into terms requiring the proprietor to renew the registration in order to obtain an extension of the term. The relatively short period of protection may be related to the association of designs with more general styles of fashions, which tend to enjoy somewhat transient acceptance or success, particularly in highly fashion-conscious areas, such as clothing or footwear.

Relation to Copyright

2.670 Objects qualifying for protection under the law of industrial designs might equally well receive protection from the law of copyright. Thus, industrial designs law has relations both with copyright law and with industrial property law. Supposing a particular design embodies elements or features which are protected both by the copyright law and the industrial design law, may a creator of an industrial design claim cumulatively or simultaneously the protection of both laws? If this question is answered affirmatively, protection is cumulative. Cumulation of protection means that the design is protected simultaneously and concurrently by both laws in the sense that the creator can invoke the protection of either or both, the copyright law or the industrial design law, as he chooses. It also means that if he has failed to obtain the protection of the industrial design law by failing to register his design, he can claim the protection of copyright law, which is available without compliance with any formality. Finally, it means that after the term of protection of the registered design expires, the creator may still have the protection of the copyright law.

2.671 But it is to be noted that cumulation must be distinguished from "co-existence." Co-existence of protection means that the creator may choose to be protected either by the industrial design law or by the copyright law. If he has chosen the one, he can no longer invoke the other. If he has registered the industrial design, at the expiration of such registration he can no longer claim protection under the copyright law, at least for the particular application of the industrial design.

2.672 The system of cumulation of protection by the industrial design law and the copyright law exists in France and in Germany. And the system of co-existence of protection by both laws prevails in most other countries.

2.673 The difference between protection by the copyright law and protection by the industrial design law is as follows. Under the industrial design law, protection is lost unless the industrial design is registered by the applicant before publication or public use anywhere, or at least in the country where protection is claimed. Copyright in most countries subsists without formalities. Registration is not necessary. Industrial design protection endures generally for a short period of three, five, ten or fifteen years. Copyright endures in most countries for the life of the author and fifty years after his death.

2.674 The right conferred by registration of an industrial design is an absolute right in the sense that there is infringement whether or not there has been deliberate copying. There is infringement even though the infringer acted independently and without knowledge of the registered design. Under copyright law, there is infringement only in the reproduction of the work in which copyright subsists.

Integrated Circuits

2.675 Another field in the protection of intellectual property is that of layout-designs (topographies) of integrated circuits.

2.676 The layout-designs of integrated circuits are creations of the human mind. They are usually the result of an enormous investment, both in terms of the time of highly qualified experts, and financially. There is a continuing need for the creation of new layout-designs which reduce the dimensions of existing integrated circuits and simultaneously increase their functions. The smaller an integrated circuit, the less the material needed for its manufacture, and the smaller the space

needed to accommodate it. Integrated circuits are utilized in a large range of products, including articles of everyday use, such as watches, television sets, washing machines, automobiles, etc., as well as sophisticated data processing equipment.

2.677 Whereas the creation of a new layout-design for an integrated circuit involves an important investment, the copying of such a layout-design may cost only a fraction of that investment. Copying may be done by photographing each layer of an integrated circuit and preparing masks for its production on the basis of the photographs obtained. The possibility of such copying is the main reason for the introduction of legislation for the protection of layout-designs.

2.678 A Diplomatic Conference was held at Washington, D.C., in 1989, which adopted a Treaty on Intellectual Property in Respect of Integrated Circuits (IPIC Treaty). The Treaty is open to States Members of WIPO or the United Nations and to intergovernmental organizations meeting certain criteria.

2.679 The Treaty has been incorporated by reference into the TRIPS Agreement of the World Trade Organization (WTO), subject to the following modifications: the term of protection is at least 10 (rather than eight) years from the date of filing an application or of the first commercial exploitation in the world, but Members may provide a term of protection of 15 years from the creation of the layout-design; the exclusive right of the right-holder extends also to articles incorporating integrated circuits in which a protected layout-design is incorporated, in so far as it continues to contain an unlawfully reproduced layout-design; the circumstances in which layout-designs may be used without the consent of right-holders are more restricted; certain acts engaged in unknowingly will not constitute infringement.

Definition of Subject Matter of Protection

2.680 Article 2 of the IPIC Treaty gives the following definitions:

“(i) ‘integrated circuit’ means a product, in its final form or an intermediate form, in which the elements, at least one of which is an active element, and some or all of the inter-connections are integrally formed in and/or on a piece of material and which is intended to perform an electronic function,

(ii) ‘layout-design (topography)’ means the three-dimensional disposition, however expressed, of the elements, at least one of which is an active element, and of some or all of the interconnections of an integrated circuit, or such a three-dimensional disposition prepared for an integrated circuit intended for manufacture ... ”

Nature of the System Established by the Washington Treaty

2.681 Under the IPIC Treaty, each Contracting Party is obliged to secure, throughout its territory, intellectual property protection of layout-designs (topographies) of integrated circuits, whether or not the integrated circuit concerned is incorporated in an article. Such obligation applies to layout-designs that are original in the sense that they are the result of their creators’ own intellectual effort and are not commonplace among creators of layout designs and manufacturers of integrated circuits at the time of their creation.

2.682 The Contracting Parties must, as a minimum, consider the following acts to be unlawful if performed without the authorization of the holder of the right: the reproduction of the layout design, and the importation, sale or other distribution for commercial purposes of the layout-design or an integrated circuit in which the layout-design is incorporated.

2.683 However, certain acts may be freely performed for private purposes or for the sole purpose of evaluation, analysis, research or teaching.

2.684 Mention should be made, in this connection, of the concept of “reverse engineering.” In the context of the integrated circuits industry, reverse engineering is the use of an existing layout-design in order to improve upon it. It is considered desirable to permit reverse engineering even if it involves the copying of an existing layout-design, provided that an improved layout-design is thereby created—an advance of technology which is in the general public interest.

2.685 The Contracting Parties may make protection of layout-designs dependent on their commercial exploitation or on the filing of an application for their registration, or on their registration.

Geographical Indications

Introduction

2.686 “Champagne,” “Cognac,” “Roquefort,” “Chianti,” “Pilsen,” “Porto,” “Sheffield,” “Havana,” “Tequila,” “Darjeeling”—are some well-known examples for names which are associated throughout the world with products of a certain nature and quality. One common feature of all those names is their geographical connotation, that is to say, their function of designating existing places, towns, regions or countries. However, when we hear these names we think of products rather than the places they designate.

2.687 Those examples show that geographical indications can acquire a high reputation and thus may be valuable commercial assets. For this very reason, they are often exposed to misappropriation, counterfeiting or forgery, and their protection—national as well as international—is highly desirable.

2.688 With the exception of design law, there is probably no category of intellectual property law where there exists such a variety of concepts of protection as in the field of geographical indications. This is maybe best demonstrated by the term “geographical indication” itself, which is relatively new and appeared only recently in international negotiations.

2.689 The Paris Convention for the Protection of Industrial Property does not contain the notion of geographical indication. Article 1 paragraph (2) defines as subjects of industrial property, *inter alia*, indications of source and appellations of origin. This is the terminology traditionally applied and still officially used in the conventions and agreements administered by WIPO. According to this terminology, the following distinction is made between indications of source and appellations of origin: “indication of source” means any expression or sign used to indicate that a product or service originates in a country, a region or a specific place, whereas “appellation of origin” means the geographical name of a country, region or specific place which serves to designate a product originating therein the characteristic qualities of which are due exclusively or essentially to the geographical environment, including natural or human factors or both natural and human factors.

2.690 It is important to highlight the difference between indications of source and appellations of origin. The use of an appellation of origin requires a quality link between the product and its area of production. This qualitative link consists of certain characteristics of the product which are exclusively or essentially attributable to its geographical origin such as, for example, climate, soil or

traditional methods of production. On the other hand, the use of an indication of source on a given product is merely subject to the condition that this product originates from the place designated by the indication of source. Appellations of origin can be understood as a special kind of indication of source. According to the terminology traditionally applied, the term "indication of source" comprises all appellations of origin, but, in its general use, it has become rather a designation for those indications of source which are not considered to be appellations of origin.

2.691 The term "geographical indication" has been chosen by WIPO to describe the subject matter of a new treaty for the international protection of names and symbols which indicate a certain geographical origin of a given product. In this connection, the term is intended to be used in its widest possible meaning. It embraces all existing means of protection of such names and symbols, regardless of whether they indicate that the qualities of a given product are due to its geographical origin (such as appellations of origin), or they merely indicate the place of origin of a product (such as indications of source). This definition also covers symbols, because geographical indications are not only constituted by names, such as the name of a town, a region or a country ("direct geographical indications"), but may also consist of symbols. Such symbols may be capable of indicating the origin of goods without literally naming its place of origin. Examples for such indirect geographical indications are the Eiffel Tower for Paris, the Matterhorn for Switzerland or the Tower Bridge for London.

2.692 On the other hand, the term "geographical indication" is also used in the EC Council Regulation No. 2081/92 of July 14, 1992, on the Protection of Geographical Indications and Designations of Origin for Agricultural Products and Foodstuffs and in the Agreement on TRIPS. In both texts, this term is applied to products whose quality and characteristics are attributable to their geographical origin, an approach that closely resembles the appellation of origin kind of protection. In other words, "mere" indications of source are not covered by the specific notion of geographical indication used in those two legal texts. However, this presentation, in trying to take into account all existing forms of protection of geographical indications, uses the term in its widest meaning.

2.693 When considering geographical indications as a special kind of distinctive sign used in commerce and thus as a particular category of intellectual property, it is important to distinguish them from trademarks: whereas a trademark identifies the enterprise which offers certain products or services on the market, a geographical indication identifies a geographical area in which one or several enterprises are located which produce the kind of product for which the geographical indication is used. Thus, there is no "owner" of a geographical indication in the sense that one person or enterprise can exclude other persons or enterprises from the use of a geographical indication, but each and every enterprise which is located in the area to which the geographical indication refers has the right to use the said indication for the products originating in the said area, but possibly subject to compliance with certain quality requirements such as prescribed, for example, in administrative decrees governing the use of appellations of origin.

2.694 What is meant by "protection" of geographical indications? First of all, protection means the right to prevent unauthorized persons from using geographical indications, either for products which do not originate from the geographical place indicated, or not complying with the prescribed quality standards. The second aspect related to the issue of protection is the question of protecting geographical indications against becoming generic expressions: in that case they have lost all their distinctiveness and, consequently, will lose their protection. The question whether a geographical indication is a generic term and void of any protection is, in the absence of an international agreement, to be determined by national law. It might well be that a geographical name is regarded in one country as a geographical indication and is protected accordingly, whereas it is considered to be a generic or semi-generic term in another country. Notorious examples for such diverging treatment of geographical names are the French names "Champagne" and "Chablis"

which, in France, are only allowed to be used for products originating from a certain geographical area and produced according to certain quality standards, whereas, in the United States of America for example, they are regarded as being semi-generic names, and therefore may be also used for wines not originating from the French area of production. This aspect of protection is especially important in the context of international protection of geographical indications and is dealt with, for example, by the Lisbon Agreement for the Protection of Appellations of Origin and their International Registration.

Protection of Geographical Indications on the National Level

2.695 As regards the various forms of protection of geographical indications on the national level, three main categories can be distinguished. The first category comprises all possibilities of protection which are not based on a decision taken by the competent authority establishing protection with respect to a particular geographical indication, but which result from the direct application of legislative provisions or principles established by jurisprudence. The second category covers the protection of geographical indications through registration of collective marks (including agricultural labels) or certification marks (or guarantee marks). The third category includes all special titles of protection of geographical indications which result from a decision made by the competent government authority establishing the protection. This category, in particular, comprises the protection of appellations of origin—whether they result from a registration with the industrial property office, as under the new Russian law, or from the adoption of decrees, as is the practice in France since the adoption, in 1919, of a special law for the protection of appellations of origin.

Special Titles of Protection

2.696 Already early in this century it was felt that the protection of indications of source against false or deceptive use was insufficient. In addition, the need for the protection and the encouragement of local, traditional methods of production emerged. It was in France where the first statute was enacted which provided for the protection of geographical indications through a special title of industrial property, namely appellations of origin.

2.697 The French Law of May 6, 1919, recognized the existence of appellations of origin and laid down conditions for their protection. According to this law, an appellation of origin consists of the name of a country, region or locality that serves to designate a product originating therein, the quality and characteristics of which are due to the geographical environment, including both natural and human factors. This means that only such products are protected under this special title which originate from a specific area and which owe their specific quality to their place of origin. In order to ensure that the products possess the specified qualities, a control mechanism has been set up by the competent authorities, and quality controls are carried out regularly. Only products which comply with the quality standards are protected by an appellation of origin. Initially, appellations of origin only concerned wines and spirits, but later the concept was extended to include other products (such as dairy products, mainly cheese and butter), poultry and plant products.

2.698 Because of the success of the French appellations of origin, the same or a similar system was introduced also in other countries, mainly in the sector of wines and spirits.

Registration of Collective Marks or Certification Marks

2.699 The protection of a given geographical indication may not only be based on a public or administrative act, but may also result from a private initiative. With regard to the latter approach,

collective marks or certification marks provide a means for the protection of geographical indications independent of statutory or judicial measures. The concepts of collective mark and certification mark (or, in some countries, guarantee mark) differ from country to country. Depending on the applicable national law, a collective mark or certification mark may serve to indicate, *inter alia*, the origin of goods or services, and therefore may to some extent be suitable for the protection of a geographical indication.

2.700 A collective mark is a mark the use of which is only allowed to the members of a collective body. Such a body can be an association or cooperative of manufacturers, producers or traders. The collective mark is owned by the association which exclusively grants its members the right to use it. The association may be a domestic one or a foreign one. Normally, the use of the collective mark is governed by regulations which have to be submitted to the industrial property office together with the application for registration. The question whether a geographical indication is registrable as a collective mark depends entirely on a given national law. Some national trademark laws exclude the registration of geographical indications as collective marks, although, more recently, that exclusion has been abolished by some countries.

2.701 Once a geographical indication has been registered as a collective mark, the association that owns it has the right to prohibit its use by persons who are not members of the association. However, in case of conflict with a senior right, the members of the association may be excluded from using the collective mark. Moreover, the registration of a geographical indication as collective mark may not, *per se*, prevent the mark from becoming a generic term. Furthermore, the laws of some countries contain strict use requirements which may result in the cancellation of the registration of the collective mark in case it is not continuously used.

2.702 In contrast to collective marks, certification marks and guarantee marks are not owned by a collective body such as an association of producers, but by a certification authority. Such authority may be a local council or an association which is not engaged in the production or the trade of the products concerned. The latter is of particular importance because it is the owner of the certification mark who must ensure that the goods bearing the certification mark possess the certified qualities. A certification mark may be used to certify, *inter alia*, the origin of products or services. The application for the registration of a certification mark has to be accompanied by regulations which govern the use of the certification mark. Regarding the registrability of geographical indications as certification marks and guarantee marks, the same principles as for the registration of collective marks apply.

2.703 Where a geographical indication has been registered as a certification mark or guarantee mark, it may normally be used by everybody whose products comply with the requirements set out in the regulation. Such right to use, however, may not exist in case of conflict with a senior right. The institution which owns the registered certification mark or guarantee mark has the right to prohibit the use of that mark by persons whose products do not comply with the requirements set out in the regulations. In general, the protection of a geographical indication through registration as certification mark or guarantee mark is equivalent to that conferred by registration as a collective mark.

2.704 A special form of protected geographical indication resembling the concept of collective marks is the French "agricultural label" (in French "label agricole"). An agricultural label is a collective mark that certifies that a foodstuff or a non-nutritious and non-transformed agricultural product (such as cereal seeds) possesses a combination of specific characteristics and a level of quality which is higher than that of similar products. An agricultural label can be a national label (known as "red label") or a regional label, the latter referring to characteristics which are specific, traditional or representative of a region. Products in respect of which an appellation of origin has

been established and some categories of wines (even if not benefitting from an appellation of origin) may not be the subject of protection by way of an agricultural label. The agricultural label is registered in the name of the entity that controls its use. The application of the Decree is not limited to French products, but so far only little use has been made of the possibility of applying the Decree to foreign products. An example of a foreign product is the label for “Scottish salmon”.

The Law of Unfair Competition

2.705 The use of a certain geographical indication for goods or services not originating from the respective area may be misleading and thus may deceive consumers. Furthermore, such use may constitute a misappropriation of the goodwill of the person who is truly entitled to use the geographical indication. An action for unfair competition—which, depending on the national law, is either based on statutory provisions, as interpreted by court decisions, or on common law—can be instituted in order to prevent competitors from resorting, in the course of trade, to such misleading practices.

2.706 Although the conditions for a successful action for unfair competition vary from country to country, the following basic principles appear to be generally recognized. In order to be protectable, a given geographical indication must have acquired a certain reputation or goodwill. In other words, the potential buyers of the product must associate the geographical indication with the place of origin of the goods or services. Such an action further requires that the use of the geographical indication on goods or services not originating from the respective geographical area is misleading, so that consumers are deceived as to the true place of origin of the products or services. Under some national laws, proof of damages or the likelihood of damages caused by such misleading practices is required.

2.707 Whereas the principle that misleading use of a geographical indication may give rise to an action for unfair competition is generally recognized, the outcome of such an action is uncertain. In particular, the extent to which the geographical indication in question must have acquired a reputation may vary from country to country. It may be required that the geographical indication must have been used in the course of trade for a certain time and that an association between the geographical indication and the place of origin of the products and services must have been created amongst the relevant circles. Therefore, a geographical indication, the reputation of which is not yet established on the market, may not be protectable against misleading use by competitors through an action for unfair competition. Furthermore, a geographical indication which has not been used for a certain time may lose its reputation and therefore may no longer be protectable by an action for unfair competition. Geographical indications which become generic terms in a particular country lose their distinctive character and are no longer protectable in that country.

Protection of Geographical Indications on the International Level through Multilateral Treaties

2.708 Three multilateral treaties administered by WIPO contain provisions for the protection of geographical indications: the Paris Convention for the Protection of Industrial Property, the Madrid Agreement for the Repression of False or Deceptive Indications of Source on Goods (hereinafter referred to as the Madrid Agreement), and the Lisbon Agreement for the Protection of Appellations of Origin and their International Registration (hereinafter referred to as the Lisbon Agreement).

The Paris Convention for the Protection of Industrial Property

2.709 Several provisions of the Paris Convention deal specifically with indications of source or appellations of origin: Article 1(2) contains a reference to “indications of source” and “appellations of origin” in the list of objects of industrial property; Article 10 deals with the protection of indications of source; Article 9 provides for certain sanctions which are applicable, *inter alia*, in cases of direct or indirect use of false indications of source; and Article 10*ter* reinforces the provisions of Articles 9 and 10.

2.710 Article 1(2) provides that the protection of industrial property has as its object, among others, “indications of source” or “appellations of origin.” The obligation to protect indications of source is specifically provided for in Article 10, but there are no special provisions in the Paris Convention for the protection of appellations of origin. Nevertheless, Articles 9, 10 and 10*ter* are applicable to appellations of origin since each appellation of origin by definition constitutes an indication of source.

2.711 Article 10(1) is the basic provision of the Paris Convention on indications of source. It provides that the sanctions prescribed by Article 9 in respect of goods unlawfully bearing a trademark or trade name apply to any use of a “false indication of the source” of a product. This means that no indications of source may be used that refer to a geographical area from which the products in question do not originate. For the provision to be applicable, there is no need for the false indication to appear on the product, since any direct or indirect use, for example in advertising, is sanctionable. However, Article 10(1) does not apply to indications which, without being false, may mislead the public, or at least the public of a certain country: for example, where certain geographical areas in different countries have the same name but only one of those areas is internationally known for particular products, the use of that name in connection with products originating from another area may be misleading, but not sanctionable.

2.712 As regards the sanctions in the case of the use of a false indication of source, Article 9 establishes the principle that seizure upon importation must be provided for, or at least prohibition of importation or seizure inside the country but, if those sanctions do not exist in a particular country, the actions and remedies available in such cases are to be applied.

2.713 Article 9(3) and Article 10(2) determine who may request seizure on importation or the imposition of other sanctions: the public prosecutor, any other competent authority, any interested party. Article 10(2) defines what is meant by “interested party”, stipulating that “any producer, manufacturer, or merchant, whether a natural person or a legal entity, engaged in the production or manufacture of or trade in such goods and established either in the locality falsely indicated as the source, or in the region where such locality is situated, or in the country falsely indicated, or in the country where the false indication of source is used, shall in any case be deemed an interested party.”

2.714 Article 10*bis* concerns the protection against unfair competition and as such provides a basis for protection against the use of confusing, false or misleading geographical indications. Article 10*bis* obliges countries of the Paris Union to assure effective protection against unfair competition, sets a general definition of what constitutes an act of unfair competition and contains a non-exhaustive list of three types of acts which, in particular, must be prohibited.

2.715 Article 10*ter* is also relevant inasmuch as it obliges countries of the Union to provide, on the one hand, appropriate legal remedies and to permit, on the other, federations and associations representing interested industrialists, producers or traders to take action, under certain conditions, with a view to the repression of false indications of source.

2.716 The main advantage of the protection afforded by the Paris Convention to indications of source lies in the extent of the territorial area covered by the member countries of the Paris Union; information on the number of member countries can be found in the appropriate document inserted in the back flap of this publication. On the other hand, the question of indications which, in countries other than the country of origin, are generic names of a product in other countries is not dealt with in the Paris Convention, so that member States of the Paris Union can be entirely free in that respect. Finally, sanctions, although specifically mentioned in the Paris Convention, are not in all cases mandatory and apply only to false but not to misleading indications of source.

The Madrid Agreement for the Repression of False and Deceptive Indications of Source on Goods

2.717 The Madrid Agreement for the Repression of False or Deceptive Indications of Source on Goods is a special agreement within the framework of the Paris Union. The Agreement aims at the repression not only of false, but also of deceptive, indications of source.

2.718 Article 1(1) of the Madrid Agreement provides that any product bearing a false or deceptive indication by which one of the States party to the Madrid Agreement or a place situated therein is directly or indirectly indicated as being the country or place of origin, must be seized on importation into any of the States party to the Madrid Agreement.

2.719 The other paragraphs of Articles 1 and 2 specify the cases and the manner in which seizure or similar measures may be requested and carried out. There is no express provision to the effect that private individuals may request seizure directly. Thus, member States are free to provide that such persons have to apply through the public prosecutor or any other competent authority.

2.720 Article 3 authorizes a vendor to indicate his name or address on goods coming from a country other than that in which the sale takes place, but obliges him, if he does so, to have his name or address accompanied by an exact indication in clear characters of the country or place of manufacture or production, or by some other indication sufficient to avoid any error as to the true source of the wares.

2.721 Article 3*bis* obliges the States party to the Madrid Agreement to prohibit the use, in connection with the sale or display or offering for sale of any goods, of all indications capable of deceiving the public as to the source of the goods.

2.722 Article 4 provides that the courts of each country have to decide what appellations, on account of their generic character, do not fall within the provisions of the Madrid Agreement. Only regional appellations concerning the source of products of the vine are excluded from the reservation inherent in the provision. The reservation substantially limits the scope of the Madrid Agreement, in spite of the important exception constituted by the case of regional appellations concerning the source of products of the vine, for which protection is absolute.

2.723 A list of States that are party to the Madrid Agreement for the Repression of False or Deceptive Indications of Source on Goods can be found in the appropriate document inserted in the back flap of this publication.

The Lisbon Agreement for the Protection of Appellations of Origin and their International Registration

2.724 The limited geographical scope of the Lisbon Agreement for the Protection of Appellations of Origin and their International Registration is due to particular characteristics of the substantive provisions of the Agreement.

2.725 Article 2(1) contains a definition according to which appellation of origin means “the geographical name of a country, region or locality which serves to designate a product originating therein, the quality and characteristics of which are due exclusively or essentially to the geographical environment, including natural and human factors.” It follows that only names conforming to the definition may be protected by virtue of the Lisbon Agreement. Simple indications of source (which can be used for products whose characteristics do not result from the geographical environment) are excluded from its purview. This limitation has prevented the accession of countries which do not know the concept of appellation of origin.

2.726 The first element of the definition is that the appellation must be the geographical name of a country, region or locality. The second element of the definition is that the appellation of origin must serve to designate a product originating in the country, region or locality referred to. The third element of the definition is that there must be a qualitative link between the product and the geographical area: the “quality and characteristics” must be due exclusively or essentially to the geographical environment; if the qualitative link is insufficient, that is, if the characteristic qualities are not due essentially, but only to a small extent, to the geographical environment, the name is not an appellation of origin but merely an indication of source; as for the geographical environment, it includes natural factors, such as soil or climate, and human factors, such as the special professional traditions of the producers established in the geographical area concerned.

2.727 Even if interpreted broadly, the definition of appellation of origin in Article 2(1) has a serious drawback for countries whose denominations typically do not apply to agricultural products or products of handicraft but to products of industry. The difficulty arises from the fact that Article 2(1) requires the existence of a qualitative link between the geographical environment and the product, even though the presence of purely human factors would be considered sufficient. This link, which may have existed at the start of the manufacture of an industrial product, may subsequently have been stretched to the point that its existence is difficult to prove. Moreover, traditions in manufacture and skilled staff can be shifted from one geographical area to another, in particular in view of the increasing mobility of human resources in all parts of the world.

2.728 Article 1(2) provides that the countries party to the Lisbon Agreement undertake to protect on their territories, in accordance with the terms of the Agreement, the appellations of origin of products of the other countries party to the Lisbon Agreement, recognized and protected as such in the country of origin and registered at the International Bureau of WIPO. Therefore, in order to be protected under the Lisbon Agreement, the appellation of origin must fulfill two conditions. The first condition is that the appellation of origin must be recognized and protected as such in the country of origin (the latter being defined in Article 2(2)). This condition means that it is not sufficient for the country in question to protect its appellations in a general way. Each appellation still has to benefit from distinct and express protection, deriving from a specific official act (a legislative or administrative provision, or a judicial decision, or a registration). Such an official act is required because the specific elements of the object of protection (the geographical area, the lawful users of the appellation of origin, the nature of the product) must be determined. Those elements must be indicated in the application for international registration in accordance with Rule 1 of the Regulations under the Lisbon Agreement.

2.729 The second condition laid down by Article 1(2) is that the appellation of origin must be registered with the International Bureau of WIPO. Articles 5 and 7 of the Agreement itself and the Regulations set forth the procedure for international registration.

2.730 Article 2(2) defines the country of origin as being “the country whose name, or the country in which is situated the region or locality whose name, constitutes the appellation of origin which has given the product its reputation.”

2.731 Article 5(1) and the corresponding provisions of the Regulations issued under the Lisbon Agreement define the procedure for international registration. International registration must be applied for by the competent Office of the country of origin, and therefore may not be requested by interested parties. The national Office, however, does not apply in its own name for international registration, but in that of "any natural persons or legal entities, public or private, having a right to use (in French, "titulaire du droit d'usage")" the appellation, according to the applicable national legislation. The International Bureau of WIPO has no competence to examine the application with respect to substance; it may only make an examination as to form. Under Article 5(2) of the Lisbon Agreement, the International Bureau notifies the registration without delay to the Offices of the countries party to the Lisbon Agreement and publishes it in its periodical "Les Appellations d'origine" (Rule 7 of the Regulations).

2.732 In accordance with Article 5(3) to (5), the Office of any State party to the Lisbon Agreement may, within a period of one year from the receipt of the notification of registration, declare that it cannot ensure the protection of a given appellation. Apart from the time limit mentioned, the right of refusal is subject to only one condition: the grounds for refusal must be indicated. The grounds which may be so indicated are not restricted by the Lisbon Agreement; this in fact gives each country the discretionary power to protect or refuse to protect a registered appellation of origin. In all countries not having made a declaration of refusal, the registered appellation enjoys protection. However, if third parties have been using the appellation in a given country prior to the notification of the registration, the Office of that country may, under Article 5(6) of the Lisbon Agreement, grant them a maximum of two years in which to terminate such use.

2.733 The protection conferred by international registration is unlimited in time. Article 6 provides that an appellation which has been granted protection cannot be deemed to have become generic, as long as it is protected as an appellation of origin in the country of origin. Article 7 provides that the registration need not be renewed and is subject to payment of a single fee. An international registration ceases to have effect only in two cases: either the registered appellation has become a generic name in the country of origin, or the international registration has been canceled by the International Bureau at the request of the Office of the country of origin.

2.734 The content of the protection afforded to an appellation of origin registered under the Lisbon Agreement, according to Article 3 of the Agreement, is very extensive. Any usurpation or imitation of the appellation is prohibited, even if the true origin of the product is indicated or if the appellation is used in translated form or qualified by terms such as "kind", "type", "make", "imitation", or the like.

2.735 With regard to the enforcement of the protection of an appellation of origin registered under the Lisbon Agreement, Article 8 refers to national legislation. It specifies that the right to take action belongs to the competent Office and the public prosecutor, on one hand, and to any interested party, whether a natural person or a legal entity, whether public or private, on the other. In addition to any sanctions applicable pursuant to the Paris Convention and the Madrid Agreement (Article 4), all the sanctions provided for in national legislation, whether civil (injunctions restraining or prohibiting unlawful acts, actions for damages, etc.), penal or administrative, are to be applied. However, the Lisbon Agreement does not establish a standard with respect to the sanctions to be provided for by the States party to it.

2.736 A list of the countries party to the Lisbon Agreement can be found in the appropriate document inserted in the back flap of this publication.

Protection of Geographical Indications at the International Level through the Provisions of Bilateral Agreements

2.737 A further possibility of international protection of geographical indications is the conclusion of bilateral agreements between two states. A number of countries have entered into such agreements. In general, such bilateral agreements consist of lists of geographical indications which were drawn up by the contracting parties and an undertaking to protect the geographical indications of the respective contracting parties. The agreement usually also specifies the kind of protection that is to be granted. Although in general useful, bilateral agreements cannot constitute an entirely adequate solution to the problem of the lack of international protection because of the multiplicity of negotiations required and, resulting therefrom, an inevitable diversity of standards.

Provisions of The TRIPS Agreement on Geographical Indications

2.738 Part II, Section 3 of the TRIPS Agreement is dedicated to geographical indications. The general norm of protection is provided by Article 22.2, which reads as follows:

“2. In respect of geographical indications, Members shall provide the legal means for interested parties to prevent:

- the use of any means in the designation or presentation of a good that indicates or suggests that the good in question originates in a geographical area other than the true place of the origin in a manner which misleads the public as to the geographical origin of the good;
- any use which constitutes an act of unfair competition within the meaning of Article 10*bis* of the Paris Convention (1967).”

2.739 Article 22.2 is supplemented by Article 22.3 and 22.4. Article 22.3 deals specifically with the registration of trademarks, containing or consisting of a geographical indication, for goods not originating in the territory indicated, if the use of those trademarks for such goods would be misleading as to the true place of origin of the goods. The remedy that must be available in that situation is refusal or invalidation of the trademark registration, either *ex officio*, if the applicable law so allows, or at the request of an interested party.

2.740 Article 22.4 stipulates that the protection under Article 22.1 to 3 must also be made available in respect of the use of deceptive geographical indications, i.e., geographical indications that are literally true, although they falsely represent to the public that the goods on which they are used originate in a different territory.

2.741 Article 23.1 provides for additional protection for geographical indications for wines and spirits. It reads as follows:

“Each Member shall provide the legal means for interested parties to prevent use of a geographical indication identifying wines for wines not originating in the place indicated by the geographical indication in question or identifying spirits for spirits not originating in the place indicated by the geographical indication in question, even where the true origin of the goods is indicated or the geographical indication is used in translation or accompanied by expressions such as ‘kind,’ ‘type,’ ‘style,’ ‘imitation’ or the like.”

2.742 Article 23.1 has a footnote with the following wording:

“Notwithstanding the first sentence of Article 42, Members may, with respect to these obligations, instead provide for enforcement by administrative action.”

2.743 Article 23.1 is supplemented by a paragraph dealing specifically with the registration of trademarks for wines containing or consisting of a geographical indication for wines, and the registration of a trademark for spirits containing a geographical indication for spirits, where the wines and spirits in question do not have the indicated geographical origin. Registration of trademarks falling under that provision has to be refused or canceled, either *ex officio* if the applicable law so allows, or at the request of an interested party.

2.744 Article 24 contains a number of exceptions to the obligations under Articles 22 and 23. Broadly speaking, there are three categories of exceptions, namely, continued and similar use of geographical indications for wines and spirits, prior good faith trademark rights, and generic designations.

2.745 The first exception (Article 24.4) gives the right to WTO Members to allow continued and similar use of a particular geographical indication of another Member identifying wines or spirits, in connection with goods or services by any of its nationals or domiciliaries who have used that geographical indication in a continuous manner with regard to the same or related goods or services in the territory of that Member, either for at least 10 years preceding April 15, 1994, or in good faith preceding that date.

2.746 The second exception relates to rights in trademarks (Article 24.5). It basically states that the implementation of the Section on geographical indications by a WTO Member is without prejudice to the registration of trademarks identical with or similar to geographical indications, to the application for registration of such trademarks, or the right to use such trademarks, if the following conditions are fulfilled: an application for the registration of such a trademark must have been filed, or the trademark must have been registered, or, where the right to the trademark was acquired by use, that trademark must have been used, in good faith, in the WTO Member concerned, before the TRIPS Agreement became applicable in that Member, or before the geographical indication in question is protected in its country of origin.

2.747 The third exception (Article 24.6) is related to geographical indications of a WTO Member which are considered by another WTO Member to be a term customary in common language as the common name for goods or services or, where the geographical indication is used for products of the vine, it is identical with the customary name of a grape variety existing in the territory of that Member as of the date of entry into force of the TRIPS Agreement.

Protection Against Unfair Competition

Introduction

2.748 Protection against unfair competition has been recognized as forming part of industrial property protection for almost a century. It was in 1900, at the Brussels Diplomatic Conference for the Revision of the Paris Convention for the Protection of Industrial Property (hereinafter referred to as the Paris Convention), that this recognition was first manifested by the insertion of Article 10*bis*

in the Convention. As a result of the subsequent revision conferences, the Article now reads as follows (in the Stockholm Act (1967) of the Paris Convention):

“(1) The countries of the Union are bound to assure to nationals of such countries effective protection against unfair competition.

Any act of competition contrary to honest practices in industrial or commercial matters constitutes an act of unfair competition.

The following in particular shall be prohibited:

- all acts of such a nature as to create confusion by any means whatever with the establishment, the goods, or the industrial or commercial activities, of a competitor;
- false allegations in the course of trade of such a nature as to discredit the establishment, the goods, or the industrial or commercial activities, of a competitor;
- indications or allegations the use of which in the course of trade is liable to mislead the public as to the nature, the manufacturing process, the characteristics, the suitability for their purpose, or the quantity, of the goods.”

2.749 At first glance, there seem to be basic differences between the protection of industrial property rights, such as patents, registered industrial designs, registered trademarks, etc., on the one hand, and protection against acts of unfair competition on the other. Whereas those industrial property rights are granted on application by industrial property offices and confer exclusive rights with respect to the subject matter concerned, protection against unfair competition is based not on such grants of rights but on the consideration—either stated in legislative provisions or recognized as a general principle of law—that acts contrary to honest business practice are to be prohibited. Nevertheless, the link between the two kinds of protection is clear when certain cases of unfair competition are considered. For example, in many countries unauthorized use of a trademark that has not been registered is considered illegal on the basis of general principles that belong to the field of protection against unfair competition (in a number of countries such unauthorized use is called “passing-off”). There is another example of this kind in the field of inventions: if an invention is not disclosed to the public and is considered to constitute a trade secret, the unauthorized performance by third parties of certain acts in relation to that trade secret may be illegal. Indeed the performance of certain acts in relation to an invention that has been disclosed to the public and is not patented or in respect of which the patent has expired, may under very special circumstances also be illegal (as an act of “slavish imitation”).

2.750 The above examples show that protection against unfair competition effectively supplements the protection of industrial property rights, such as patents and registered trademarks, in cases where an invention or a sign is not protected by such a right. There are, of course, other cases of unfair competition, for example the case referred to in Article 10bis(3)2 of the Paris Convention, namely that of a false allegation in the course of trade of such a nature as to discredit a competitor, in which protection against unfair competition does not perform such a supplementary function. This is due to the fact that the notion of unfair competition covers a great variety of acts, as will be discussed in the analysis below.

The Need for Protection

2.751 A number of countries both in regions of the developed and developing world, are adopting or have adopted market economy systems, which allow free competition between industrial and commercial enterprises within certain limits defined by law. Free competition between enterprises is considered the best means of satisfying supply and demand in the economy and of serving the interests of consumers and the economy as a whole. However, where there is competition, acts of unfair competition are liable to occur. This phenomenon has been discernible in all countries and at all times, regardless of prevailing political or social systems.

2.752 Sometimes economic competition has been compared to competition in sport, because in both the best should win. In economic competition, that should be the enterprise providing the most useful and effective product or service on the most economical and (to the consumer) satisfying terms. This result can only be achieved, however, if all participants play according to a certain set of basic rules. Violations of the basic rules of economic competition can take various forms, ranging from illegal but harmless acts (which can be committed by the most honest and careful entrepreneur) to malicious fouls, intended to harm competitors or mislead consumers.

2.753 Experience has shown that there is little hope of fairness in competition being achieved solely by the free play of market forces. In theory consumers, in their role as referees of economic play, could deter dishonest entrepreneurs by disregarding their goods or services and favoring those of honest competitors. Reality, however, is different. As an economic situation becomes more complex, consumers become less able to act as referees. Often they are not even in a position to detect by themselves acts of unfair competition, let alone react accordingly. Indeed it is the consumer who—along with the honest competitor—has to be protected against unfair competition.

2.754 Self-regulation has not proved to be a sufficient safeguard against unfair competition. If self-regulation is well developed and generally observed, it can even be faster, less expensive and more efficient than any court system. Yet it stands or falls on continuing observance by all participants. In order to prevent unfair competition effectively, self-regulation must, at least in certain areas, be supplemented by a system of legal enforcement.

2.755 The rules on the prevention of unfair competition and those on the prevention of restrictive business practices (anti-trust law) are interrelated: both aim at ensuring the efficient operation of a market economy. They do so in different ways, however: anti-trust law is concerned with the preservation of the freedom of competition by combating restraints on trade and abuses of economic power, while unfair competition law is concerned with ensuring fairness in competition by forcing all participants to play according to the same rules. Yet both laws are equally important, although in different respects, and supplement each other.

2.756 Fair play in the marketplace cannot be ensured only by the protection of industrial property rights. A wide range of unfair acts, such as misleading advertising and the violation of trade secrets, are usually not dealt with by the specific laws on industrial property. Unfair competition law is therefore necessary either to supplement the laws on industrial property or to grant a type of protection that no such law can provide. In order to fulfill this function, unfair competition law must be flexible, and protection thereunder must be independent of any formality such as registration. In particular, unfair competition law must be able to adapt to all new forms of market behavior. Such flexibility does not necessarily entail a lack of predictability.

The Legal Basis for Protection

Development of Unfair Competition Law

2.757 All countries that have established market economy systems have devised some kind of safeguard against unfair business practices. In doing so, however, they have chosen quite different approaches. While in other areas of industrial property law, such as those dealing with patents, designs or marks, it is generally agreed that protection is best afforded by a specific, comprehensive statute, the legal basis for the repression of unfair competition can range from a succinct general tort provision to detailed regulation in a special statute. The reason for this diversity of approaches is often purely historical.

2.758 In more recent times many countries have passed special legislation on the subject or have replaced earlier laws on unfair competition. As regards recent legislative activity in this area, Switzerland adopted a Law Against Unfair Competition in 1986 which contains a broad general provision and a detailed regulation of specific market behavior, for example slavish imitation; Hungary adopted a Law on the Prohibition of Unfair Market Practice in 1990 which regulates unfair competition and anti-trust law; Spain's Unfair Competition Law of 1991 contains a detailed regulation on practices harmful to consumers and competitors; and in 1991 Belgium adopted a Trade Practices and Consumer Protection Law which emphasizes the idea of consumer protection.

International Protection: Article 10bis of the Paris Convention for the Protection of Industrial Property

2.759 Article 1(2) of the Paris Convention mentions the repression of unfair competition along with patents, utility models, industrial designs, trademarks, trade names, indications of source and appellations of origin among the objects of industrial property protection, and Article 10bis contains an express provision on the repression of unfair competition. In the more than one hundred and fifty States party to the Paris Convention, the legal basis for the protection against unfair competition may thus be found not only in national legislation but also at the international level.

2.760 Under Article 10bis(1) of the Paris Convention, the countries of the Paris Union are bound to ensure effective protection against unfair competition. Article 10ter(1) of the Convention further provides for the obligation to ensure "appropriate legal remedies." In particular, measures must be taken to permit federations and associations representing interested industrialists, producers or merchants to take action, provided that this is not contrary to the laws of the country concerned and does not exceed the rights normally granted to national associations.

2.761 Article 10bis(2) of the Paris Convention defines unfair competition as any act of competition contrary to honest practices in industrial or commercial matters. This definition leaves the determination of the notion of "commercial honesty" to the national courts and administrative authorities. Member States of the Paris Union are also free to grant protection against certain acts even if the parties involved are not competing against each other.

2.762 Article 10bis(3) of the Paris Convention gives three examples of cases that "in particular" have to be prohibited. These examples must not be seen as exhaustive, but rather as the minimum protection that has to be granted by all member States. The first two—creating confusion and discrediting—can be regarded as belonging to the "traditional" field of competition law, namely that of competitor protection. The third one—misleading—was added by the 1958 Revision Conference in Lisbon, and takes into account the interests of both competitors and consumers.

2.763 Apart from Articles 10*bis* and 10*ter*, the Paris Convention contains several provisions relevant to protection against acts of unfair competition in a broader sense, especially those concerning trademarks and trade names. For example, Articles 6*sexies* and 8 provide for the protection of service marks and trade names, respectively. The protection of indications of geographical origin, to the extent that it is not provided by Article 10*bis*(3), results from Article 10 and Article 9, to which Article 10 refers. Special agreements concluded within the Paris Convention, namely, the Madrid Agreement for the Repression of False or Deceptive Indications of Source on Goods and the Lisbon Agreement for the Protection of Appellations of Origin and their International Registration, along with bilateral treaties, specifically provide for the international protection of geographical indications.

National Protection: Three Main Approaches to Unfair Competition Law

2.764 According to Article 10*bis*(1) of the Paris Convention, the member States of the Paris Union have to provide effective protection against unfair competition. Although they are not obliged to introduce special legislation for the purpose, they must provide—at least on the basis of existing general legislation—effective safeguards against all acts “contrary to honest trade practices” and specifically against the practices referred to in Article 10*bis*(3). In the implementation of these treaty obligations, three main approaches can be distinguished.

“Article 9

All goods unlawfully bearing a trademark or trade name shall be seized on importation into those countries of the Union where such mark or trade name is entitled to legal protection.

Seizure shall likewise be effected in the country where the unlawful affixation occurred or in the country into which the goods were imported.

Seizure shall take place at the request of the public prosecutor, or any other competent authority, or any interested party, whether a natural person or a legal entity, in conformity with the domestic legislation of each country.

The authorities shall not be bound to effect seizure of goods in transit.

If the legislation of a country does not permit seizure on importation, seizure shall be replaced by prohibition of importation or by seizure inside the country.

If the legislation of a country permits neither seizure on importation nor prohibition of importation nor seizure inside the country, then, until such time as the legislation is modified accordingly, these measures shall be replaced by the actions and remedies available in such cases to nationals under the law of such country.

Article 10

The provisions of the preceding Article shall apply in cases of direct or indirect use of a false indication of the source of the goods or the identity of the producer, manufacturer, or merchant.

Any producer, manufacturer, or merchant, whether a natural person or a legal entity, engaged in the production or manufacture of or trade in such goods and established either in the locality falsely indicated as the source, or in the region where such locality is situated, or in the country falsely indicated, or in the country where the false indication of source is used, shall in any case be deemed an interested party.”

Protection Based on Specific Legislation

2.765 Several countries have enacted special statutes or specific provisions within broader statutes, which, sometimes combined with provisions in general statutes such as the Civil Code, deal with protection against unfair competition. These statutes provide for civil or criminal sanctions and contain a broad general provision (often modelled on Article 10bis(2) of the Paris Convention) which is supplemented by detailed provisions on specific forms of unfair trade practice; they usually provide for civil sanctions and, in respect of specific cases, also for criminal sanctions. Although many of these countries have also enacted additional legislation concerning acts relating to certain products (food, drugs, etc.), the media (television) or marketing practices (gifts, bonuses), the statute against unfair competition remains the main basis for protection. Often the scope of that statute has been made even broader by the assumption that the violation of any other law can be an unfair trade practice because it gives an undue advantage in competition over the law-abiding competitor. In some countries the concept of a special law on competition has evolved towards the adoption of a more general law on market behavior, or the link with anti-trust law is stressed by the enactment of statutes that deal with the institution of competition itself as well as with fairness in competition.

Protection Based on General Tort Law and/or on the Law Concerning “Passing-Off” and Trade Secrets

2.766 In a group of countries with a civil law tradition, which follow the approach consisting of the protection of the honest businessman, such protection is usually to be found in the general tort law. In another group of countries which follow common law traditions, the actions for passing-off and for violation of trade secrets developed by the courts (at least originally) remain the main basis for the protection of competitors. As for the protection of consumers, a number of the same two groups of countries have, in addition, enacted separate sets of laws regulating specific cases of undesirable market behavior, such as misleading advertising, price comparisons, lotteries, games and bonuses; those laws are essentially independent of the protection of competitors under civil law or common law principles.

Combination of the Above Two Approaches

2.767 Most countries party to the Paris Convention—even those that at first attempted to regulate unfair competition by means of general tort law—provide for a combination of general civil code principles, case law and special laws. In many countries with a federal structure, the division of legislative competence between the federal legislature and the legislatures of the federated States has led to an even more complex combination of the various forms of protection. In some of those countries, the federal legislator even has no jurisdiction over unfair competition to the extent that it is considered a State common law tort. Where, in such countries, protection is granted by the States, it is in general better developed than that granted at the federal level. In the United States of America, in particular, the limited availability of common law remedies against unfair competition was first dealt with in federal law through the establishment of an administrative authority (the Federal Trade Commission), and more recently through the extension of a federal law provision on trademarks (Article 43(a) of the trademark law (Lanham Act)) to a wide variety of misleading representations. Yet the most progressive regulation is to be found in the “business laws”, “little

FTC Acts”, “Consumer Protection Laws” and other legislation adopted by States within the United States of America.

The Role of Jurisprudence

2.768 In spite of the different approaches mentioned above, all countries that have introduced effective safeguards against unfair competition take particular care over the enforcement of the law, and usually allow their courts considerable discretion. The success of an unfair competition law depends largely on what the courts make of it. A few words in a general tort provision may be a sufficient basis on which to develop an efficient system of unfair competition law, while a most impressively drafted statute may give disappointing results. This does not mean, however, that an explicit and detailed regulation of unfair trade practices is not useful: it will at least have some preventive effect on market behavior; but it will remain ineffectual if it is not activated by the courts. In the ever-changing world of competition, even the most perceptive legislator cannot possibly anticipate all future forms of unfair market behavior and must rely on interpretation of the law by the courts. Many countries have therefore supplemented their explicit provisions against certain market practices with a general provision, which allows the courts to include new forms of unfair market practice in the general system.

The Acts of Unfair Competition

General Definition

2.769 According to Article 10*bis*(2) of the Paris Convention, unfair competition consists of “any act of competition contrary to honest practices.” Most countries with special laws on unfair competition have adopted the same or similar definitions for their general provision—using such terms as “honest trade practices” (Belgium and Luxembourg), “the principle of good faith” (Spain and Switzerland), “professional correctness” (Italy) and “good morals” (Germany, Greece and Poland). In the absence of specific legislation, the courts have defined fair competition with phrases like “the principles of honesty and fair dealing” or “the morals of the marketplace” (United States of America).

2.770 It is true that describing unfair competition as acts contrary to “honest trade practices”, “good faith” and so on does not make for clear-cut, universally accepted standards of behavior, since the meaning of the terms used is rather fluid. The standard of “fairness” or “honesty” in competition is no more than a reflection of the sociological, economic, moral and ethical concepts of a society, and may therefore differ from country to country (and sometimes even within a country). That standard is also liable to change with time. Furthermore, there are always new acts of unfair competition, since there is ostensibly no limit to inventiveness in the field of competition. Any attempt to encompass all existing and future acts of competition in one sweeping definition—which at the same time defines all prohibited behavior and is flexible enough to adapt to new market practices—has so far failed.

2.771 This does not mean, however, that unfair competition cannot be encompassed by any general definition. It has been generally recognized that certain acts of commercial behavior are always (or, as Article 10*bis*(3) of the Paris Convention puts it, “in particular”) considered to constitute unfair competition. The most notable of those acts are the causing of confusion, discrediting and the use of misleading indications. The common aspect of these most important, but by no means exhaustive, examples of unfair market behavior is the attempt (by an entrepreneur) to succeed in competition without relying on his own achievements in terms of

quality and price of his products and services, but rather by taking undue advantage of the work of another or by influencing consumer demand with false or misleading statements. Practices that involve such methods are therefore doubtful at the outset as to their fairness in competition.

2.772 Another reference point could be the subjective element in the unfair act. At first sight, the notion of "honesty" seems to refer to a moral standard, and some sort of legal/ethical standard is indeed involved. This, however, has to be distinguished from the question whether an act of unfair competition can be established in the absence of any fault, bad faith or negligence. Where unfair competition law has been developed on the basis of general tort provisions, the "tort of unfair competition" requires some kind of subjective element such as "fault" or "bad faith." In practice, however, the element of fault or bad faith is often assumed by the courts.

2.773 The most important factor for determining "unfairness" in the marketplace, however, is derived from the purpose of unfair competition law. In this respect, unfair competition law was initially designed to protect the honest businessman. In the meantime, consumer protection has been recognized as equally important. Moreover, some countries put special emphasis on the protection of the public at large, and especially its interest in the freedom of competition. Modern unfair competition law therefore serves a threefold purpose, namely: the protection of competitors, the protection of consumers and the safeguarding of competition in the interest of the public at large.

2.774 One party who is always "concerned" is the honest businessman. Since unfair competition law started as a special law for the protection of the honest businessman, a businessman's standard of behavior logically serves as a starting point. A practice that is condemned as improper by all businessmen can, therefore, hardly qualify as a "fair" act of competition.

2.775 On the other hand, certain practices may be generally accepted within a branch of business but nevertheless considered "improper" by other market participants. In such cases, there has to be some ethical correction of the actual standards of behavior. Ethical standards dictate in particular that the interests of consumers must not be unnecessarily impaired, for example, by disregard for the principle of truthfulness (on which the consumer relies in his transactions), by enticement of the consumer into unsocial or even harmful behavior or by invasion of his privacy.

2.776 Furthermore, there may be practices that at first sight are not prejudicial either to other businessmen or to consumers, but nevertheless may have unwanted effects on the economy at large. For example, selling at dumping prices may in the long run destroy small- and medium-sized businesses, and thus have adverse effects on free competition. Where these economic aspects are incorporated in unfair competition law, such behavior will often be expressly labelled as "unfair."

2.777 When determining "honesty" in business dealings, all these factors have to be taken into account. In practice, the concept of unfair competition has increasingly become a balancing of interests. Differences in the evaluation of what is "fair" or "unfair" can generally be explained by the different emphasis placed on the aspects referred to above. For example, a particular kind of market behavior may well be seen differently in countries where the traditional law of unfair competition still focuses on the protection of the honest competitor, as opposed to countries that put special emphasis on the protection of consumers or the public at large.

2.778 On the other hand, there is broad agreement that at least some acts and practices are always irreconcilable with the notion of fairness in competition. These are discussed in detail below.

Categories of Acts of Unfair Competition

2.779 For the purposes of establishing categories of acts of unfair competition and facilitating their analysis in this study, two broad groups of acts of unfair competition are distinguished, namely acts of the types expressly mentioned in Article 10*bis* of the Paris Convention and acts not expressly mentioned in Article 10*bis*.

2.780 Article 10*bis*(3) contains a non-exhaustive list of three types of acts of unfair competition, namely, acts likely to cause confusion, acts that discredit a competitor, and acts that may mislead the public. Because the acts that are likely to cause confusion and those that may mislead the public are akin to one another and sometimes overlap, they are dealt with before the act of discrediting a competitor.

2.781 There are a number of acts not mentioned in Article 10*bis* which have been recognized by the courts as unfair practices and which, increasingly, have become the subject of legislative provisions. Of particular interest in this connection is the trend towards explicit protection of trade secrets by express provisions in unfair competition laws, and the continuing evolution of provisions governing the practice of comparative advertising. Moreover, there has been an increasing recognition of the need to grant protection against undue “misappropriation” of, or “free riding” on, the achievements of competitors, regardless of the availability of specific industrial property rights, provided that, under the circumstances of the case, such acts are found to be unfair.

Causing Confusion

General Circumstances Under which Confusion is Established

2.782 Article 10*bis*(3)1 of the Paris Convention obliges member States to prohibit all acts that are of such a nature as to create confusion, by any means, with the establishment, the goods or the industrial or commercial activities of a competitor. The scope of Article 10*bis*(3)1 is very broad, as it covers any act in the course of trade involving a mark, sign, label, slogan, packaging, shape or color of goods, or any other distinctive indication used by a businessman. Thus not only indications used to distinguish goods, services or businesses but also the appearance of goods and the presentation of services are considered relevant for the prohibition of confusion.

2.783 Under Article 10*bis*(3)1 of the Paris Convention, the “intent” to confuse is immaterial for the purposes of determining whether such an act constitutes an act of unfair competition. However, bad faith on the part of the imitator may have a bearing on the sanctions to be applied. Also, it is not usually necessary for confusion actually to have occurred, as the likelihood of confusion is often sufficient for an action based on unfair competition. Finally, protection against confusion is provided without any limitation in time. Protection is available as long as confusion is likely, but sufficient latitude is allowed for the use of non-confusing indications in respect of products, services and businesses, so that competition in the relevant market is not stifled. However, as soon as the marketable creation becomes generic or commonplace, it loses its original or distinctive character, and likelihood of confusion may no longer be assumed to the same degree.

2.784 There are two main areas in which confusion frequently occurs. These are indications of commercial origin on the one hand, and the appearance of goods on the other. However, this does not preclude or limit the protection of other attributes or achievements against confusion.

Types of Confusion

2.785 Confusion can be established in different ways. The test for the basic type of confusion is whether the similar mark so resembles the protected mark that it is liable to confuse a substantial number of average consumers as to the commercial source of the goods or services. Factors frequently considered in determining confusion are the degree of distinctiveness of the protected mark, the size and reputation of its owner, the sophistication of the consumers concerned and, of course, the similarity of the marks and the goods or services involved. In many countries, confusion is not restricted to basic confusion as to the commercial source, but also includes that which gives the impression of a strong business connection between the two users of the same trademark or similar trademarks, i.e., confusion as to affiliation. However, the use of an identical or similar mark on clearly unrelated or completely different goods usually falls outside the scope of protection, as a large degree of dissimilarity of the goods or services involved will lead consumers to assume that the source of the goods or services is not the same and also that there is no particular business connection between the users.

2.786 A third form of confusion that has been referred to, for example, under Section 43(a) of the Lanham Act of the United States of America and under Section 53 of the Australian Trade Practices Act, is called confusion as to sponsorship. Under this test for confusion, consumers will assume both that the goods or services do not originate from the same source and that the two enterprises do not entertain business relations so intensive and continuous as to cause confusion as to affiliation. Nevertheless, the consumer will expect, from the similarity of the marks, from the types of product or service that the mark is used for and from the manner of use by the second user, that the use of the protected mark by the second user has been authorized by agreement for a certain period of time. This type of confusion can be relevant, for example, in cases where the third party uses the mark (without authorization) for ornamental purposes on goods. However, unlike confusion as to source or affiliation, this third type of confusion has not the same status as other fully established grounds for relief under statutory trademark laws, as its exact boundaries are still developing.

2.787 This concept of confusion may be relevant to so-called "publicity" rights, relating to well-known artists and media or sports personalities, and to "merchandising" rights, relating to fictional characters in literary or artistic works. These rights concern relatively new marketing techniques whereby enterprises are "licensed", for a certain period of time, to make use of the popularity or fame symbolized by the names or likenesses of certain personalities or characters, as this use is expected to stimulate consumer demand for the product or service of the "licensee." Consumers would generally be misled by the use of the name or likeness of the personality or character in connection with the product or service into believing that the personality or the owner of rights in the character, which could also be a registered mark, had expressly authorized the use of their personality or character.

Confusion with Respect to Indications

2.788 An indication can be any sign, symbol or device that conveys to the consumer the message that a product or service on the market comes from a particular commercial source, even if this source is not known by its name. Indications may therefore consist of two-dimensional or three-dimensional signs, labels, slogans, packaging, colors or tunes, but are not limited to these. Protection against confusion with respect to indications is already available under specific legislation on trademarks, service marks and trade names. However, this protection is often limited in several ways. The limitations may concern the applicability of the specific law to certain types of indication, or the exact scope of protection. Thus protection against confusion under unfair competition law may still be relevant where the specific legislation does not afford overall protection against

confusion. This aspect is also relevant to the protection of well-known marks against confusion, as required by Article 6*bis* of the Paris Convention.

2.789 The general applicability of trademark law is usually confined to particular indications. Some countries do not, for example, recognize titles of single literary works or films, get-up (product appearances), shop interiors, colors or color combinations, or trade dress under statutory trademark law. As regards service marks, although most countries have a system for the registration of such marks in the same way as trademarks, in those that do not, protection under the rules of prevention of unfair competition is needed. Also, even in countries where three-dimensional trademarks are recognized and registrable, particular shapes may nevertheless be excluded. For example, shapes determined solely by the nature of the goods, appearances resulting from some technical or industrial function of the goods and product configurations determining the essential value of the goods are expressly excluded by the EC Directive to Approximate the Laws Relating to Trade Marks. The “functionality” doctrine, particularly developed in the United States of America, produces similar results.

2.790 Apart from this, protection under trademark law can sometimes be invoked only for marks that have been properly registered in the country where protection is sought. In this respect Article 6*bis* of the Paris Convention constitutes an exception in favor of a well-known mark, which does not need to be registered in order to be protected against the potentially confusing use of a mark that is a reproduction or an imitation of the well-known mark and is used for identical or similar articles. It is to be noted that a trademark may be well-known in a country before it is registered or even used in that country, as a result of the advertising or reputation of the mark in other countries. The obligation to protect unregistered well-known marks is clarified and supplemented in the Joint Recommendation Concerning Provisions on the Protection of Well-Known Marks adopted by the WIPO General Assembly and the Assembly of the Paris Union in September 1999.

2.791 Unfair competition law may provide protection against confusion for indications or signs that are not protectable under trademark law. However, the availability of protection for a sign under unfair competition law will depend partly on the reasons for the lack of protection for unregistered signs under the special laws. If a sign can in principle be covered by the specific legislation but does not meet the substantive requirements of that legislation, it would not seem consistent with a balanced system of protection to grant that sign the same protection under unfair competition law as would be granted to it under the special law. It is therefore argued that protection against confusion should only be available under unfair competition law if the indication or sign to be protected has sufficient distinctiveness to distinguish the products, services or other business activities concerned from the same or similar activities of other traders. Nevertheless, in order to promote the registration of marks, some unfair competition laws require more than just a minimum degree of distinctiveness for the protection of unregistered indications. For example, Article 2(1) of the Unfair Competition Prevention Law of the Republic of Korea requires the indication to be “widely known”, which could in some cases restrict actual protection to one particular region.

2.792 The degree of distinctiveness of an indication that is not protected under statutory trademark law is assessed in relation to the same factors as apply to registered marks, including the meaning and the appearance of the indication, and its uniqueness compared with other indications for the same or a similar activity. Even if distinctiveness is inherently lacking, for example, owing to the descriptive nature of the indication for particular goods or services, the indication can be protected if it has acquired “distinctiveness by use”, or secondary meaning, in the country where protection is sought. Secondary meaning implies that, as a result of continuous and exclusive use of the mark on the market, a substantial number of consumers have become aware of it and will

associate the activity carried on under it with a particular commercial source. In Germany, for example, the trademark "4711" for perfume has been considered sufficiently distinctive as a result of public awareness that the goods under that mark come from a particular source. In fact the degree of secondary meaning depends on the market for the goods or services involved and the degree of descriptiveness of the indication in relation to those goods or services. The degree of secondary meaning (or percentage of consumers) necessary to achieve sufficient distinctiveness varies according to the practices of the court concerned. In some countries, opinion polls or market surveys on consumer reactions often provide empirical data with which to determine the degree of secondary meaning, whereas in other countries the courts themselves will judge whether an indication has acquired sufficient distinctiveness.

2.793 Secondary meaning analysis also applies to indications that have been expressly excluded from statutory trademark protection. For example, the configurations or shapes of goods that are deemed to be excluded from statutory protection under trademark law by the EC Directive to Approximate Laws Relating to Trade Marks may still acquire secondary meaning among consumers in a particular market. Under those circumstances, protection against confusion is justified if consumers could be led to believe mistakenly that other goods using the configuration come from the first user. It may not always be easy, however, to establish the necessary degree of secondary meaning, since the particular configuration of the goods must be recognized by the relevant consumers as indicating a particular source. If the exclusion in the specific legislation is clearly intended to dismiss the indication as not worth protecting at all, for example, in the case of purely descriptive words, protection is likely to be denied also under unfair competition law.

2.794 Limitations on the scope of protection afforded by trademark law may also have the effect of allowing indications to be protected against confusion under unfair competition law. Although trademark laws usually grant protection against any potentially confusing use of a registered trademark, there may still be differences with respect to the exact scope of the protection against confusion. For example, protection against the use of the same or a similar mark might be restricted to those goods or services for which the mark is registered. If a mark identical or similar to the registered trademark is used for other goods or services and that use is likely to cause confusion, such protection might only be available under unfair competition law or passing-off principles. Generally, trademarks are protected against the use of identical or similar signs not only in respect of identical goods or services but also in respect of similar goods or services. This type of protection derives from what is sometimes called the "principle of speciality", as the protection is related to the trademark's primary function of distinguishing the goods of one enterprise from those of competitors and other market participants. Thus if trademark protection is not available because the goods or services involved are held to be dissimilar (although confusion as to source may in fact be possible), protection against confusion can be sought under unfair competition law. However, there are also trademark laws that consider the likelihood of confusion to be the sole criterion for protection, regarding the similarity of the goods or services involved as not decisive in itself, but only as one of several determining factors. This kind of statutory protection would encompass all types of confusion.

2.795 The criteria used to judge the similarity of indications are, with some minor differences, the same throughout the world. The determining factors include the common elements of appearance, pronunciation and meaning or verbal translation of the marks involved, but the decisive factor is the overall impression on the average consumer of the goods or services involved. Particularly if the goods are for mass consumption, the individual elements of the marks involved are less carefully examined by the average consumer. Since the two marks are as a rule not closely examined side by side, in practice the similarities between the indications are more important than the differences. The similarity of the goods or services depends largely on the question whether consumers would

generally expect the goods or services to originate from the same source. However, they do not need to be either functionally interchangeable or competitive.

2.796 Protection against confusion may be too limited for so-called “well-known” marks and, in particular, for marks with an even higher reputation. Article 6*bis* of the Paris Convention requires member States to protect trademarks that are well known in their country against any potentially confusing use of similar trademarks, but that obligation is only relevant for identical or similar goods. In certain cases, the unauthorized use of well-known marks for different goods or services may nevertheless cause confusion among consumers. For example, if the mark has been used for a broad range of products and has been extensively advertised or is well known for the particular “image” of its proprietor, consumers might associate such a mark with a certain origin and quality consistency rather than with goods or services of a specific kind. Such associations can also cause confusion. The member States are not obliged under Article 6*bis* to grant this extended protection, but unfair competition law may be relevant. The question whether a trademark is “well-known” in a given country for the purposes of Article 6*bis* of the Paris Convention has to be decided in each case on the basis of the facts. Usually, the factual determination of the notoriety of a trademark is based on its reputation and image in the mind of the trade circles and consumer groups concerned at the place and time relevant in the particular case. Factors such as the mark’s inherent distinguishing power, the length of time that it has been used in the given country, the amount of advertising and other publicity given to it in various media and its established association with particular goods or services are often taken into consideration. The Joint Recommendation Concerning Provisions on the Protection of Well-Known Marks obliges member States to protect well-known marks even beyond confusion under certain circumstances. According to Article 4(1)(b) of the Joint Recommendation a well-known mark has to be protected against the use of an identical or similar mark for dissimilar goods or services if such use:

- would indicate a connection between these goods or services and the owner of the mark and would be likely to damage his interests;
- is likely to impair or dilute in an unfair manner the distinctive character of the well-known mark; or
- would take unfair advantage of the distinctive character of the well-known mark;
- in the two last-mentioned cases, Member States may require that the well-known mark be well known by the public at large (Article 4(1)(c) of the Joint Recommendation).

2.797 Statutory trademark law frequently requires that the use of a similar mark must be a form of trademark use, that is, use as an indication of the commercial source of the products or services. Thus ornamental use, such as use on advertising material or as a mere decoration on goods, for instance on ballpoint pens or ashtrays, or even as the configuration of an actual product such as an earring in the shape of the mark, is not always regarded as falling within the scope of statutory trademark protection. Protection against this type of use could, however, be sought under unfair competition law. One example of a trademark law that is very extensive in the above respects is the Uniform Benelux Trademark Law of 1971, which provides a broad definition of registrable marks and protection against any use of an identical or similar trademark by others without proper justification that is likely to cause prejudice to the trademark proprietor.

2.798 Similar limitations on protection against the unauthorized use of traders’ or businesses’ indications are to be found in the protection of trade names. Trade names serve to identify and to distinguish an enterprise and its business activities from those of other enterprises. Article 8 of the Paris Convention imposes the obligation to protect trade names in all countries of the Paris Union,

without specifying what kind of protection should be granted or how it should be given. Nevertheless, trade names must be protected without any obligation of filing or registration. Most countries already protect trade names against the risk of confusion. This protection applies not only where trade names are covered by a special law, but also where they are protected under special provisions of unfair competition law, civil law, company law or commercial law. As a general rule, a direct competitive relationship between the enterprises concerned is not decisive, but remains relevant in determining whether the use of the same or similar trade names might confuse consumers regarding the identity of enterprises or the relationship between them. The protection may extend beyond the particular field in which the prior trade name is used, as trade practice or the likelihood of expansion and diversification of the activities of the enterprise is frequently taken into account by the courts. Thus the scope of protection of trade names against confusion may sometimes be a little wider than the scope of protection of trademarks under trademark law.

Confusion with Respect to Product Shapes

2.799 The actual shape of a product could also lead to confusion among consumers. If the shape is so well known that consumers will relate the product with a particular commercial source (as in the case of the "Coca-Cola" bottle), then the shape can be regarded as a protectable indication.

2.800 It must also be noted that specific legislation is available in many countries for the protection of industrial designs, either to complement or to replace copyright protection for works of so-called "applied art." Such legislation usually prohibits the use of identical or similar product appearances for identical or similar goods. However, as with trademark legislation, protection under special laws on industrial designs is also limited in several ways, which vary significantly from country to country. In a manner similar to the specific protection under trademark laws, such limitations may concern the general applicability of the designs law to certain product appearances and also the exact scope of the protection granted by the specific legislation. For example, if the design protection of a surface decoration is limited to the use of the decoration on products for which the design is registered, protection against copying of the design for the decoration of other products may be obtained under unfair competition law, if the copied design is misleading or causes confusion as to the commercial source.

2.801 For protection against confusion concerning the products only, most requirements under unfair competition law are established by case law, frequently with reference to the practice of "slavish imitation." Within this particular field of unfair competition law, it has often been stated that, as a principle inherent in the free market system, market participants are free to imitate designs or other shapes, appearances or visual characteristics of products that are not protected by specific laws such as patent, copyright, design or possibly trademark laws. Some of those specific laws even expressly preclude protection under unfair competition law for acts that are covered by the specific legislation if the design involved could be protected under that legislation. For example, Article 14(5) of the Uniform Benelux Designs Law of 1975 precludes actions to protect registrable designs under unfair competition law if protection could have been granted had the design been properly registered. Therefore, the mere risk of confusion as to the shape of the products will be insufficient to constitute unfair competition if the design would have been protectable under a specific law and product imitation would have been covered by that specific legislation. On the other hand, the risk of confusion as to the products may be sufficient to obtain protection under unfair competition if the design involved reveals a certain degree of originality but cannot be registered as a design owing to other requirements of the specific legislation, or if registration has been applied for but not yet secured.

2.802 If the design, shape or other characteristic non-functional features of the product are associated to a substantial degree by consumers with a certain source or origin, potential confusion

as to the source of the product will usually constitute an act of unfair competition. Whether such potential confusion occurs in cases of imitation will be determined by the same factors as outlined above with respect to indications, that is, after examination of the question whether the characteristic features of a product have acquired a sufficient degree of secondary meaning, and the product designs involved will be judged on their similarities. In some countries it is accepted that the risk of confusion as to source can be reduced by the use of disclaimers, like a clearly visible statement ruling out the possible assumption that the product or service comes from a particular source. However, such disclaimers are only seldom recognized as sufficiently reducing the risk of confusion.

2.803 Protection against confusion as to the commercial source of a product may also be available under specific trademark law if the applicable trademark legislation provides for the protection of three-dimensional marks or the “get-up” of products. However, if the product’s appearance is not registered as a trademark, or if particular forms are possibly excluded from statutory trademark protection, the same principles as outlined above will apply to the protection against confusion between product shapes under unfair competition law.

Misleading

General

2.804 Misleading can roughly be defined as creating a false impression of a competitor’s own products or services. It may well be the single most prevalent form of unfair competition, and it is by no means harmless. On the contrary, misleading can have quite serious consequences: the consumer, relying on incorrect information, may suffer financial (or more harmful) prejudice. The honest competitor loses clients. The transparency of the market diminishes, with adverse consequences for the economy as a whole and economic welfare.

2.805 Since truthfulness is rightly considered to be one of the main principles of honest trade practice, it is generally agreed that the prohibition of deception is essential to the concept of fairness in competition. Or, as Article 10*bis*(3) of the Paris Convention states, any indication or allegation that is likely to mislead, has “in particular” to be regarded as being contrary to honest practice.

2.806 Consequently, most member States of the Paris Union have included the prohibition of misleading acts or practices in their legal systems (or have even passed specific laws on the subject). In addition, the courts have developed a particularly abundant case law on misleading. Even in countries where in the past protection against deception has been less strong than in others, recent developments indicate a move towards greater strictness. In the search for effective legal solutions, however, countries have chosen quite divergent methods. A significant factor of this divergence is that misleading acts are primarily directed to the consumer and not directly to competitors. Where consumer protection is primarily looked upon as a matter of criminal law, enforcement is left to the State enforcement authorities. However, most of the countries that have specific legislation on unfair competition have included a provision against deception into the relevant laws, thus adopting a civil law approach.

2.807 While, on the whole, the regulation of misleading makes a many-faceted picture, most countries share the distinction between “normal” misleading, which may be done in good faith, and special cases of misleading, which may have particularly severe consequences. For the most serious cases of misleading, such as malicious misleading or deception in the health and drug field, several countries have introduced criminal sanctions in addition to civil law remedies. Moreover, special cases of potential deception such as bonuses, gifts, clearance sales and travelling sales are

often regulated in detail. Even tighter restrictions are frequently imposed by self-regulatory institutions, which in some countries have reached a particularly advanced state of development as regards protection against misleading.

2.808 In some countries the existing protection against misleading practices is to some extent a result of international harmonization. Because of the internationalization of commerce and communication media such as television, misleading acts and practices, especially in advertising, seldom stop at the border of a given country. Different national laws not only result in different and thus at least to some extent inadequate levels of consumer protection, but also affect the free circulation of goods and services. Countries that are economically bound in a common market have a particular need for harmonization of diverging national laws on misleading. Thus the European Community issued a Directive on Misleading Advertising in 1984 in order to set up a minimum objective criterion for determining whether advertising is misleading. A certain degree of harmonization has also been reached among the Nordic and the African countries.

The Concept of Misleading

2.809 There is a consensus according to which the concept of misleading is restricted neither to inherently false statements nor to statements that have actually led to a false impression on the part of the consumer. Instead it is considered sufficient (as it is by Article 10bis(3)3 of the Paris Convention) that the indications in question are likely to have a misleading effect. Even statements that are literally correct can be deceptive. If, for example, chemical ingredients are generally forbidden in bread, the courts of most countries would consider an advertising claim that a certain bread "was without chemical ingredients" to be deceptive, because, though literally true, it gives the misleading impression that the advertised fact is something out of the ordinary.

2.810 It is likewise not necessary for the product in question to be inferior, in an objective sense, so long as the indication or allegation has some enticing effect on the consumer. For example, if the public prefers domestic goods to foreign goods, a false declaration to the effect that imported goods are domestic is misleading even if the imported goods are of superior quality.

2.811 It is generally agreed that the question whether or not there is deception must be determined by the reaction of the addressee to the statement and not by the intention of its maker. However, the actual determination and evaluation of this reaction may differ from country to country and may also depend on the kind of addressee (consumers or traders) and the type of goods or services. The Paris Convention leaves this question to member States, as does the EC Directive on Misleading Advertising. The different opinions as to what standards have to be applied are the result of different answers to the following questions:

- Is the prohibition of misleading meant to protect the average or (also) the less educated, less critical consumer?
- How is the public reaction determined? Empirically or by an overall estimation by the judge himself?
- How many of the addressees must be likely to be misled for a statement to be considered misleading?

2.812 In a number of countries the relevant standards are set on the basis of the notion of the average consumer. Where the courts base their assessments on the judges' own experience, there is a tendency to assume that the average consumer is generally well informed and intelligent enough to be immunized against most of the dangers of deception. In those countries the

threshold is also considerably higher. Although it is frequently stressed that it is sufficient if a “not unsubstantial proportion of the addressees” are likely to be misled, the tendency is to favor an average deception rate.

2.813 However, in Germany the emphasis is clearly on the less educated, less critically prepared consumer, who is easily influenced by false statements. Misleading is frequently proven by empirical methods, mainly consumer surveys, and the interference threshold is set very low, at 10 to 15 percent of the consumers.

The Communication of Misleading Statements

2.814 Since the main area of misleading in commerce is to be found in advertising, most countries with special legislation have focused on misleading advertising. Other countries have chosen, as Article 10bis(3) of the Paris Convention has, the broader notion of “indication or allegation.” In countries that have a general provision on unfair competition this difference is minimal, however, since there is basic agreement that deceptions other than those in advertising are irreconcilable with “honest trade practice” and can therefore be judged under the general provision.

2.815 It is further agreed that the exact way in which the allegation, indication or presentation is made is immaterial. So is the form of the message. All methods of communication—written, oral or even symbolic—have to be taken into account. Communications may be in the form of trademarks, labels, brochures, radio commercials, television publicity spots, posters and so on. In general, misleading is concerned only with the effect a statement has on the addressee and not with the way in which the statement is communicated.

2.816 The communication need not contain “information” in a neutral, objective sense in order to be considered under the heading of misleading practices. On the other hand, the concept of misleading is restricted to those indications that might cause misconceptions on the part of the consumer. The allegation, indication or presentation must therefore be able to create some sort of concrete impression which can be shown to be true or untrue. “Unobjective” or suggestive advertising which does no more than create vague positive feelings about a product is therefore outside the scope of misleading. If in some countries certain kinds of suggestion are forbidden, this is not done under the provisions on misleading, but rather under the general provision concerning honest trade practices.

2.817 A misleading communication does not necessarily have to be a positive one: a half-truth is always also a half-lie. For example, if it is claimed that a particular slice of bread has fewer calories than others, while this is solely due to the fact that it is thinner, the omission of this information can create as strong an incorrect impression as an express statement would have done. Consequently, some countries have expressly mentioned the omission of relevant facts in their lists of misleading practices, or alternatively the courts have recognized that such omission can be a misleading practice. An omission cannot always be equated with a positive statement, however. Since no businessman has the general duty to reveal adverse features of the product that he is offering, there can only be deception if the public, in the absence of express information, expects a certain characteristic to be present.

Exaggerations

2.818 The consequences of the different concepts of misleading can best be seen in the treatment of exaggerations. Although in all countries obvious exaggerations (even if literally inaccurate) are not considered deceptive because they can easily be recognized as “sales talk”, the question of what is mere “hot air” or “puffing” and what is to be taken seriously is answered differently in

different countries. In some countries (such as Germany), it is assumed that the public basically believes all advertising statements, and especially those that claim uniqueness ("the best, the first", etc.); consequently a specially strict standard is applied. Other countries (such as Italy and the United States of America) take the exact opposite position and tolerate generally formulated indications, in particular those in the form of claims of uniqueness. Thus in the United States of America the courts have generally only intervened if the product advertised as the best is in reality inferior.

The Subject Matter of Misleading

2.819 Deceptive statements can be made on all relevant aspects of business matters. However, in principle, the prohibition of deception should be broad enough to cover those new forms of misleading that the legislator has not thought of. On the other hand, a statutory provision must give guidance to the courts. In countries with a predominantly civil law approach, this is often achieved by expressly naming those forms that "in particular" must be regarded as misleading, leaving the courts free to take other forms of deception into account. Usually at least the examples given in Article 10bis(3)3 of the Paris Convention are included, namely, "the nature, the manufacturing process, the characteristics, the suitability for their purpose, or the quantity, of the goods." Often services and indications of geographical origin are also included. Recent legislation on unfair competition also mentions some "modern" examples of misleading. The Greek Decree on Misleading Advertising, for example, expressly refers to misleading statements in the endorsement of products or the passing-off of an advertisement as a press article. The same applies in Belgium. In Hungary, any misleading references to the environment, among other things, are expressly forbidden. Still other countries (and the EC Directive on Misleading Advertising) prohibit any deception with respect to the identity of the advertiser. This is interesting inasmuch as there seems to be basic agreement that these specific errors of identity (while they do, of course, involve deception) are rather dealt with under the heading of confusion (or passing-off), which is largely covered by specific laws on trademarks and trade names. However, the express inclusion of errors as to commercial origin under the heading of deception is significant in that the special procedure provisions of unfair competition law may be applied. For example, consumer associations may bring an action in a case of misleading involving trademarks, whereas trademark law itself would restrict the right of action to the trademark owner.

2.820 A list of examples of misleading practices supplemented with a general provision is only possible, however, if the sanctions against misleading are predominantly those of civil law. Criminal law usually requires a relatively narrowly worded, enumerative prohibition, although in practice this difference is mitigated by the fact that usually the list of expressly named practices is fairly comprehensive.

Subjective Requirements

2.821 Even the most careful businessman can issue a statement that the public misunderstands in a way not foreseen by him. Misleading statements, especially in advertising, are therefore not always made in bad faith. On the other hand, even in the absence of any fault on the part of the advertiser, deception in competition has to be stopped in the interest of the consumer and of other competitors. The EC Directive on Misleading Advertising, for example, obliges member States to ensure the cessation of misleading "even without proof of actual loss or damage or of intention or negligence on the part of the advertiser." Countries that favor a civil law approach in the repression of unfair competition usually have few problems in doing so, but where the law against misleading conduct is essentially part of criminal law, at least in theory some subjective element is required. Because of the difficulty of furnishing such evidence, this "subjective" concept has proved a hindrance. Thus, in practice, the courts have gradually reduced the requirement of intent. This

can best be seen in France, where the (criminal) prohibition of misleading advertising in Article 44 of the “Loi Royer” in theory still requires “bad faith”, but where the courts have first reduced this requirement to mere knowledge of facts, and have later even assumed such knowledge.

2.822 This primarily objective approach to the repression of misleading statements is, of course, restricted to a cease-and-desist action (and possibly to the remedy of publication). In all countries, an action for damages will only be successful if there is at least negligence. Intent, or even malicious behavior, is required in cases that can be described as real criminal offenses, for example in the food and drug field.

Burden of Proof

2.823 The question of who has to furnish evidence of the accuracy of a statement or the likelihood of deception can be of paramount importance in misleading advertising cases. According to general principles of procedural law in most countries, it is the plaintiff (or the public prosecutor or administrative authority) who bears the burden of proof. In the field of misleading, especially misleading advertising, however, some exceptions to this rule are made. The EC Directive on Misleading Advertising, for example, obliges member States to require the advertiser to furnish evidence of the accuracy of factual claims if “such a requirement appears appropriate on the basis of the circumstances of the particular case.” Some countries have gone even further by implementing a general reversal of the burden of proof or by placing the advertiser under the obligation to “reasonably substantiate” all advertising claims.

Discrediting Competitors

General

2.824 Discrediting (or disparagement) is usually defined as any false allegation concerning a competitor that is likely to harm his commercial goodwill. Like misleading, discrediting tries to entice customers with incorrect information. Unlike misleading, however, this is not done by false or deceptive statements about one’s own product, but rather by casting untruthful aspersions on a competitor, his products or his services. Discrediting, therefore, always involves a direct attack on a particular businessman or a particular category of businessmen, but its consequences go beyond that aim: since the information on the competitor or his products is incorrect, the consumer is liable to suffer also.

2.825 Article 10*bis*(3)2 of the Paris Convention obliges member States to prohibit all “false allegations in the course of trade of such a nature as to discredit the establishment, the goods, or the industrial or commercial activities, of a competitor.” A similar provision can be found in most national laws on unfair competition. But even without such an express prohibition, it is generally agreed that discrediting is irreconcilable with the notion of “fairness” in competition. Where unfair competition law has been developed on the basis of general tort provisions, it is considered one of the “classical” forms of unfair competition. In all common law countries a (common law) tort of disparagement or discrediting is recognized; additionally some of those countries have recently granted statutory relief. Since it is primarily the individual businessman who suffers from disparaging remarks, civil law sanctions (injunctive relief or damages) are preferred. However, in the most serious cases, especially those involving intentional or malicious defamation, criminal sanctions are also provided, often under the general criminal code.

Reference to an Individual Competitor

2.826 As mentioned above, it is in the very nature of discrediting to be directed against a particular businessman or a particular category of businessmen. The target need not necessarily be named, however: easy identification by the addressee of the statement is sufficient. This can be achieved by references like "a certain enterprise in X" or may even be the result of a special market situation, for example if there is only one relevant competitor.

2.827 Frequently, the person attacked will be a competitor. As in Article 10bis(3)2 of the Paris Convention, most countries restrict unfair competition law protection against disparagement to cases where there is at least some sort of competitive relationship between the plaintiff and the defendant. In some countries, however, the requirement of a competitive relationship has been totally abandoned, and this has led to a considerably broader concept of discrediting: not only competitors but also consumer associations or the media can be held liable under unfair competition law if they make derogatory statements about an individual businessman.

The Subject Matter of the Attack

2.828 As to the subject matter of the attack, Article 10bis(3)2 of the Paris Convention names the establishment, the goods and the industrial or commercial activities (of a competitor). However, any kind of disparaging remark that is likely to harm the goodwill of an entrepreneur should be forbidden. The way in which the harm is done should be irrelevant. Harm to a business reputation can be caused by all forms of reference to the enterprise or to its goods, prices, employees, credit rating, qualifications and so on. It can also be caused by references to an entrepreneur's personal status, for example, his race, his nationality, his religion or his political position. These so-called "personal references" which have nothing to do with commercial activities are in some countries expressly forbidden as disparaging; in others they are considered illegal under the general provisions on protection against unfair competition.

Intent or Actual Damage

2.829 References to a competitor that affect his commercial goodwill can be made in good faith, for example if the maker of the statement believes it to be true. Effective protection against discrediting is therefore typically independent of any proof of actual damage or intent. In some countries (such as the United States of America), however, the common law tort of disparagement in theory requires proof of malice and damage. Although the courts in the United States of America have gradually eased that requirement, the concept still has proved to be too narrow, and that has led to the enactment of legislative provisions for the grant of statutory relief against disparagement without any evidence of damage or intent (see Section 43(a) of the Lanham Act).

Statements of Fact

2.830 Opinions differ on whether discrediting should be restricted to statements of fact. In some countries, the statutory notion of discrediting is broad enough to cover also statements of opinion. In other countries, it has at least been recognized by the courts that such statements are within the scope of the general provision against dishonest trade practices. In still other countries, disparagement is concerned mainly with statements of fact.

False Statements

2.831 The question whether statements of opinion can be discrediting has to be considered in connection with another question, namely, whether protection should be extended to the case of

accurate statements. Article 10*bis*(3)2 of the Paris Convention speaks of false allegations. Many countries go further, however, recognizing that true, but nevertheless discrediting remarks are either directly within the scope of the express prohibition of discrediting, or at least a violation of the general provisions on honest trade practices. Thus, a literally truthful remark about a competitor may be considered unfair competition if the “attack” is blown up out of proportion, or if the words used are needlessly injurious. On the other hand, some countries expressly restrict the notion of discrediting to inaccurate or at least misleading statements. In the United States of America, for example, true but nevertheless disparaging statements are neither within the scope of the common law tort of disparagement nor within that of the statutory relief granted by Section 43(a) of the Lanham Act or—at State level—the statutes on business practices.

2.832 An explanation of this difference in attitudes can be found in the diverging assessment of “commercial honor.” Where unfair competition law has its roots in the protection of the commercial reputation of the individual businessman—as it does in the continental European countries—a “special tort of business disparagement” has emerged, to which, in principle, much stricter rules apply than to defamatory statements outside the bounds of competition, where constitutional considerations such as freedom of speech have to be taken into account. In other countries, especially those that have not developed a comprehensive system of protection against unfair competition, the attitude is exactly the opposite: it is assumed that, in the interest of competition, attacks on individual competitors are unavoidable, that they must be widely tolerated and that a line should only be drawn where the attack is based on false facts. In those countries, the plaintiff usually also bears the burden of proof as to the falseness of the statement—which can sometimes make an action impossible.

Violation of Trade Secrets

General

2.833 Competitive strength usually depends on innovative techniques and accompanying know-how in the industrial and/or commercial field. However, such techniques and know-how are not always protectable by patent law. Firstly, patents are available only for inventions in the field of technology and not for innovative achievements concerning the conduct of business, etc. Moreover, some technical discoveries or information, while providing a valuable commercial advantage for a particular trader, may lack the novelty or inventive step required to make them patentable. Furthermore, while a patent application is pending, as long as the information has not been disclosed to the public, the owner of the information to be patented ought to be protected against any wrongful disclosure of the information by others, regardless of whether or not the application eventually leads to the grant of a patent. Although the Paris Convention does not mention trade secrets as such, Article 10*bis* on unfair competition requires protection against any act of competition contrary to honest practices in industrial or commercial matters; the need for protection against wrongful disclosure of “undisclosed information” (another term for trade secrets) is generally recognized.

2.834 Trade secrets are protected against unauthorized use and disclosure by various statutory means. Some countries have special provisions for the protection of trade secrets either under specific legislation on unfair competition or as part of another law. Other countries treat trade secrets as an aspect of tort law. Still other countries have enacted criminal, administrative, commercial or civil law provisions prohibiting the unauthorized use or disclosure of business secrets. The criminal provisions are less important in practice, however, since normally knowledge of the secrecy, as well as malicious or fraudulent intent, have to be proved. Yet if the disclosure of a trade secret constitutes a criminal offense, it will normally constitute an act of unfair competition as well. Furthermore, since employees, consultants, independent contractors and joint venturers are often

privity to trade secrets, several aspects of civil law concerning employment contracts and general contract law are also relevant, depending on the circumstances of the case. Finally, it is not unusual to have combinations of the above means available. For example, violation of trade secrets could result in unfair competition or tort liability, as well as in criminal sanctions. On the other hand, in situations where non-competitors have intimidated or influenced agents or employees, or have otherwise induced them or other persons bound to secrecy to disclose the secret information, only civil tort law might be applicable.

What Information can be a Trade Secret?

2.835 Although a legal definition of a trade secret rarely exists, several countries (following the example of France) differentiate between manufacturing (or industrial) secrets and commercial secrets, which could have consequences for the applicability of criminal law. The first category of trade secrets is related to information of purely technical character, like production methods, chemical formulae, blueprints or prototypes. Such information could constitute a patentable invention but, generally, patentability of the information in question, in particular novelty in a patent law sense, is not required for the secret to be protectable. Commercial secrets include sales methods, distribution methods, contract forms, business schedules, details of price agreements, consumer profiles, advertising strategies and lists of suppliers or clients. Usually, the subject matter of trade secrets is rather broadly defined, and the final determination of what information can be a trade secret will depend on the specific circumstances of each individual case. For example, in the Unfair Competition Prevention Act of Japan, a trade secret is defined as any information relating to a production method, a sales method or any other information on technology or business that is unknown to the public. A similar definition is contained in the Uniform Trade Secrets Act of the United States of America.

2.836 There are several lines of inquiry that serve to determine what information constitutes a trade secret: the extent to which the information is known to the public or within a particular trade or industry, the amount of effort and money expended by the trader in developing the secret information, the value of that information to the trader and to his competitors, the extent of measures taken by the trader to guard the secrecy of the information and the ease or difficulty with which the information could be properly acquired by others. From a subjective point of view, the trader involved must have a considerable interest in keeping certain information as a trade secret. Although contractual obligations are not necessary, the trader must have shown the intention to have the information treated as a secret. Frequently, specific measures to maintain the secrecy of the particular information are also required. The fact that the information has been supplied confidentially will not always be sufficient. In some countries (for example, the United States of America and Japan), the efforts made by the owner of the information to keep it secret are considered by courts to be of primary importance in determining whether the information constitutes a trade secret at all.

2.837 From an objective point of view, the information must, in order to qualify as a trade secret, be known to a limited group of persons only, that is, it must not be generally known to experts or to competitors in the field. Even patent applications may be regarded as trade secrets as long as they are not published by the patent office. Therefore, external publications or other information that is readily available will not be considered secret. For example, the use or disclosure of a trade secret by a person who has acquired it in a legitimate business transaction and without any negligence is not deemed unfair. On the other hand, absolute secrecy is not a requirement, for the information might also be discovered independently by others. Also, business partners can be informed without loss of secrecy if it is obvious that the information has to remain secret. Factors that indicate whether the information has the necessary degree of confidentiality to constitute a protectable trade secret are whether it contains material that is not confidential if looked at in

isolation, whether it has necessarily to be acquired by employees if they are to work efficiently and whether it is restricted to senior management or is also known at the junior level. Still, the most solid proof is the strict confidentiality of the information and the contractual duty to keep it secret.

Use and Disclosure by (Former) Employees

2.838 Even in countries where specific provisions on wrongful or unfair disclosure apply, employment contracts may serve to reinforce and supplement the protection afforded to trade secrets under the law of unfair competition or tort law. It is generally accepted that employees have a basic right to use and exploit, for the purpose of earning their living, all skills, experience and knowledge that they may have acquired in the course of previous periods of employment, even with the help of trade secrets. Yet, an employee does have the duty, during the period of employment, to act with good faith towards his employer and, after the employment has come to an end, not to use or disclose any confidential information about his employer's affairs that may have come to his notice during his employment. In some cases the use or disclosure of information will constitute a breach of the employment contract by the (former) employee if the information in question must remain secret. However, the distinction between using the skills, knowledge and experience legitimately acquired during employment and the prohibition on the use or disclosure of the former employer's industrial or commercial secrets is often difficult to make. Clearly, in cases where the behavior of the employee is equivalent to theft, embezzlement, industrial espionage or conspiracy with a competitor, a willful breach of confidence will be presumed.

2.839 Frequently, employment contracts incorporate specific provisions prohibiting the disclosure of business or trade secrets, but such provisions, like undertakings not to compete, must not be so restrictive of the professional abilities of the employee in the future that they constitute an undue restraint of trade. Criminal law, as well as civil and labor law, could create relevant duties in employment relations: for example, it can prohibit disclosure of secret information by employees. Such provisions may be very important in situations where the employee is not bound by contractual clauses, or where the use of such information by former employees is not related to a competitive action. If the former employee can be regarded as a competitor of the former employer, for example if he has set up a company on his own in the same sector, a breach of confidence by the former employee will normally be an act of unfair competition. For example, the inducement of customers of the former employer to become clients of the employee in his new position will probably be deemed unfair, particularly if the employee misuses lists of customers or internal business details in order to make better offers. However, there can also be wrongful misuse of confidential information if special knowledge of the employer's activities in relation to clients' affairs is made use of to persuade those clients to transfer their business to another.

Use and Disclosure by Competitors

2.840 Competitors are usually very interested in acquiring the trade secrets of others. However, as trade secrets themselves are not fully equivalent to exclusive rights under industrial property law, the determination of the unfairness of competitors who use or disclose the trade secrets of others is based on the means of acquiring the information. For example, it is expressly stated in the Unfair Competition Prevention Law of Japan that the rules concerning the protection of trade secrets will not apply where a trade secret is obtained in the course of a legitimate trade activity, provided that the person obtaining the secret did not use dishonest means to do so, or did not negligently disregard the dishonesty of such means. Thus competitors who have not used any influence to bring about the disclosure of the secret information, but have merely taken advantage of the breach of contract of a former employee or partner of the competitor, will seldom be held liable. The competitor's awareness that the disclosure of the trade secret by the former employee or partner would be a breach of contract is regarded as a minimum level of intent for determining

liability. The Mexican law, for example, makes it an offense to use a trade secret which has been disclosed by a third party where the person to whom the secret was disclosed knew that the third party was not authorized to disclose the secret. In any case, competitors are not allowed to interfere recklessly with the contractual relations of others. For example, if a competitor has bribed or otherwise unlawfully persuaded a (former) employee to disclose a competitor's trade secret, he will be liable for unfair competition.

Taking Undue Advantage of Another's Achievement ("Free Riding")

General

2.841 In addition to the likelihood of confusion, there are other circumstances that may be held relevant under various doctrines with respect to the imitation of indications, products or other marketable creations. Such circumstances involve the act of taking undue advantage of, or free riding on, another person's achievement recognized by consumers and other market participants like dealers, traders and suppliers. Frequently such achievements concern a certain indication or product but they could also be of purely technical character.

2.842 Protection in such cases depends on a number of requirements which vary from country to country. The unfairness of the competitive act is regarded as resulting not only from the obvious exploitation of the notoriety of the indication, commercial success of the product or technical achievement of the competitor without any proper effort being made to depart substantially from the characteristic features of that particular achievement, but also from the risk of damage to the reputation of the existing business. As a minimum prerequisite, the indication or the product must have a certain distinctiveness (which may be of a level not sufficient for protection under specific legislation). As the scope of protection may depend on the degree of distinctiveness, completely banal indications or products will not usually qualify for protection against mere imitation.

2.843 From a purely systematic point of view, the notion of "free riding" has a number of common features with the notions of causing confusion and misleading. Free riding on another person's market achievements can be defined as any act that a competitor or another market participant undertakes with the intention of directly exploiting another person's industrial or commercial achievement for his own business purposes without substantially departing from the original achievement. In that sense, free riding is the broadest form of competition by imitation. Under the principles of a free market, however, the exploitation or "appropriation" of another person's achievements is unfair only under specific circumstances. On the other hand, acts that cause confusion or mislead normally imply free riding on another person's achievements, but are generally recognized as forms of free riding that are always unfair.

2.844 When assessing the availability of protection against unfair competition for market achievements of others in the absence of confusion, it has often been stated that the mere exploitation of another's achievement is consistent with the principles of a free market system. Thus protection under the rules concerning unfair competition cannot simply be regarded as an alternative route to the securing of protection which would be available without the obligation to comply with the various requirements of protection imposed by specific industrial property legislation. As a certain balance of interests on the relevant market has been achieved by adopting specific legislation on patents, industrial designs, trademarks and so on, that balance must also be taken into consideration in the application of unfair competition law. As a general rule, protection under unfair competition law will be denied if the achievement that has been copied or appropriated is covered by specific industrial property legislation and the type of protection sought by resorting to unfair competition law could have been obtained, at least for a certain period of time, under that specific legislation (principle of "preemption").

2.845 As indicated above, protection as such may be invoked if the subject matter of specific legislation does not cover the achievement involved, for example, if the law is not applicable to achievements made before a certain date, or if the protection granted by the special law is not broad enough to give the relief sought in the specific case. Some industrial property laws expressly provide that protection under unfair competition provisions may be invoked for achievements that are not protectable under the specific law. Some industrial property laws expressly exclude additional protection under unfair competition law for inventions, indications, signs or product shapes that are protectable under those laws. Still, it is not always clear what interests the legislation has in fact balanced by adopting the special law. Even legislative commentaries do not comprehensively clarify that question. Thus a common approach to the grant of protection against free riding under unfair competition law is to make such protection available only under specific circumstances, which must differ in some respects from the circumstances under which protection is granted by the specific legislation. The definition of those circumstances is often possible only under some sort of "catch-all" provision, and thus usually is established by case law. For the following types of free riding, specific circumstances resulting in an act of unfair competition are already recognized in many countries: dilution of the distinctive quality or advertising value of a mark, misappropriation of a reputation, slavish imitation and so-called "parasitic acts." These are dealt with in the following paragraphs.

Dilution of the Distinctive Quality or Advertising Value of a Mark

2.846 Generally, where the unauthorized use of a mark for different goods or services is not likely to cause confusion, there is neither trademark or service mark infringement nor an act of unfair competition. This follows from the "speciality principle" in trademark law, which is a consequence of the distinguishing function of trademarks and service marks. In some countries, however, such as Canada, the EC member States under the EC Directive to Approximate National Laws on Trade Marks and several States of the United States of America, marks that have acquired a certain renown are given additional protection against the so-called dilution of their distinctive quality or advertising value. The concept of "dilution" is understood as the watering down or gradual lessening of the ability of a mark to be immediately associated by consumers or the general public with a particular source. As some dilution can be regarded as being an inherent result of the use of identical or similar marks for totally different goods or services, the main rationale behind the notion of dilution is that marks that have acquired a certain renown should be protected against the obvious desire of other market participants to take advantage of the essential "uniqueness" of a mark. The likelihood of substantial damage to the proprietor of the mark is assumed from the fact that the mark may lose its established association with certain products. The required degree of renown of the mark involved is determined by the relevant public or consumer groups. If it is a trademark for goods that appeal only to a selected group of consumers, it will have a better chance of reaching the required degree of renown than if it is one for mass-consumption goods. However, the required degree may still vary considerably from country to country.

Exploitation of Another's Reputation

2.847 Another type of misappropriation that has been recognized in recent years as being contrary to honest business practice is that of unfairly taking advantage of the reputation or "prestige" of the market achievements of other industrial or commercial enterprises. This doctrine has been particularly relevant in the appropriation of well-known indications. For example, if the quality of the genuinely marked product or service has led consumers to associate the mark with a certain origin or consistency of product quality, its unauthorized use for other goods or services, while not causing confusion as to their source, might still be considered unfair appropriation of a reputation. The doctrine may equally apply to product appearances, but in such a case the appearance must be recognized as indicating a certain degree of quality, image or prestige. Countries have different

approaches to this kind of misappropriation, however. For example, whereas in France the appropriation of the prestige of another's mark or product is usually assumed to be unfair, in Spain that type of misappropriation is expressly prohibited without any further prerequisites in Article 12 of the Law Against Unfair Competition of 1991. In Germany it is required, for the appropriation by a third person to be allowed, that a secondary exploitation of the mark could not reasonably be expected. In the United States of America there is in principle no objection to appropriation unless a likelihood of confusion, for example as to "sponsorship", is established, for which purpose the prestige of the mark is taken into account.

2.848 Taking advantage of another's trademark or service mark may occur as a more or less veiled form of appropriation. For example, a competitor may use a generally similar, but noticeably different mark, nevertheless consciously drawing closely on the characteristic and well-known features of another's mark. Alternatively, he may use the mark in advertising his own trademarked goods with the aim of transferring the image of the well-known mark to his own goods, or again he may use another's mark with qualifying terms like "model", "type", "style", and so on; however, in some countries the term "suitable for" or other similar terms may be permissible in connection with spare parts and accessories. In this respect, it is not necessary that the market participant be a direct competitor of the proprietor of the mark, as long as there is a likelihood of damage to the exclusive image or reputation of the mark or the business involved.

Slavish Imitation

2.849 The concept of slavish imitation as a separate act of unfair competition has been developed in several countries of Europe. This kind of unfair free riding is usually regarded as an exception to the general rule of free appropriation in the area of products or indications that are not protectable or for which protection has lapsed under specific legislation, or where there is no likelihood of confusion as to the source of the products. In the absence of likelihood of confusion, the specific circumstances of the case must reveal some exceptional character for the act to be deemed unfair. Usually the unfairness is seen in the lack of research, investment, creativeness and expense on the part of the imitator, who has merely copied the achievement of another, despite the fact that alternative ways of competing effectively were available. The imitated products or indications would still have to possess a particular distinctiveness, which must not merely derive from technical features necessary for the product to function properly, but must concern aesthetic or decorative features that leave sufficient room for alternative shapes and designs.

2.850 Not all prerequisites of slavish imitation are equivalent in all countries, however. Apart from that, the qualifying circumstances may sometimes be combined with the concepts of dilution, misappropriation of reputation or "parasitic competition." Frequently, there has to be a marked contrast between the efforts made by the competitor to develop his achievement, to introduce it on the market and to win some success or recognition and the efforts made by the imitator to copy and exploit that achievement for the act to be deemed unfair.

2.851 Acts of slavish imitation should be distinguished from acts of so-called "reverse engineering." The latter is generally understood to consist in examining or analyzing, by taking apart or decomposing, a product or substance in order to understand its structure, composition or operation and find out how it was made or constructed, and subsequently producing an improved version of the product or substance. The practice of reverse engineering is commonly practiced in industry in connection with the products of competitors, with the purpose of learning the technology they embody, and eventually producing a competing (improved or different but equivalent) product. In fact, it is part of the normal exercise of competition in a free market environment which, in turn, is based on broader public policy considerations. The practice of reverse engineering is, therefore, not in and of itself unfair; nevertheless, the product or other

result obtained through reverse engineering may, under certain circumstances, constitute an infringement of an industrial property right. For example, if a product made after reverse engineering of a competitor's product falls under the claims of a valid patent (where appropriate, taking into account the doctrine of equivalence), that would constitute patent infringement. If a patent is not infringed, but the manner in which the original product was copied is found to be dishonest or unfair (regardless of whether reverse engineering took place), the relevant acts might still be actionable on grounds of unfair competition.

Parasitic Acts

2.852 Another variety of unfair free riding recognized in some countries is the concept of "parasitic acts." This concept has many features in common with the concept of slavish imitation. Here the mere imitation of the achievements of others is still considered inherent in a free market system, but exceptional circumstances may make the imitation unfair. For example, the imitation of one product which is not particularly new or original could possibly be allowed, but, as soon as the achievement involved is recognized as innovative or strongly appealing to consumers, the imitator has less reason to claim the fairness of his action. What tips the balance definitely against the imitator is his systematic and methodical appropriation of the characteristic achievements of one particular competitor in a routine manner. Moreover, circumstances relating to the *modus operandi* of a competitor may denote unfairness: for example, ordering samples from a competitor for the purpose of imitating his products more easily and systematically may be found to be unfair parasitic behavior. Some countries adopt a flexible approach in these cases, in particular, by adapting the scope of injunctions and also the time limits of protection to the particular circumstances. For example, the amortization of the innovation costs could be considered a relevant factor in determining whether or not a particular imitation is fair. As a result, protection could be restricted to identical imitations, and only for a period of time that is much shorter than under specific industrial property legislation. It is to be noted, however, that in some countries (for example, the United States of America) just copying the product of another person (even if done systematically, or in respect of one particular competitor) will not be recognized as unfair competition unless there is copying of non-functional features which are distinctive or have acquired secondary meaning.

Comparative Advertising

Definition

2.853 The different attitudes towards true but nevertheless discrediting statements can best be seen in the examination of comparative advertising. Comparative advertising may take two forms: a positive reference to another's product (claiming that one's own product is as good as the other) or a negative reference (claiming that one's own product is better than the other). In the first instance, where the competitor's product is usually well-known, the crucial question relates to the possibility of misappropriation of another's goodwill. In the second case, where the competitor's product is criticized, it is the question of disparagement that arises. However, both forms of comparison involve an (unauthorized) reference to a competitor, who is either mentioned by name or implicitly identifiable as such by the public.

The General Restrictions: "Misleading" and "Discrediting" Comparisons

2.854 It goes without saying that comparative advertising has to respect the restrictions applicable to all advertisements. In particular, it must not be misleading or disparaging. Comparison based on false or misleading statements about one's own product or involving false statements about the competitor's product is forbidden in all countries.

2.855 It must be remembered, however, that there are differences in the evaluation of the notion of "misleading" and especially in that of "discrediting." As mentioned above, some countries consider statements claiming superiority or uniqueness (like "the best", etc.) misleading unless they can be proved correct, while others consider them harmless exaggerations. Different assessments of the notions of "discrediting" and "misappropriation" are of even greater importance. In countries with a rather permissive attitude towards true but nevertheless disparaging statements, comparative advertising is generally tolerated. As long as what is said is true, the courts will not interfere, even if the reference to the competitor or his product is clearly disparaging or exploits his goodwill. In countries that traditionally put special emphasis on the protection of the "honest" businessman and his reputation, comparative advertising is either forbidden or at least severely restricted. Sometimes the mere fact that a competitor is named against his will is considered discrediting and therefore unfair competition. According to the rule that "the honest businessman has a right not to be spoken of, even if the truth is spoken", the legislation of some countries has even expressly forbidden all comparisons that needlessly identify a competitor. The same argument has led the courts of other countries to find comparative advertising more or less automatically against honest trade practice (and therefore against the general provision on unfair competition law). Although it has sometimes been stressed that true comparisons might be in the interest of consumers, doctrine and case law have in practice allowed comparisons only under very special circumstances, for example, if they have been expressly required by a customer, if they have been made to counter an illegal attack on the advertiser, or if the comparison is necessary to explain a certain system or new technical developments in general.

The Trend Towards Admission of True Comparisons

2.856 In recent years, however, this negative attitude towards comparative advertising has changed. It has been increasingly recognized that true comparisons of relevant facts can not only reduce the consumer's information search costs, but also have positive effects on the economy by improving market transparency. The courts of those countries that traditionally view comparative advertising as disparaging have gradually relaxed the strict prohibition on all statements identifying a competitor. For example, price comparisons, if based on true, relevant and ample material, may be allowed. On the whole, there seems to be a clear trend towards the admission of truthful comparative advertising.

Special Dangers of Comparative Advertising

2.857 On the other hand, it cannot be denied that comparative advertising can more easily be misleading or disparaging than most other forms of advertising, for example if the comparison is based on irrelevant (or not really comparable) aspects, or if the overall impression is misleading. These potential dangers require special safeguards against abuse. Countries that allow comparisons place special emphasis on the fact that even true statements must not be unnecessarily disparaging or that irrelevant facts must not be compared. The 1997 EC Directive on Comparative Advertising goes even further by expressly requiring that only material, relevant, verifiable and representative characteristics of goods or services meeting the same needs or intended for the same purpose be compared, that the overall impression be not misleading, that there be no risk of confusion, that the competitor and his product be in no way discredited or denigrated, that the comparison does not take unfair advantage of the reputation of a trademark, trade name or other distinguishing marks of a competitor or of the designation of origin of competing products, and that it does not present goods or services as imitations or replicas of goods or services bearing a protected trademark or trade name.

Comparative Advertising and Trademark Law

2.858 Comparison is often impossible without reference to a certain mark which refers to a particular product, service or business. In these cases, not only unfair competition law, but also trademark law has to be taken into account.

2.859 In countries where trademarks are protected solely as indications of the source of a product or service, the use of a trademark in comparative advertising may not be within the scope of trademark law. However, there are countries where the use of another's trademark in comparative advertising may be considered trademark infringement. Notwithstanding this, the statutes so far have not been applied in cases of truthful comparative advertising, and there may be constitutional reasons for such an exception in cases of comparative advertising. There is a case for allowing such advertising provided, in particular, that it does not cause confusion between the marks of the advertiser and those of a competitor, and that it does not discredit, denigrate or indicate contempt for a competitor's marks.

Comparisons Made by Third Parties

2.860 In many countries product testing is done by consumer organizations and/or private or public institutions like the press, television and other media. Usually two questions will arise here: are the organizations liable under unfair competition law, and may the results of their testing be used in advertising?

2.861 In those countries that have given up the requirement of a competitive link between plaintiff and defendant, unfair competition law is applicable to these organizations, too. In other countries, "unfair" product tests, which have an adverse effect on a business reputation, are primarily dealt with under general civil law tort provisions.

2.862 There seems to be no general agreement on the question whether and under what conditions such test results may be used by advertisers. In some countries that in general do not accept comparative advertising, this kind of indirect comparison is basically considered legal. In other countries, it is expressly forbidden for a competitor to refer to tests conducted by consumer organizations, and in still others such references are severely restricted.

Other Acts of Unfair Competition

General

2.863 As mentioned earlier, unfair competition law particularly reflects the sociological, economic and ethical conceptions of a society. Apart from the specific categories of acts already discussed which are generally considered unfair competition, there is a wide range of acts and practices that may be dealt with under unfair competition law in one country but not necessarily in another. The discussion that follows is therefore restricted to those aspects that most countries appear to consider (although perhaps with different emphasis) contrary to "honest trade practice", either in the form of an express prohibition in the specific law or, more frequently, under the general provisions on unfair competition, or in specific other laws, decrees and the like. It is to be noted that the following explanations only give examples, not an exhaustive list of these other unfair practices.

Nuisance Advertising, Exploitation of Fear, Undue Psychological Pressure, etc.

2.864 Modern competition law aims to protect all those concerned by unfair market practices. Consequently, practices that “unduly” influence the consumer or try to do so may be considered contrary to honesty in competition. In practice, however, it is difficult to determine what requirements have to be met before a practice is deemed to be “undue” in relation to the consumer. Since the very purpose of all marketing or advertising practice is to influence consumers favorably, a certain borderline of influence has to be crossed. This is often asserted in cases where the privacy of the consumer has been invaded or where he has been manipulated by means of advertising techniques.

2.865 For example, in many countries the delivery of unsolicited goods to a person who is required to pay for them unless he expressly refuses or returns them is considered unfair competition, because it plays on the fact that many consumers either tend to forget to return the goods or even feel under an obligation to keep them. On the other hand, many countries tolerate unsolicited home visits (“door-to-door sales”) as long as they do not involve any deception or impose undue psychological pressure on the consumer. Opinions may vary on the question of unsolicited telephone calls: while some countries consider them per se an intrusion into the privacy of the consumer, most other countries tolerate them as long as the consumer’s lack of experience and his privacy are not exploited. The same is true of the unsolicited sending of advertising material.

2.866 It is further considered unfair in many countries to abuse the consumer’s superstitions, credulity, fears or feelings of charity. For example, an advertisement that exploits elderly people’s fears of ending up in a nursing home, or causes unnecessary anxiety over death or health problems can be considered contrary to “honest” trade practice. The same is true if a special situation in which the consumer is especially vulnerable is exploited for commercial purposes, for example, if victims of car accidents are pestered with offers of towing services, or if the recently bereaved are offered funeral services. Most countries, moreover, take special precautions against any abuse of children’s lack of experience.

2.867 Apart from these special cases, often regulated in specific laws, the courts of some countries have identified a group of cases under the general clause against unfair competition which can be described as “psychological pressure to purchase” or “exaggerated enticement.” These cases are mainly seen in connection with special marketing practices, however, like the offering of free goods or discounts and lotteries.

Sales Promotion: Bonuses, Gifts, Lotteries, etc.

2.868 A frequent marketing technique to attract new customers consists in the offering of bonuses, gifts and other inducements, and in the organization of competitions, lotteries or games. Such sales promotion can be a new and efficient channel of distribution and may thus stimulate competition. On the other hand, it may distract consumers from the merits of the principal goods or services and thereby entice them to buy something that is either not worth its price or not really needed. This is particularly true of marketing techniques like games, lotteries and other competitions, which exploit for advertising purposes a consumer’s predisposition to gambling. Most of these are therefore regulated in one way or another, and sometimes even expressly forbidden. Additionally, they are subject to self-regulation measures. There is, however, little agreement (and little consistency) on the question of what specific practices should be considered unfair competition. For example, bonuses, or any discount or other advantage dependent on the purchase of a product, are forbidden in principle in some countries, allowed in principle in others and more or less strictly regulated in others. Lotteries, where the winning of prizes is a matter of pure chance, are generally forbidden if they are linked to the purchase of a product, and otherwise

are severely restricted. Contests in which the outcome can be influenced to a certain extent by the participant's own skill are generally viewed more favorably, provided that no deception is involved and that the consumer is not put under any pressure to buy. On the other hand, "pyramid" ("snowball") sales and other such methods are often considered potentially misleading and consequently forbidden (sometimes even on pain of criminal sanctions), or are at least severely restricted, whereas sweepstakes are often considered legal.

2.869 On the whole, the courts of most countries, even those that allow the sales promotion techniques mentioned above, pay special attention to the actual conditions under which these sales practices take place: if the consumer is put under any psychological or other pressure to buy, if the prizes are extremely valuable and so all the more enticing, an otherwise accepted marketing practice may well be considered contrary to "honest trade practice."

Impeding of Market Activities

2.870 Finally, there are several acts which may hinder or obstruct a competitor in his business activities, either directly or indirectly. An example of a direct obstruction would be the actual obstruction of trading on a particular market location, which would normally be considered unfair. Another example would be the deliberate destruction of bottles destined to be recycled and refilled by a producer of soft drinks in order to lessen his ability to supply the market. Other (indirect) impediments are often controlled by anti-trust law but, under certain circumstances, unfair competition law may offer some additional protection. Impediments that are traditionally covered by anti-trust law are discrimination, boycotting and dumping, but that does not preclude the application of unfair competition law, at least if the acts are perpetrated on an individual scale. For example, unreasonable interference with the business activities of competitors, sales at unreasonably low prices, like below-cost prices, or the imposition of fixed retail prices are practices that have been designated by the Fair Trade Commission of Japan as being prohibited by the Japanese Anti-Monopoly Act, but which might also be regarded, in theory, as forms of unfair competition. In some countries, selling below cost or at an "exceptionally low profit margin" is expressly prohibited under unfair competition law. In the United Kingdom, the United States of America and other countries, "predatory pricing" with a view to damaging a competitor may be prohibited under competition law.

2.871 Other such unfair practices consist in enticing away from competitors, or in inducing the personnel or agents of competitors to terminate their employment or agency contracts. As indicated earlier, these acts of unfair competition are frequently accompanied by the violation of trade secrets but may, nevertheless, constitute separate unfair acts. Merely inducing the clients or employees of competitors to change suppliers or employers by offering better conditions is inherent in free competition and cannot therefore be regarded as unfair. However, means such as bribery or deception of clients, agents or employees, or inducement to breach a valid undertaking not to compete, will be deemed unfair, as will the systematic enticing away of personnel with a view to damaging one particular competitor.