

INTELLECTUAL PROPERTY RIGHTS AND EXPORTS: AVOIDING COMMON PITFALLS

The business decision to enter foreign markets and export goods and services abroad is not without risks and challenges: exporting involves a considerable investment of financial, managerial, and production resources. Therefore, it requires careful planning and execution. The decision to export is a key business objective and should be seen as a long-term investment, rather than a short-term profit orientation.



Before launching into export activities, it is prudent to develop a cogently written international business plan or **export plan** to determine a product's readiness for export. A well-developed plan will assist the firm in assessing the potential of a product in international markets and facilitate any application for financing. It will also help to decide on the most effective mode of entry into a specific new market, for example, by establishing a joint venture by licensing intellectual property (IP) rights to third parties, through direct export or through e-commerce.

What **intellectual property issues** should businesses take into consideration when developing an export plan, and what are the most common IP mistakes that should be avoided by exporters?

Developing an export plan

Most enterprises engaging in the direct export of goods generally go through some, if not all, of the following key steps in developing their export plan:

- ▶ identifying appropriate export markets;
- ▶ estimating demand and market needs;
- ▶ finding local partners and channels of distribution;
- ▶ adapting the product, its design, its brand or its packaging to the new market;
- ▶ negotiating and signing contractual agreements with export sales representatives, distributors, local partners, local manufacturers, licensees, etc.;
- ▶ determining prices for different export markets;
- ▶ budgeting export operation and raising funds;
- ▶ making transport arrangements for exports;
- ▶ advertising/marketing the product in the export markets; and
- ▶ participating in trade shows or other events abroad.

There are a number of reasons why an enterprise should consider **IP issues** when planning its export strat-

egy. First and foremost, IP plays an important, and often crucial, role in many of the items outlined above. The following examples illustrate the point:

- ▶ The **adaptation of the product, its design, its brand or its packaging for the export market(s)** will require creative and/or inventive work that may, if certain requirements are met, be protected through the IP system, thus guaranteeing a degree of exclusivity over the adaptations.
- ▶ The negotiation of **agreements with partners** will have to take into account issues relating to the ownership of IP rights, particularly if the product is to be manufactured abroad or modified, packaged or distributed by foreign partners.
- ▶ The **marketing** of products will rely on the company's brand image, embodied primarily in its trademark, which, if unprotected, would be significantly more difficult to enforce in case of copying or imitation by competitors.
- ▶ The timing of **participation in fairs and exhibitions** may depend on whether the enterprise has already applied for protection for inventions or designs, as early disclosure of innovative work may result in loss of novelty and preclude them from applying for protection at a later stage (unless a "grace period" is available in certain specified circumstances in the country concerned).

- ▶ The **pricing** of the product will partly depend on the extent to which the brand is recognized and valued by consumers in the export market and the extent to which the product will face competition from similar or identical products.
- ▶ In **raising funds**, holding patents over the innovative aspects of products, or owning trademarks with a good reputation, is often useful for convincing investors, venture capitalists or banks of the commercial opportunities available to market the product.
- ▶ In addition, there may be **confidential business information** relating to most, if not all, of the items listed in the key steps above. Such information will benefit from trade secret protection or protection against unfair competition provided it is secret, has commercial value and has been subject to reasonable steps to keep it secret. The export plan and strategy itself is a “trade secret” and companies will generally have an interest in making sure it remains confidential and is not disclosed to competitors.

Another important reason for taking IP issues into account is that it may enable an enterprise to **strengthen its position in export markets** and stop other companies from imitating or copying a work protected by copyright, the functional features of a product, or its trademark or design. If the product is successful in a given market, it is likely that competing firms

will sooner or later manufacture a similar or identical product that will compete with the product in question. Without IP protection it may be difficult or impossible to stop imitators. The resulting loss of profit may be substantial.

An additional reason to take IP issues into account is that IP protection may enable an enterprise to **access new markets through licensing, franchising, the establishment of joint ventures or other contractual agreements with other companies**. IP rights enable firms to establish partnerships with other firms for the production, marketing, distribution or delivery of goods and services in foreign markets. IP may also provide a company with greater bargaining power when it seeks to license-in technology from other firms that may be interested in its own proprietary technologies, copyright works, designs, trademarks, etc.

Finally, failure to consider IP issues may result in large or irrecoverable losses if products are considered to be **infringing upon the IP rights of others** in the export market concerned. Even if an invention, design or trademark is not protected in the country of origin, this does not mean that someone else has not protected it in an export market. A product may have functional or aesthetic features that are not protected in its home country but are protected as IP rights by others in an export market. This may also be true for trademarks.

Avoiding common pitfalls

Exporters often realize the importance of protecting IP once it is too late; for example, when faced with imitators or counterfeiters or when being accused of infringing the rights of others. While preparing the export plan and strategy, it is, therefore, as important to understand the IP environment in the potential export market as it is to understand all other facets of the business environment in that market. Some of the most common mistakes made by exporters are in the following areas:

Territoriality of IP protection – Many exporters believe that since they have applied for trademark, patent or industrial design protection in their own country they are automatically protected worldwide. However, IP rights are territorial by nature, and IP offices only grant protection for the relevant national (or regional) jurisdiction.

Variations in laws and procedures for the protection of IP rights worldwide – While there has been significant harmonization of laws and procedures for the protection of intellectual property rights worldwide, there remain many areas in which significant differences between countries still exist. The patentability of computer programs, for example, is one area in which different countries have adopted different practices. While patent protection may be an option for a given computer program in one country, this option may not be avail-

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able in another country, where copyright protection may be the only form of protection available. It is advisable to find out about the legislation of the country in which a company intends to commercialize its products. WIPO's Collection of Laws for Electronic Access (CLEA) could be an important resource in this regard (www.wipo.int/clea-new/en/).

Regional or international protection systems – Applying for IP protection in a number of countries worldwide may be expensive. Regional and international protection systems, if available, are an effective way of applying for IP protection in various countries. Regional systems include the African Regional Industrial Property Office (ARIPO), the Benelux Designs Office, the Benelux Trademark Office, the Eurasian Patent Office (EAPO), the European Patent Office (EPO), the Office for the Harmonization of the Internal Market (OHIM), the *Organisation Africaine de la Propriété Intellectuelle* (OAPI) and the Patent Office of the Cooperation Council for the Arab States of the Gulf.

The systems of international protection include the Patent Cooperation Treaty (PCT), the Madrid System for the International Registration of Marks and the Hague System for the International Registration of Industrial Designs. The PCT (www.wipo.int/pct/) enables applicants to apply for patent protection in over one hundred countries through a single application and delays the payment of national fees



for a period of up to 30 months. The Madrid System for the International Protection of Marks (www.wipo.int/madrid/) and the Hague System for the International Registration of Industrial Designs (www.wipo.int/hague/) enable applicants to have their marks or designs registered in several countries by simply filing one application with a single Office, in one language, with only one set of fees, saving significant time and money.

Deadlines for filing applications abroad – Under the Paris Convention, patent applications in other countries need to be filed within 12 months from the date of application in the first country. This period is generally referred to as the “priority period.” (In PCT Member States this period can be extended to up to 30 months by using the PCT System.) Failure to apply during the priority period would generally result in the impossibility to obtain patent protection in the other countries due to loss of novelty.

Disclosure of information – The disclosure of information on product innovations or new designs to potential trade partners, export agents, distributors or anybody else prior to applying for protection or without a written contract requiring confidentiality, could result in loss of rights over the invention or design. An innovative product may, in fact, no longer be considered new and, therefore, patentable, or someone else may apply for patent protection thus excluding the enterprise from use of its own invention. The same also applies to industrial designs.

Infringement of IP rights – Exporting products without confirming whether the product is infringing on the IP rights of others in the relevant foreign markets may prove costly. For example, if an enterprise has licensed-in technology from other companies, it

should make sure that it has a right to export the product bearing such technology in order to avoid infringing on the rights of the licensor. Products that are thought to be infringing on the rights of others may be withheld at the border and their distribution may be impeded or stopped altogether.

Trademark searches – The use of a trademark in a foreign country that is identical or similar to one that is registered or is already being used by a different company could be considered an infringement on trademark rights. The firm may be asked to cease using such a trademark and/or to pay damages, which may be a huge blow to its entire marketing and export strategy. Prior to initiating export operations, and preferably prior to selecting the trademark, it is crucial to carry out a trademark search in the relevant export market. A list of online trademark databases for doing trademark searches is available at arbitrator.wipo.int/trademark/output.html.

Issues of ownership of IP rights – Many exporting companies outsource the creation, manufacturing or design of products to other firms in foreign countries. However, they often forget to protect their IP rights in such countries or to specify issues of ownership of designs, inventions, software, etc., in the contracts with the foreign companies. The main danger is that misunderstandings about ownership of the IP rights may arise between the company outsourcing the work and the firm contracted to do the work. National laws vary on the issue of own-

ership of rights over contracted work and different rules generally apply to different IP rights. It is important to ascertain the national legislation in the relevant export market and to include specific clauses in the original contract between the two firms, clarifying issues of ownership of rights over any creative or inventive work that results from the agreement.

Obtain IP rights before licensing out product – Many firms grant licenses to foreign companies authorizing them to use their IP rights in exchange for a one-time fee or a recurring royalty. A licensing contract often includes the sharing of technological know-how as well as the authorization to manufacture and/or sell a product developed by the licensor. It is important, wherever a licensing agreement is being negotiated, to make sure that the intellectual property rights being licensed have been adequately protected in the foreign country in question.

Trademark is appropriate for the market in question – There are numerous cases in which companies begin to market their products or services in a foreign market then realize subsequently that their trademark is inappropriate for that specific market in that: (a) the trademark has negative or undesirable connotations in the local language or local culture or (b) the trademark is unlikely to be registered at the national IP office. It is important to ensure that the trademark is appropriate for a given market and has been registered at the trademark

office before launching a product bearing that trademark in the market in question.

There are many reasons to make sure that IP issues are duly taken into consideration while developing an export plan. Companies should take measures to ensure that they are not caught off-guard infringing on the IP rights of others and limit the opportunities for competitors to free-ride on their inventiveness and creativity. A few steps early in the planning process could prove extremely valuable once export operations begin.



For more information on various practical aspects of the IP system of interest to business and industry, please visit the website of the SMEs Division at www.wipo.int/sme.