



# WIPO-WTO COLLOQUIUM PAPERS

RESEARCH PAPERS FROM THE WIPO-WTO COLLOQUIUM  
FOR TEACHERS OF INTELLECTUAL PROPERTY LAW 2016



WTO OMC





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### **RESEARCH PAPERS FROM THE 2016 WIPO-WTO COLLOQUIUM FOR TEACHERS OF INTELLECTUAL PROPERTY LAW**

*Compiled by the WIPO Academy and*

*the WTO Intellectual Property, Government Procurement and Competition Division*

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## FOREWORD



**Mr Francis Gurry**



**Mr Roberto Azevêdo**

This volume is the seventh in a series of annual publications from the World Intellectual Property Organization (WIPO) and the World Trade Organization (WTO). Prepared by the WIPO-WTO Colloquium for Teachers of Intellectual Property, this collection of academic papers represents an important contribution to international scholarship in the field of intellectual property (IP). Today we witness ever increasing, more diverse forms of international interaction on IP, yet equally we see growing attention to differing national policy needs and social and developmental priorities in this field. The *Colloquium Papers* series highlights the importance of fostering scholarship in emerging IP jurisdictions, harvesting the insights from policy and academic debates from across the globe, and promoting mutual learning through the sharing of research and scholarship on a broader geographical base.

For over a decade, the annual WIPO-WTO Colloquium itself has played a central role in the joint capacity building programmes of WIPO and the WTO. This cooperation seeks to enrich dialogue on IP issues and to address the developmental and wider policy considerations that form an integral part of IP law and policy today. The Colloquium responds to the recognition that developmental benefits from the IP system can only be reaped through skilled adaptation to national circumstances and judicious use by informed practitioners. Equally, effective policy development at the national level needs increasingly to draw upon skilled, informed and sophisticated policy analysis. The Colloquium bolsters the capacity of those best placed to ensure truly sustainable, long-term benefits from the adept use of the IP system – those who teach the IP practitioners of the future, and those who conduct research on IP law and policy.

The programme has produced more than 320 alumni. This is a diverse and active network of highly engaged teachers and researchers, which reaches across the developing world. Whilst this network is the principal focus of the programme, it also includes a number of developed countries. It is heartening to see the contributions of these scholars in many avenues – through their academic publications, through their active participation in national and international policy debates, through their own teaching and through their contribution to capacity building in the developing world.

We see the *Colloquium Papers* – an edited, peer-reviewed academic journal – as epitomizing the trend towards more diverse and yet more rigorous capacity building in IP law and policy. The publications issued since 2010 draw together the participants' original insights into current IP issues in their countries, and give greater substance to the network of mutual learning and intellectual exchanges that characterize the Colloquium programme.

The latest publication, a selection of papers from the 2016 Colloquium, covers an impressive range of IP subject matter, including patents, copyright and trademarks. The papers discuss policy issues, including access to medicine, employee patents, protection of traditional knowledge, protection of geographical indications and fair use, all of

which are vital to the development of IP systems in developing countries. This publication series may now be presented as a significant academic journal with unique coverage of IP law and policy focussed on emerging IP jurisdictions.

In today's changing global economy, IP significantly influences the everyday lives of all citizens around the world. An international IP system that can adjust to the shifting global economic landscape, while also stimulating innovation and furthering development, demands the understanding, participation and cooperation of all peoples across the societal spectrum. Initiatives such as the Colloquium play an important role in building capacity, raising awareness, and engaging all societies that are affected by the evolution of the international IP system.

We congratulate the contributing scholars for their first rate research, and we thank the Editorial Board – a highly distinguished group of senior IP scholars – for their invaluable support and engagement, which has helped establish the *Colloquium Papers* as a credible academic publication. We should also record our appreciation for the work of our colleagues in the WIPO Academy and the WTO IP Division in organizing the Colloquium and facilitating the publication. Finally, we commend the *Colloquium Papers* as an important source for academic research to what we trust will be a wide and ever more diverse readership.



**Francis Gurry**  
**Director General**  
**World Intellectual Property Organization**



**Roberto Azevêdo**  
**Director-General**  
**World Trade Organization**

## PREFACE

This volume is the seventh in the series of academic papers resulting from the WIPO-WTO Colloquium: it serves as a tangible reminder of the vitality and richness of collaboration between the two organizations since the conclusion of a bilateral agreement in 1995, shortly after the WTO was established. The content of this journal, representing emerging scholarship from across the developing world, encapsulates much that is challenging, significant and fascinating in the field of intellectual property (IP) today, and underscores why this bilateral cooperation is as valuable as ever.

Always with a strong international dimension, the IP system is undergoing an unprecedented phase of globalization and a building of international institutions, bringing with it a deepened understanding of the centrality of a balanced and effective IP system in economic and social development. Yet this same period has precipitated an intensive, wide-ranging process of inquiry about how to adapt and apply IP principles to ensure economic growth, sound public policy, and sustainable development in diverse settings across the globe, recognizing the diversity of economic, social and technological settings, national developmental priorities, and legal and commercial systems.

Intellectual property is seemingly ubiquitous in contemporary life, but its role and impact are both highly diverse and in need of careful analysis and informed debate. An IP dimension is present in many challenging public policy issues today. For instance, we see growing attention to its role in promoting public health, addressing climate change, and achieving food security, as well as its interaction with human rights and social and economic development. Intellectual property has been the subject of complex, multifaceted debates at the multilateral, regional and national levels over the rights of indigenous people, the conservation of biodiversity, the ethics and use of genetic resources, Internet governance, climate change technology, and access to education and medicine. And behind these debates lies an essential question: how to come to grips with the significant responsibility of IP systems in the current world economy, in international trade, and in national policy environment: how should IP systems be designed or adapted to promote economic development, stimulate innovation, and disseminate knowledge in a manner that balances the rights of all stakeholders?

The contemporary field of IP is therefore characterized by profound and searching debates on questions of essential public policy; an approach to policy-making that emphasizes empirical research, theoretical clarity, and achieves coherence with other areas of law; and the harvesting of practical experience from an ever widening base of national IP systems and participants in the policy and practice of IP. It is, therefore, a field in need of a deeper and wider research effort; sophisticated, informed and carefully tailored approaches to education and practical capacity building; and, above all, dialogue and debate founded on a richer base of information, theoretical understanding, practical experience, and knowledge of its implications in other areas of law and policy.

Both WIPO and the WTO have been called upon to play a role in strengthening capacity to deal with the intellectual challenges of these policy debates. This increasing diversity of demand for capacity-building support has had a profound impact on programme design and delivery. The WIPO Academy has developed a wide range of specialist courses and training activities to respond to this evolving pattern of demand, and to reach out to and support an ever widening range of stakeholders.

The WTO Intellectual Property, Government Procurement and Competition Division (IPD) continues to broaden and tailor its technical cooperation and policy support activities, developing a wider engagement with current international issues and with a broader base of stakeholders, exemplified by work on public health issues. But none of these outcomes can be possible without partnerships – the sharing of ideas, pooling of resources, and coordination of practical activities – so that the necessary wide range of experience and expertise can be drawn on to meet diverse needs.

Both the WIPO Academy and the WTO IPD therefore enjoy many valuable partnerships as a central strategy in ensuring programme delivery. The Colloquium has exemplified and promoted current trends in technical assistance and capacity building: it builds upon and extends an existing partnership between WIPO and the WTO; it responds to the need for stronger, broader dialogue and a greater involvement of voices from all perspectives in contemporary debates; it recognizes the central role of indigenous capacity building and of the key contribution of IP teachers and researchers as the mainstay of sustainable development of the necessary IP expertise in developing countries; it transcends traditional boundaries between regions and between 'north' and 'south' to allow fruitful



discourse on the future of IP systems. Most importantly, it recognizes the importance of extending beyond an educational function to one of bringing together a diverse group with the aim of reviving and refreshing dialogues on IP and its cognate fields.

The Colloquium has, in particular, laid emphasis on the role of participants as active players, as informed, stimulating teachers and researchers who bring to the two-week dialogue as much as they take away from it. Past feedback from participants stressed the need to capture, in more permanent form, the many insights gleaned from these few days of intensive, vigorous discussion. Participating teachers and researchers expressed important new ideas and insights to global debates that could enrich and inform the exchange among policymakers, the academic community, and the public at large.

These thoughts, guided very much by the participating teachers and researchers themselves, are what gave rise to the present publication, which is in a way a tribute to the intellectual energy and curiosity of the many alumni of the past Colloquia, with whom we continue to enjoy a range of partnerships and dialogue.

WIPO and the WTO both host numerous meetings every year, in Geneva and in many locations elsewhere, and under numerous headings: committees, seminars, workshops, roundtables, symposia, and so on. But amidst all this activity, the idea of a 'colloquium' has a special ring to it – for the WIPO-WTO Colloquium, it connotes a spirit of academic enquiry, a search for new ideas and new ways of analysing IP and related fields, through open debate, rigorous research, and new ways of communicating the complexities of IP law, practice and policy. We trust that this publication will bring to a wider community of researchers, policymakers and teachers some of the colloquium spirit that we have valued so much in this unique programme.

All of us who have participated in the Colloquium have benefited from the hard work and dedication of many colleagues within WIPO and the WTO Secretariat – notably, the WIPO Academy and the WTO IPD. All have contributed valuably to the design and delivery of this programme, and their spirit of collegiality makes a demanding programme also a pleasurable one.

We owe a particular debt of gratitude to the Editorial Board and the editors of the *Colloquium Papers*: they have been indispensable in ensuring that the Papers can be used as a trusted, academically sound and readable source of cutting edge IP scholarship from an impressive group of emerging scholars from across the developing world. Finally, we record our deep appreciation for the contributions made by individual scholars to this, and the preceding, volumes – we have come to know and respect their contributions to policy and legal scholarship, and we are sure that this active, informed and thoughtful participation in many of the key public policy debates of today will continue, exemplifying the important public service role performed by the scholarly community today.



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## 1. CURRENT LEGAL REGIME OF EMPLOYEE INVENTION PATENTS IN CHINA

Zhongfa Ma\*

### ABSTRACT

The legal regime governing employee invention patents plays a very important role in transforming China into an innovation-oriented country. China has already established such a regime but it suffers from a number of deficiencies. The provisions for claiming ownership of employee invention patents are rigid, which means that in most cases, ownership is attributed to employers. The provisions for rewarding employee inventors are difficult to enforce because of their vagueness and subjective nature. This difficulty is aggravated by the weak position of the employee inventor in negotiations with their employers. The provisions on dispute resolution are unsatisfactory, forcing parties to rely on traditional means of litigating before judicial authorities. All of the above can adversely affect innovation and commercialization of employee inventions. Learning from the experience of Germany and France, this article makes the case that the legal regime in China needs to be improved in the following manner: (1) Adopting more flexible provisions on the ascription of ownership of employee invention patents; (2) implementing definite measures for the distribution of rewards to employee inventors; and (3) finally, establishing a more comprehensive mechanism to settle disputes regarding employee invention patents.

**Keywords:** *employee invention, employee invention patent, ownership, rewards and remuneration, dispute settlement, innovation*

### 1. INTRODUCTION

China is actively promoting the construction of an innovation-oriented economy by creating an environment which facilitates progress in Research and Development (R & D). The government boosts mass entrepreneurship and innovation, which it regards as the new engine fuelling China's economic growth. In China, the largest investment in R&D is made by the state along with privately owned enterprises and provincial governments.<sup>1</sup> These resources are distributed to universities and R&D institutes in numerous ways. The vast majority of inventions are made by employees of institutions, both public and private. According to the statistics on the distribution of employee inventions *vis a vis* non-employee inventions released by the State Intellectual Property Office of China (SIPO), about 80% of patent applications or 90% of grants fall

under employee inventions (see the following timetable).<sup>2</sup> But many employee inventions for which patents have been granted are not commercialized. The primary reasons for this are low quality patents, inappropriate methods of commercializing patents, absence of incentive mechanisms for patentees and inventors to promote commercialization, and poor awareness among inventors about the need to promote the transfer of technology.<sup>3</sup> All these deficiencies are closely related to the legal regime on employee invention patents. In light of the above, exploring avenues to improve the legal regime is of critical importance.

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<sup>1</sup> See Zhang Yi, *New Breakthroughs in R & D Investment in China*, Guangming Daily: November 12, 2016.

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<sup>2</sup> Sometimes, it is also called service invention or Employment Invention-creation (See The Patent Law of People's Republic of China in English version from the website of WIPO, at [http://www.wipo.int/wipolex/en/text.jsp?file\\_id=178664](http://www.wipo.int/wipolex/en/text.jsp?file_id=178664), accessed 15 October 2016 ).

<sup>3</sup> See Gu Xiaohua, "The Status quo, Problems and Countermeasures of Commercializing the Scientific and Technological Achievements"(2016) 4, *Straits Science* ; Jiang Xinghua, Xie Huijia, "Research on the Problems and Countermeasures of Scientific and Technological Achievements Transformation based on the perspective of policy analysis"(2016) 2, *Science and Technology Management Research*; etc.

Proportion of Employee inventions out of Total Applications/Grants/ for Patents from Home and Abroad in China<sup>4</sup>

Year	Before 2011		2012	2013	2014	2015	2016.1-8	Home	Abroad
Applications of employee inventions <sup>5</sup> :%	Home	53.8	67.6	69.6	80.9	80.2	79.5	About 80 since 2014	About 97-98
	Abroad	96.4	97.2	97.3	97.9	97.9	97.9		
	Total	\	\	\	83.2	82.3	81.4		
Applications of non-employee inventions:%	Home	46.2	32.4	30.4	19.8	19.8	20.5	About 20 since 2014	About 2-3
	Abroad	3.6	2.8	2.7	2.1	2.1	2.1		
	Total	\	\	\	18.8	17.7	18.6		
Grants of employee inventions:%	Home	53.7	68.7	71.0	89.9	90.7	91.2	About 90 since 2014	About 97-98
	Abroad	96.6	97.5	97.3	98.2	98.4	98.4		
	Total	\	\	\	92.4	92.7	93.0		
Grants of non-employee inventions:%	Home	46.3	31.3	29	10.1	9.3	8.8	About 10 since 2014	About 2-3
	Abroad	3.4	2.5	2.7	1.8	1.6	1.6		
	Total	\	\	\	7.6	7.3	7.0		

<sup>4</sup> The data are cited from the official website of SIPO which demonstrates that SI occupies the major part of the total invention patents. See The Patent Work and the Comprehensive Management Monthly Statistics Bulletins from January 2012 to July 2016 of the State Intellectual Property Office, at <http://www.sipo.gov.cn/tjxx/tjyb/>; accessed 16 October 2016.

<sup>5</sup> The specific data of domestic applications and grants of patents in 2014, 2015 and from Jan. to July, 2017 in China are shown as the following: in 2014, there are 648,023 out of 810,135 applications for employee invention patents, and 146,172 out of 162,680 grants of employee invention patents ; in 2015, 776,117 out of 968,251 applications for employee invention patents, and 238,818 out of 263,436 grants; from Jan. to July,2016, 482,290 out of 602171 applications, and 194,836 out of 213,595 grants. See The Patent Work and the Comprehensive Management Monthly Statistics Bulletins from January 2012 to July 2016 of the State Intellectual Property Office, at <http://www.sipo.gov.cn/tjxx/tjyb/>; accessed 16 October 2016.

The Patent Law of China (the Patent Law, 2008) defines a patent as an invention created or accomplished in the execution of employment tasks or primarily by using the employer's resources in the form of materials or technology. [Sic]<sup>6</sup> However, there are heated arguments on the following key issues: (1) who has the right to file patent applications for employee inventions and who should own them: inventors or employers? (2) how to ensure inventors receive reasonable rewards from assigning or licensing their patents as well as the contributions they have made to such patents? (3) How to settle disputes arising from employee inventions? For a number of reasons, which this paper goes on to discuss, the existing regime does not provide satisfactory answers to these questions. They need to be solved gradually to ensure the improvement of patent and other related laws in China.

## 2. THE CURRENT LEGAL REGIME ON EMPLOYEE INVENTION PATENTS IN CHINA

China has already developed a fundamental framework of employee invention patents, based on the following laws and executive regulations. On the legislative front, there are at least four laws adopted by the National People's Congress concerning employee inventions, these are the Patent law, the Contract Law (1999), the Law on Promoting the Transformation of Scientific and Technological Achievements (the Law on PTSTA, 2015) and the Law on Progress of Science and Technology (2007). These make up the basic legal framework for employee invention patents. On the subordinate legislation front, the following regulations (including the draft regulations) merit mention: the Implementing Regulations of the Patent Law (the Regulations, 2010), and the Draft Regulations on Employee inventions (Draft Regulations, 2015) which are currently under discussion. On the judicial front, there is the Guidance on Hearing Rewards or Remuneration Disputes over Employee inventions Made by Employee-Inventors or Designers (2013, the Shanghai High People's Court). This paper will not discuss this Guidance framework as it is only a guideline for judicial cases in Shanghai.

### A. PROVISIONS IN RELATED LAWS

#### (i) GENERAL PROVISIONS UNDER THE PATENT LAW AND THE CONTRACT LAW

The Patent Law sets out the general position with respect to the ownership of patent rights and remuneration of employee inventors in the PRC.<sup>7</sup> It stipulates that for an employee invention, the employer has the right to apply for a patent and after such an application is granted, the employer shall be the patentee; and for an employee invention accomplished by using the material and technical

conditions of an employer, deference is given to any contract between the employer and employee determining the ownership of the right to apply for the patent or the ownership of the patent right.<sup>8</sup> So it is obvious that for determining the ownership of an employee invention patent, the duty standard is the primary principle (the patent of an invention completed on duty shall be owned by the employer as per the law, whether there is a contract to that end or not)<sup>9</sup> while the resources standard is an auxiliary principle (for patenting an invention created by using the employer's resources; here the contractual agreement is given priority; if there is no agreement, the employers will gain the application rights or patent rights). It is clear that this provision gives employers more opportunities to gain ownership of employee invention patents, which may deter inventors from taking the initiative to innovate and commercialize their inventions. In addition, it must be kept in mind however, that in most occasions, the employers have more bargaining power than employees.

The law also provides that a company that obtains a patent over an employee invention must, upon exploitation of the patent, pay the inventor a reasonable reward taking into account the extent to which the patent is being exploited and the income earned from such exploitation.<sup>10</sup> This is the fundamental provision on reward or remuneration for inventors who contribute to the patents. The difficulty however is in its implementation. To begin with, defining the word 'reasonable' is a big issue for both companies and inventors. In fact, most disputes or controversies have arisen out of this very question.<sup>11</sup>

In the Contract Law, there is a provision that indirectly has a bearing on employee inventions, which is entitled "Employee-developed Technology". Employee-developed technology is technology developed in the course of completing a task assigned by a legal person or an

<sup>8</sup> Clause 6.3 of the Patent Law (2008).

<sup>9</sup> There was one case occurring in Shanghai in which the employee (Mr. Qian) concluded an agreement with the company which said the patent of a specific product of hydraulic grab, trackless equipment and others would be jointly owned by Mr. Qian and the company. In June 2011, Mr. Qian applied for a patent based on the contractual products for himself, and later the company sued him to the court. The first-instance court made a judgment against Mr. Qian and the appeal court confirmed the judgment, and the reasons for the judgment was that the patent of employee invention under such a situation should not be decided by agreement according to Article 6 of the Patent Law. See Ling Zongliang, On Patent Right Ascription of Invention Accomplished in Execution of the Company's Task, *People's Court Daily*, (7) January 9<sup>th</sup>, 2014.

<sup>10</sup> Article 16 of the Patent Law (2008).

<sup>11</sup> Tao, Xinliang, Agreement on the Nature of Employment Invention and the Related Remuneration and Reward, (2016) *Intellectual Property Journal*.

<sup>6</sup> Article 6 of Patent Law of the People's Republic of China (2008)

<sup>7</sup> There is no change of these articles in the 3<sup>rd</sup> revision and in the 4<sup>th</sup> revision draft, and they have not been discussed in the Draft Regulation yet.



organization of any other nature, or developed by primarily utilizing the material and technical resources thereof. The substantive provision of this law relating to employee inventions is as follows: where the right to use and the right to transfer employee-developed technology belongs to a legal person or an organization of any other nature, the legal person or organization may enter into a technology contract with other parties in respect of such employee-developed technology. The legal person or organization shall reward or remunerate the individual(s) who developed the technology with a percentage of the benefits that accrue from the use and transfer of the employee-developed technology.<sup>12</sup> This provision implies that the ownership of an employee invention is not always given to the employers, but the law does not address how this ownership is to be determined. On the question of remuneration, the phrase "a percentage of the benefits" is very vague and needs to be clarified in the contract between the inventor and the employer.

(ii) GENERAL PROVISIONS UNDER THE LAW ON PROGRESS OF SCIENCE AND TECHNOLOGY AND THE LAW ON PTSTA

The Law on Progress of Science and Technology clearly defines how the ownership of patents that are financially supported by the government should be determined and the applicability of the principle of distribution of benefits. It provides that the right to patent an invention arising from projects aided by the government or scientific and technological plans shall be granted to the authorized undertakers of such projects except where national security and vital public interests are involved.<sup>13</sup> Further, if they fail to exercise their rights within the reasonable time limit prescribed, the State may acquire it without paying any compensation, or may permit another person to do so with or without compensation. The benefits arising from the exercise of the IP rights shall be distributed among the project undertakers in accordance with the provisions of relevant laws and administrative regulations; and where the law does not stipulate the manner of distribution, the benefits shall be distributed as agreed upon.<sup>14</sup> Some scholars call this provision "the Bayh-Dole Rule of China".<sup>15</sup>

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<sup>12</sup> Article 326 of the Contract Law (1999).

<sup>13</sup> In this situation, even if the intellectual property rights are granted to project undertakers according to the law, they may be exercised by the State without compensation, or the State may permit another person to do it with or without compensation.

<sup>14</sup> Article 20 of the Law on Progress of Science and Technology (2007).

<sup>15</sup> The Bayh-Dole rule means that private sectors, universities, research and development (R&D) institutes, or other legal entities have capacities to enjoy or own the patent rights of the government funded research results which may create a powerful driving force for the commercialization of scientific research achievements. See He Lianhong, Chen Jiecan, "The Failure of the Bayh Dole act of China version' and the Solutions of

In the entire legislative framework for employee inventions, the PTSTA has the most detailed provisions, eight in number, namely articles 16 to 20 and articles 43 to 45. However, we will only analyze four of them.<sup>16</sup> It provides that for employee scientific and technological achievements (ESTAs) obtained in state-maintained R&D institutions and universities, the accomplishees may, without changing the ownership of ESTAs, commercialize ESTAs according to agreements reached with their employers and enjoy the rights and interests arising therefrom. If the employer commercializes ESTAs, the accomplishees of ESTAs or persons in charge of the research projects shall neither obstruct the commercialization of ESTAs nor infringe upon the lawful rights and interests of their employers.<sup>17</sup> In the course of promoting ESTA commercialization, the state-maintained R&D institutions and universities shall also establish systems for professional title appraisal, post management, examination and evaluation rules compatible with the characteristics of the ESTA commercialization as well as improve the income distribution incentive and restraint mechanism.<sup>18</sup> These provisions describe the general content of ESTAs and means for their exploitation and distribution. The next article provides a more detailed method for distribution of the benefits from ESTAs. After ESTAs are commercialized the entities shall grant rewards and remunerations to people who have made significant contributions to the completion and commercialization of ESTAs; and they may specify general provisions or reach an agreement with scientific and technical personnel on the method, amount and time period for paying remuneration.<sup>19</sup> If the entities have not implemented such provisions or the parties have not reached agreement on the method and amount of such rewards, they shall do so according to the following criteria: (1) Where an ESTA is assigned or licensed, not less than 50% of the net income from such an assignment or license shall be withdrawn. (2) Where an ESTA is used as a trade-in in investment, not less than 50% of shares or capital contributions formed from such ESTA shall be withdrawn. (3) Where an ESTA is implemented independently or in cooperation with others, not less than 5% of business profits from such implementation shall be withdrawn consecutively for three

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Commercializing University intellectual property rights" (2013) 3 Intellectual Property 84-88.

<sup>16</sup> Four articles are Article 19, 20, 44 and 45, and the reason for discussing them is that they are the most important articles concerning employment invention patent which have aroused bitter debates.

<sup>17</sup> Article 19 of the Law on Promoting the Transformation of Scientific and Technological Achievements (2015).

<sup>18</sup> Article 20 of the Law on Promoting the Transformation of Scientific and Technological Achievements (2015).

<sup>19</sup> Article 44 of the Law on Promoting the Transformation of Scientific and Technological Achievements (2015).

to five years after the commercialization.<sup>20</sup> We can conclude that for reward and remuneration, first the related parties may reach an agreement on the distribution and method for calculating distributions, and when they fail to do so, the statutory standards shall apply.

## B. STIPULATIONS IN RELATED REGULATIONS

### (i) PROVISIONS UNDER THE IMPLEMENTING REGULATIONS OF THE PATENT LAW<sup>21</sup>

The Regulations further stipulate that "Employee invention made by a person in execution of the tasks of the employer to which he belongs (including a temporary one)" and "material resources of the entity" described in the Patent Law. The former means that any invention made: (1) in the course of performing his own duty; (2) in execution of any task, other than his own duty, which was delivered to him by the entity to which he belongs; (3) within one year from his resignation, retirement or change of work, provided that the invention relates to his own duty or to the other task distributed to him by the entity to which he previously belonged. The latter shall include the entity's money, equipment, spare parts, raw materials, or technical data which are not to be disclosed to the public.<sup>22</sup> From these provisions, we may conclude that the term 'employee invention' will be applied in a broader sense under the Regulations than in the Patent Law. This will negatively impact the commercialization of these patents. The commercialization of a patented technology largely depends on the inventor's involvement; without the inventor's active participation in the commercialization (usually caused by the fact that the inventor does not own the patent and there is no reasonable incentive mechanism for him to participate in its commercialization), the process may not be successful.<sup>23</sup>

The Regulation provides that the employer may either enter into an agreement with its employees on rewards and remuneration for employee inventions or set them out in its internal policies and procedures in accordance with the law.<sup>24</sup> In the absence of a contract or company policy on the subject, the following rewards shall be paid to employees: a reward of no less than RMB 3,000 or 1,000 for the issuance of an invention patent or for a utility model or design patent within three months from the date

on which a patent is granted.<sup>25</sup> If the patent is implemented or licensed within the terms of the patent without any agreement between the employer and employee, a "reasonable remuneration" upon exploitation of an employee's invention patent amounting to no less than 2% of the operating profits generated from implementation of an invention patent or 0.2% of the operating profits generated from implementation of a utility model or design patent, or 10% of the royalty generated from the patent licensing.<sup>26</sup> Some employers have viewed the above default arrangement as somewhat impracticable, particularly the provision for "reasonable remuneration" because it is difficult for the inventor to obtain information about the "profits" made by the employer. Furthermore, without distinguishing between patents in different fields, this provision is too rigid and difficult to enforce. Even if it is enforced, it may give rise to unfair results and inventors in some fields will adopt a negative attitude to patent exploitation.

### (ii) DRAFT REGULATIONS ON EMPLOYMENT INVENTIONS (April, 2015)

The Draft Regulations, currently under discussion, contain 7 chapters with 44 articles. The Draft Regulations have tried to solve the specific issues within the current legal framework on employee inventions. In the Draft Regulations, the principle of balancing the rights and interests of employers and inventors is reaffirmed. It also seeks to encourage employee inventions and promote their patenting.<sup>27</sup> The provisions on ownership of patent rights are similar to those in the Patent Law.<sup>28</sup> However, it has provided a new framework for employee inventions, which would control reporting of inventions and applications for patenting them. This framework is inspired by the provisions in the German Patent Law.<sup>29</sup> The content of the institution may be summarized as follows: Inventors shall report their inventions to their employers after they finish the invention, and within 2 months, the latter will determine whether the invention is an employee invention or not. If so, the employer will decide whether or not to apply for a patent.<sup>30</sup> Furthermore, it provides that the method for determining the quantum reward or remuneration for inventors may be regulated by the

<sup>20</sup> Article 45 of the Law on Promoting the Transformation of Scientific and Technological Achievements (2015).

<sup>21</sup> Other Regulations have similar provisions to those of the Patent Law, for instance, the Regulation on Protection of New Varieties of Plants (2013) has similar provision (see Article 7 ) to Article 6 of the Patent Law and it will not be discussed in this paper.

<sup>22</sup> Article 12 of the Implementing Regulations of the Patent Law (2010)

<sup>23</sup> He Min, The new humanism concept and the perfection of patent system of service invention, (2012) 9 Law Science: 65-74.

<sup>24</sup> Article 76 of the Implementing Regulations of the Patent Law (2010).

<sup>25</sup> Article 77 of the Implementing Regulations of the Patent Law (2010).

<sup>26</sup> Article 78 of the Implementing Regulations of the Patent Law (2010).

<sup>27</sup> See Chapter 1 of Draft Regulations on Employment Inventions (2015).

<sup>28</sup> See Chapter 2 of Draft Regulations on Employment Inventions (2015).

<sup>29</sup> See The Legislative Affairs Office of the State Council, The Statement on Draft Regulations on Employment Inventions (2015).

<sup>30</sup> See Chapter 3 of Draft Regulations on Employment Inventions (2015).

employer's internal rules or by an agreement between the employer and the employee.<sup>31</sup> If there are no rules or agreements, the statutory provisions on remuneration shall apply.<sup>32</sup> The last two things which should be studied in the Draft Regulations are the functions of the executive bodies in tasks such as supervision and inspection as well as dispute settlement between the employers and the employees. These include negotiation, conciliation by the executive, litigation and arbitration.<sup>33</sup>

In determining the ownership of employee invention patents, the Draft Regulations still focus on the principle of granting priority to the employer. This has caused bitter arguments amongst academics, where some scholars defend the principle<sup>34</sup> while others object to it, believing that ownership should be held by the inventor.<sup>35</sup> This is possibly one of the reasons why the State Council has not yet adopted them. As for reward and remuneration, the principle of "internal rules or contractual agreement being primary while statutory provisions being auxiliary" will be observed.

### 3. THE DEFECTS AND PROBLEMS OF THE CURRENT LEGAL REGIME

#### A. THE PROVISIONS IN DIFFERENT LAWS CONCERNING EMPLOYEE INVENTION DO NOT COORDINATE WITH EACH OTHER

To a certain extent, the present legal regime on employee inventions is confusing.<sup>36</sup> The provisions on the ownership of employee invention patents are not unified in the current framework, and they are dispersed between the Patent Law, the Contract Law, the Law on PTSTA, the Law on Progress of Science and Technology, the Regulation on Protection of New Varieties of Plants and other laws and regulations. There are conflicting provisions in the different laws and regulations, which may cause problems in applying the provisions. For example, the provisions in the Contract law and the Patent law are inconsistent. The Patent law provides that generally, the right of patent application and ownership of the patent concerning employee invention shall be with the employer;<sup>37</sup> whereas

in the Contract law<sup>38</sup>, ownership may belong to either the inventor or the employer, and not necessarily by the employer. In such a situation, the ownership of an employee invention patent will be flexible and may be much fairer than the provision in the Patent Law.

The fact that the provision in the Patent law attributes ownership of an employee invention patent on most occasions to the employer reflects that the legislature has oversimplified the complex situation of employee invention<sup>39</sup> which could possibly be influenced by the model of a planned economy. The reasons for an employee invention patent being owned by the employer are not rational.<sup>40</sup> According to the Patent Law, the invention accomplished by the inventor on the basis of performing his or her tasks assigned by the employer will be attributed to the employer; or without an agreement, the invention completed by the inventor by mainly using the material and technical resources of the employer shall also be owned the employer. We know that only natural persons can complete an invention, and that the employers on most occasions exist in the form of organizations which may provide R & D facilities and organize the creation process. Principally, the person who creates property shall possess the ownership of that property. The law should not necessarily or rigidly provide that the ownership is possessed by the employer, but should provide that the ownership may be flexible, that is, it generally belongs to inventors or may be decided by the contract reached by the inventors and employers according to the autonomous will of both parties. If ownership belongs to the inventors, the employers may have the right to apply and get patents with the inventors' agreement or get a license from the inventor. This may enhance the inventors' position and allow them to play an active role in promoting patent commercialization and licensing, which will be helpful in addressing the significantly low rate of patent commercialization in China.<sup>41</sup> If ownership belongs to the employer, we should have specific measures to reward or remunerate the inventors, which may also encourage them to support the commercialization of patents. The conflict between provisions in different laws has jeopardized the effectiveness of the more reasonable provisions and held up the enforcement thereof.

Furthermore, it is difficult to determine, whether in practice, an invention is "merely verified or tested with the employer's material and technical conditions upon

<sup>31</sup> These internal rules or agreements can be recorded or deposited by executive organs at different levels. See Chapter 7 of Draft Regulations on Employment Inventions (2015).

<sup>32</sup> See Chapter 4 of Draft Regulations on Employment Inventions (2015).

<sup>33</sup> See Chapter 6 of Draft Regulations on Employment Inventions (2015).

<sup>34</sup> See Ma Biyu, Study on the Reform of Right Ascription Rules of Employee invention —Comment on the Relevant Content of Employee invention Bill (2015)9 Academic Exploration 38-44.

<sup>35</sup> He Min, Justice on the Property Right Ascription of Employee invention (2007) 5 Chinese Journal of Law 75-89.

<sup>36</sup> Gu Yubo, Problems and Perfection of the Legal System on Employee invention in China (2016) 4 Intellectual Property 78-82.

<sup>37</sup> See the related analysis in Part 2.

<sup>38</sup> Article 326 of the Contract Law (1999)

<sup>39</sup> See Zhang Zongren: Study on the right Ascription and reward of the Employee invention (2014)10 Intellectual Property 72-77.

<sup>40</sup> Shen Juan: Certain Thoughts on the problems of the Employee invention (2011) 2 Contemporary Economics 138-139.

<sup>41</sup> See Jia Liwei, The Proportion of Applications Is Unbalanced and the Commercialization Rate Is Low, and the Quality of the Patents from R&D Needs to be Improved, China Industrial Economy News, April 14<sup>th</sup>, 2017.

completion of the invention",<sup>42</sup> and to what extent the inventor has utilized the company's material and technical conditions as well as when an invention is completed. However, considering the significant work experience that the employee-inventor has already gained from the company which constitutes the base for him or her conceiving an invention, if he or she is also allowed to use the company's assets to verify the invention then it would be unfair to the company if the invention was characterized as a non-employee invention. In such situations, the invention can be categorized as an employee invention, but the ascription of ownership should be flexible.

### B. DIFFICULTY IN IMPLEMENTING THE PROVISIONS ON REWARD AND REMUNERATION FOR INVENTORS

As for rewards and remuneration, the current provisions are too vague and simplistic, making them difficult to implement. There is only a single way to obtain rewards and terminology such as "profit" and "reasonable" are arduous to define. For some complicated cases, such as "joint patents", "cross license" or assignment without payment, there are no applicable provisions. The rigidly specific provisions on rewards or remuneration for the inventors, for example, those in the Implementation Regulations of the Patent Law and in the PSTA law are not be operable or reasonable.<sup>43</sup> Inventors and experts have claimed that although the existing laws have attributed the ownership of the employee inventions to the employer and have given the employee-inventor the right of authorship and rewards, there is still an absence of procedural regulations for the exercise of employee-inventor's rights.<sup>44</sup>

The employee is always in a vulnerable position in the negotiation of rewards. Employee-inventors hope to fully exercise their rights through new legislation that is binding on the employer-company, so that, they may get the reward stipulated by the relevant statute, especially when they feel they are in an unequal position with the employer. However, it is difficult for different types of enterprises in different industries to adopt and apply similar provisions concerning the rewards for employee inventions as provided in the related laws and regulations.

If the employee-inventors do not obtain the original ownership of patents and have to accept rewards passively, which rewards may not match or reflect their

contributions to the patent, this may dampen their enthusiasm to create and utilize IP tools.<sup>45</sup> In practice, the leaders of some entities actually do not pay much attention to inventor remuneration.<sup>46</sup> We neither have effective measures to enforce the provisions concerning employee inventions nor the dispute settlement mechanism to solve issues of reward and remuneration. The management systems for employee inventions in many enterprises, universities, R&D institutes and other entities fail to meet the demands of the employee inventor.

### C. INEFFECTIVE DISPUTE SETTLEMENT MECHANISM FOR THE ISSUE OF REWARDS AND REMUNERATION

There have been very few cases concerning disputes on rewards and remuneration of employee inventors before the judiciary in China because there are no specific dispute settlement provisions on the issue. Effective and systematic dispute settlement mechanisms have not been established. Furthermore the data relating to these disputes is very limited. As at 30 October 2016, 52 judgments<sup>47</sup> out of 64,730 ones (concerning IP issues)<sup>48</sup> have been decided by the courts in Mainland China. Even fewer cases have been resolved by way of conciliation or mediation.<sup>49</sup> The reasons for this phenomenon are as follows: (1) The inventors do not have knowledge of the provisions on rewards and remuneration for employee inventors, or even if they do, they are afraid of adverse impacts it can cause to the relationship between themselves and their employers, should they litigate the issue. As a result, most of the cases come to the courts after the inventors have resigned or quit from their positions. (2) The existing legal provisions are ambiguous and generic and there is no effective method of evaluating patented technology. Normally, the inventors can only put forward a general figure when claiming remuneration as there is no criteria or basis for arriving at specific figures. In addition, employers' business data is seldom transparent

<sup>45</sup> See Tao Xinliang, Agreement on the Nature of Employment Invention and the Related Remuneration and Reward, *Intellectual Property Journal*, (3) 2016.

<sup>46</sup> Xu Zhuobin, Legal Issues in the Disputes Over the Remunerations for Employment Invention, *Electronics Intellectual Property*, (2015) 7:33-38.

<sup>47</sup> See The Disputes on the Awards, Remunerations and Compensation for the Inventors and Designer of Employee inventions,

<http://openlaw.cn/search/judgement/type?causeld=6645b1df625a4fa09acedf2c5bf7e1b5>. (June 10, 2017)

<sup>48</sup> See Disputes on Intellectual Property, at <http://openlaw.cn/search/judgement/default?type=searchKeyword&typeValue=&keyword=%E7%9F%A5%E8%AF%86%E4%BA%A7%E6%9D%83%E7%BA%A0%E7%BA%B7>.

<sup>49</sup> See Wu Yan, Study on the Dispute Settlement Mechanism of Service Invention and Comments on Draft Regulations on Service Invention, (2015) *China Soft Science* 3:9-15.

<sup>42</sup> See Fu Jianqing, Li Yihong: The Deficiency and Improvement of the Patent Law in China (2016) 5 *Intellectual Property* 50-55.

<sup>43</sup> Liu Xiangmei, Liu Qunying, Comparative studies on the Regime of Employee invention of Remuneration in the Main Countries and the Suggestion on Improving the Related Regime in China (2006) 2 *World Intellectual Property* 84-88.

<sup>44</sup> See Zhang Zongren, Research on the Ownership of Employment Invention and the Rewards, *Intellectual Property Journal*, (10) 2014.

and it is hard for the inventors to get the employers' account of the profits and their invention's contribution to business opportunities. (3) It is difficult for inventors to provide sufficient evidence to support their claims and courts may not make just judgments because of the judges' limited discretion in the application of the law.

#### 4. THE IMPROVEMENT OF THE LEGAL REGIME ON EMPLOYEE INVENTION PATENTS

##### A. USEFUL EXPERIENCE FROM OTHER MAJOR COUNTRIES

###### (i) GERMANY

In Germany, employee inventions are either tied or free. The former refers to inventions made during the term of employment which either resulted from the employee's tasks, experience or activities of the enterprise or public authority. The latter refers to other inventions of an employee.<sup>50</sup> Before 2009, the inventor of an employee invention was required to report this to the employer in writing. The employer would then decide to claim the right, with or without limitations. If it is claimed with limitations, the inventor transfers ownership to the employer and for the latter, the inventor retains ownership, but the employer has a non-exclusive right to utilize the patent and will pay royalty fees to the inventor.<sup>51</sup> But the claim must be made as soon as possible and no later than four months from the receipt of an invention report or the inventions will not be regarded as an employee invention.<sup>52</sup> However, after the 2009 amendment, an invention cannot 'unintentionally become free'. Unless the employer explicitly releases the invention, the employee invention shall be deemed to have been claimed by the employer when an invention report is made by the employee.<sup>53</sup> Originally, the rights over employment inventions claimed without limitations belonged to the employee. Only if the employer made a claim on the invention, did the employee have to transfer the title to the employer. However, since 2009, the law pays more attention to the protection of employers.<sup>54</sup>

The employee has the right to reasonable compensation from his employer as soon as the employer has made an unlimited claim to an employee invention. In assessing compensation, due consideration in particular is given to the commercial applicability of the employee invention,

the duties and position of the employee in the enterprise, and the enterprise's contribution to the invention.<sup>55</sup> The remuneration can be in the form of a lump sum or a royalty and is determined by the agreement between employer and employee. However, the German Labour Ministry provides guidelines, which include the methods for calculating remuneration: license royalties, remuneration based on the cost reduction of the employer and evaluated incomes from cross licensing.

If a dispute arises between the employer and employee around the employee invention, it must be settled in an amicable way. A petition can be filed at any time to the Arbitration Board established within the Patent Office. The Arbitration Board consists of a chairman or his alternate, and two assessors with special knowledge in the technical field to which the invention or technical improvement proposal applies. The chairman is appointed by the Federal Minister of Justice for a term of one year and must possess the qualifications required to hold judicial office. The two expert assessors shall be appointed by the President of the Patent Office for each case, from among the staff members or assistant members of the Patent Office. At the request of a party, the Arbitration Board shall include two other assessors, one chosen by the employer and the other by the employee.<sup>56</sup> Any dispute concerning an employee invention may only be brought to the court after the proceedings have been referred to the Arbitration Board. However, in some situations where no arbitration agreement exists or the employee has resigned, the parties may go directly to court.<sup>57</sup>

###### (ii) FRANCE

In France, an employee invention is of two kinds: a mission invention, and a non-mission invention.<sup>58</sup> Where the inventor is a salaried person, and in the absence of any contractual clause more favourable to the salaried person, title to the industrial property is determined in accordance with the following provisions: (1) Inventions made by a salaried person in the execution of a work contract comprising an inventive mission corresponding to his effective functions or of studies and research which have been explicitly entrusted to him, shall belong to the employer. This is a mission invention and follows the doctrine of employer's priority. Under such conditions, the inventor will enjoy remuneration determined by collective agreements, company agreements and individual employment contracts. (2) All other inventions shall belong

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<sup>50</sup> Article 4 of Law on Employee Inventions of Germany (1994).

<sup>51</sup> Article 7 of Law on Employee Inventions of Germany (1994).

<sup>52</sup> Article 8 of Law on Employee Inventions of Germany (1994).

<sup>53</sup> Sanna Wolk, *Remuneration of Employee Inventors - Is There a Common European Ground?* (2011)3 *International Review of Intellectual Property and Competition Law* 272-298.

<sup>54</sup> See Articles 4-6 of Act on Employees' Inventions (as amended by Act of July 31, 2009, on Simplification and Modernization of Patent Act); Zhang Taolve: *Simplification and Modernization of German Patent Law*, (2009) 10 *Electronics Intellectual Property*: 49-54.

<sup>55</sup> Article 9 of Law on Employee Inventions of Germany (1994).

<sup>56</sup> Articles 28,29 & 30 of Law on Employee Inventions of Germany (1994)

<sup>57</sup> Article 37 of Law on Employee Inventions of Germany (1994)

<sup>58</sup> He Rong, "A brief analysis of the system of the Employee invention patent in France" (2016)4 *Journal of Chongqing University of Science and Technology (Social Sciences Edition)* 23-25.

to the salaried person. However, where an invention is made by a salaried person during the execution of his functions or in the field of activity of the company or by reason of knowledge or use of technologies or specific means of the company or of data acquired by the company, the employer shall be entitled to the ownership or enjoyment of all or some of the rights in the patent. This is a non-mission invention. The salaried person shall be entitled to obtain a fair price, which, in case the agreement between the parties fails, shall be stipulated for by the joint conciliation board set up by the Code or by the First Instance Court.<sup>59</sup> The board shall take into consideration all elements supplied, in particular by the employer and employee, to compute a fair price. The price is a function of both the initial contributions of either party, the industrial applicability and commercial utility of the invention. Disputes over remuneration are submitted to the joint conciliation board set up by the Code or to the First Instance Court.<sup>60</sup>

To summarize, employee inventions based on duties or specific tasks may belong to the employer and in other situations, the ownership of employee invention patents shall lie with the employee, but the employer may have some special rights to use the patents. As for remuneration, it is decided by an agreement between the employer and employee and if there is a dispute, it is submitted to a third party for resolution.

## **B. IMPROVEMENT OF THE LEGAL REGIME ON EMPLOYEE INVENTIONS**

### **(i) IMPROVING PROVISIONS ON OWNERSHIP OF EMPLOYEE INVENTION PATENTS**

It is an accepted fact that an invention can only be accomplished by a natural person. In business, the principle of "who invests who owns" and Locke's labour theory of property (namely that ownership of property is created by the application of labour)<sup>61</sup> is followed. According to the principle and the theory, the inventor shall own the rights as intellectual investment is a kind of investment and intellectual labour is a kind of labour. The inventor makes the main contribution to the invention in intellectual form, which is the decisive factor for an invention.<sup>62</sup> However, in cases like a project or a task

accomplished collectively by a group of employees, the inventor may complete a creation according to the employer's design or proposal and ownership may lie with the employer. Therefore, flexible provisions on ownership and rewards need to be adopted.

Principally, the application right and patent right of employee inventions arising from particular tasks or specific projects assigned to employees are owned by the employer except otherwise provided by law or agreed to by the parties. This situation is similar to movie production where the producer of the movie reserves the copyright over the movie. In this situation, the employer owning the patent right shall be first priority unless there is a special agreement which stipulates otherwise.<sup>63</sup> Where the invention involved the use of the resources or the technical conditions of the employer, the right of application and the ownership of the employee invention patent shall be with the inventors except otherwise provided by law or agreed to by the parties. But the employers have priority to use and license such patents by agreement. This means that a flexible policy for application and patent right ownership should be adopted. Basically, in any situation, the consensus of the parties should prevail. If there is no agreement, the patent shall be owned by the employer, the employee invention completed by mainly using the materials and technical resources, shall be owned by the employee. These provisions will produce plenty of incentives for employees to involve themselves in the commercialization process. The company may reach an agreement with the employee-inventor as to his or her rights and obligations when using the company's assets to verify or test the invention. However, in the absence of the above provision, an invention that has been materially completed prior to the verification and testing process does not count as an employee invention.

Principally, the application rights and ownership of patents for employee inventions arising from "duties" of employees will be attributed to employers if there is no legal provision or agreement. Those arising from "utilizing resources" of the employer, the rights shall be decided according to the employment contract between the

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invention by mainly using resources of the company or other institutes shall observe the principle of priority of agreement, otherwise the inventor has the ownership but the employer has right to use patents; for a special invention (similar to that on duty), its right shall originally belong to an inventor, however, the inventor shall declare that he will transfer the right to the employer, and the latter finally owns the right. In Japan, for ownership, it has similar provisions as those of the US: the inventor has a prior right to own the patent right, but the employer has a right to use patents (see Article 35 of the Patent Act of Japan (2016 Revision)).

<sup>63</sup>Shen Wei,Liu Qiang,"Reconstruction or Adjustment: Dilemma and Solution of System of the Ownership of Invention in China" (2016) 2 Jingyue Journal 115-21.

<sup>59</sup> Chen Chi, "The Regime of Employee Invention in France and Its Enlightenment to China" (2008) 2 Jiangxi Social Science 168-173.

<sup>60</sup> Article L611-7 of Intellectual Property Code of France (2014).

<sup>61</sup> Karen I. Vaughn,, "John Locke and the Labour Theory of Value", *Journal of Libertarian Studies*, (1978) 4 :311-326.

<sup>62</sup> Actually in the United States, there is no specific provisions on employee invention, and it is provided that an application for patent shall be made, or authorized to be made, by the inventor, except as otherwise provided in the Patent Act (See Article 111 of United States Code Title 35 – Patents, 2015 Revision).This implies that only inventors have right to apply for a patent and get a patent. However, practically, the right of patent for employee

inventors and employers. If there is no provision concerning the issue, the rights shall belong to the inventors, but the employers shall have the right to gain profits by the agreement when inventors commercialize or license patents for commercial purposes. If patents are owned by employers according to the contracts, they have the right to license or transfer patents for commercial purposes. However, if they fail to do so, inventors shall have the right to utilize the patents.

(ii) IMPROVEMENT OF THE PROVISIONS ON REMUNERATION FOR EMPLOYEE INVENTIONS

As a standard for the calculation of rewards or remuneration for employee invention, this provision is a big issue for the employee invention regime. Generally, the principle of promise first (agreement shall be the first priority) should be observed; that is, issues concerning rewards or remuneration for employee inventions (including the amount, the process and the means, etc.) should be decided by a contract.<sup>64</sup> But the form of rewards and remunerations shall not be limited to money; the employer and the inventor may reach an agreement to decide non-monetary means of reward and remuneration for the inventor, such as granting equity, options, promotion, wage increases or paid vacation, etc. However, owing to the employee's unfavorable position and weak negotiating power, some firm provisions on remuneration should also be defined in the regulations.

In order to protect inventors' initiatives and their legitimate rights and interests, an appropriate distribution mechanism for profits produced by patents should be established, and it should be laid down in related laws and regulations. The laws or regulations may require the entities to improve their internal management structures for employee inventions and allow the entities to conclude agreements to determine the distribution of rights and interests. The employer shall improve and implement a registration system for scientific R & D records, create a system for reporting the results of employee inventions with a clarified reporting process and establish an evaluation system for scientific research achievements and IP rights therein. The employer shall also develop and improve the management rules for distributing rewards and remuneration following due and reasonable process. The employer shall collect employee opinion and consult the inventors on an equal footing.<sup>65</sup> When the means and amounts for distributing the rewards and remuneration are being defined according to the internal regulations made by the employer, the regulations shall comply with

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<sup>64</sup> Zhang Yonghua, *Analysis on Several Hot Issues in the Drafting Process of the Employee Invention Regulations* (2015) 4 *China Innovation and Patent* 14-17.

<sup>65</sup> Zhang, Yinglu; Liu Hua, "Study on Encouraging Mechanism of Japanese Employee invention" (2014) 3 *Forum on Science and Technology in China* 149-154.

labour law, labour contract law and other laws, which will ensure that these regulations are legitimate.

The provisions in the Patent law, Contract law and the Law on PTSTA should be enforced by specific regulations and rules, and should especially defining terminologies such as "profits", "income", "reasonable" etc.,. For example, the regulations on implementing the Patent Law provide that if there is no agreement between the employer and the inventor, the statutory standards---the rewards and remuneration no less than the minimum amount: 3000 Yuan for an invention and 1000 Yuan for a utility model and a design--- shall be adopted. When there is a dispute, the court should determine the amount based on the competitive circumstances of the industry concerned, production scales and profit of the employer. However, in most occasions, the courts just adopt the minimum account.<sup>66</sup> This runs against the objectives of enacting the regulations and the principle of fairness. Furthermore, with the overall increase in China's wage level in recent years, the above-mentioned minimum amount in the patent law implementation regulation is clearly too low.<sup>67</sup> The Draft Regulations encourage the employer to make internal rules or reach agreements with the inventors on the issues of rewards and remuneration for service inventions (such as the process, manners and amount, etc.), and in the process of making such rules, the inventors' opinions should be consulted.<sup>68</sup> If the employer does not lay down the rules or conclude an agreement, then the following statutory provisions should be followed: the reward for an invention shall be no less than two times the average monthly wage of the employee, and the reward for a utility model or design no less than the average monthly wage. For remuneration, the inventor shall annually gain (1) no less than 5% of the annual profit from the implementation of the invented patents or no less than 3% of the profit from other IP rights, or (2) no less than 0.5% of the annual sales revenue from the implementation of the invention patents or no less than 0.3% of the profit from other IP rights, or (3) the amount of remuneration which equals the reasonable multiples of the inventor's monthly average salary; or the inventor shall gain certain amount of remuneration at a time in a reasonable manner based on the calculation of items (1) and (2). However, the accumulated remuneration for the inventor shall not exceed 50% of the total operating profit

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<sup>66</sup> See Tao Xinliang, *Agreement on the Nature of Employment Invention and the Related Remuneration and Reward*, (2016) 3, *Intellectual Property Journal* : 3-13.

<sup>67</sup> According to the National Salary Report in China which was issued on January 17<sup>th</sup>, 2017, the average salary of workers in China in the last 10 years has increased by 2.95 times, see China Issued Its First National Salary Report, *Jianghai Evening News*, January 18<sup>th</sup>, 2017.

<sup>68</sup> See Articles 18 &19 of Draft Regulations on Employee inventions (April, 2015)

of exploiting IP. If there are neither internal rules nor an agreement, the remuneration for the inventor shall be no less than 20% of the royalty from transferring or licensing the patent.<sup>69</sup> In the authors' view, these provisions may be more implementable and reasonable, for on some occasions, the inventors may not have the same negotiating power or ability as the employers. If inventors and employers fail to reach a fair agreement, these provisions should be applied.

To summarize, the methods for determining rewards and remuneration should be flexible. Firstly, they may be negotiated and reflected in a contract concluded between employees and the employers. Secondly, the employers' internal regulations should be encouraged and applied. Finally, in the absence of contractual provisions or company regulations, the statutory provisions shall be adopted.

### (iii) IMPROVEMENT OF THE PROVISIONS ON DISPUTE SETTLEMENT

A reasonable dispute settlement mechanism should be established. The mechanisms in Germany and France provide good reference points in this regard. IP offices at various levels can play important roles in resolving disputes by supervision, mediation and conciliation. Boards may be established for settling disputes in IP offices. Meanwhile, internal dispute settlement mechanisms should be established and improved to encourage employees to resolve disputes by negotiation.<sup>70</sup> Further, a Social Surveillance Mechanism should also be established which would allow the resolution of disputes by Labor Unions or Industry Associations, Inventors Associations, etc. Judicial processes should be the last recourse for solving disputes. If the suit filed by the employer fails, the litigation fee shall be paid by the employer, as in the case of patent infringement disputes.

## 5. CONCLUSION

China is vigorously promoting the construction of an innovation-oriented country by stimulating enthusiasm in R & D. The government and state-owned enterprises contribute the most R & D investment. In light of what has been discussed in this paper, it is very important to improve the legal regime for patenting employee inventions, including the issue of application rights, ownership, utilization inventions and rewards for as well as remuneration of inventors. The current legal regime for employee inventions in China has deficiencies, one of which is that the employee inventor is often not paid for their contributions. This negatively affects the

commercialization of employee invention patents as without the inventors' active participation, it is impossible for employers to successfully commercialize the patents. In order to incentivize inventors to promote the commercialization of employee invention patents, we should improve the legal regime in three aspects: (1) adopt more flexible provisions on ascription of ownership, rewards and remuneration of employee inventors; (2) clarify the provisions on rewards and remunerations in the laws and regulations; and (3) implement a multi-tier dispute settlement mechanism.

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## 2. INTERNATIONAL OBLIGATIONS REGARDING TECHNOLOGICAL PROTECTION MEASURES AND THEIR EFFECTS ON EDUCATION: THE CASE OF COLOMBIA

Marcela Palacio Puerta \*

### ABSTRACT

Countries around the world are incorporating technology in education with the purpose of giving new learners the abilities they need for the 21st century. For developing countries, such as Colombia, the use of Information and Communication Technology (ICT) in education also presents the opportunity to solve the problems plaguing its educational system and fix social disparities. Colombia is therefore undertaking significant efforts to develop a policy for the incorporation of technology in education. However, its half-hearted attempt to implement the obligations related to technological protection measures (TPM) laid down in the United States (US) Free Trade Agreements (FTAs) may act as a barrier for the fruition of these policies.

Although scholars have studied the effects that the United States FTAs' copyright provisions have on developing countries, the potential effects of these provisions on education in Colombia have not been investigated, perhaps because this FTA entered into force only recently. Therefore, there is a need for scholarship on this specific aspect of US-Colombia FTAs. This paper argues that an inadequate implementation of the TPM provisions, as has been the case with Colombia so far, can be detrimental for Colombia's policies on TIC and education.

In order to contextualise the argument, this paper first explains the incorporation of technology in education focusing on Colombia. Secondly, it describes the US-Colombia FTA's obligations regarding TPM. Thirdly, it argues that Colombia's attempted implementation of the US-Colombia FTA's TPM provisions may act as a barrier for the incorporation of technology in education. Finally, it proposes a solution for the Colombian case.

**Keywords:** Colombia, Free Trade Agreement, United States, Technological Protection Measures, Education, Technology, Developing Countries, Internet

### 1. INCORPORATION OF TECHNOLOGY IN EDUCATION: THE CASE OF COLOMBIA

Technology is being incorporated in the learning process around the world. This idea of incorporating technology in

education goes beyond merely using laptops to replace typewriters and the Internet to replace printed material.<sup>1</sup> It also goes beyond a typical conception of distance education, where educational activities happen as they do inside a classroom but where students and teachers are separated by time and location.<sup>2</sup> Instead, incorporating ICT in education means making technology the main element of education rather than a tool to enhance it.<sup>3</sup> This incorporation transforms the learning process<sup>4</sup> via the use of new educational methodologies and activities such as collaboration, life-long learning, and a model of always-on learning, among other things.

This incorporation has two purposes: *firstly*, to provide children who do not know a world without tablets and the Internet<sup>5</sup> relevant skills in a more effective manner; and

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<sup>1</sup> See UNESCO, 'Open and distance learning: trends, policy and strategy considerations' (2002) 66 <<http://unesdoc.unesco.org/images/0012/001284/128463e.pdf>> accessed 7 June 2016.

<sup>2</sup> See Steven A. Armatas, *Distance Learning and Copyright: A Guide to Legal Issues* (1st ed., American Bar Association, 2008) 5 ("The advent of digital technologies has enabled more teacher-to-student and student-to-student interaction... As a result of these advances, distance programs may now offer experiences more closely paralleling face-to-face teaching").

<sup>3</sup> See UNESCO, *Technologies for Education* (Wadi D. Haddad & Alexandra Draxler ed., 2002) 8-9. <<http://unesdoc.unesco.org/images/0011/001191/119129e.pdf>> accessed 7 June 2016 ("In this new paradigm, ICTs are not a substitute for schooling. They constitute one integral element of this education model-supplementing and enriching traditional institutions, delivery systems, and instructional materials. In this sense, ICTs contribute to the whole system of knowledge dissemination and learning."); Jonathan Anderson, *ICT Transforming Education: a Regional Guide* (2010) 33 <<http://unesdoc.unesco.org/images/0018/001892/189216e.pdf>> accessed 1 June 2017 (... [W]hen the transforming stage is reached, the whole ethos of the institutions is changed: teachers and other support staff regard ICT as a natural part of everyday life of their institutions, which have become centres of learning for their communities").

<sup>4</sup> See Jonathan Anderson, *ICT Transforming Education: A Regional Guide* (2010) 6 tbl. 1.1. - 1.2. <<http://unesdoc.unesco.org/images/0018/001892/189216e.pdf>> accessed 1 June 2017 (describing the new roles of teachers and students when the learning process is transformed thanks to the use of technology).

<sup>5</sup> See Ivan Kalaš et al., 'ICT in Primary Education' (UNESCO, 2012) 16 <<http://iite.unesco.org/pics/publications/en/files/3214707.pdf>> accessed 7 June 2016 ("One of the most significant changes over the past decade is this: at primary school we nowadays deal with children of the digital or net generation, that is, with children that

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secondly, to prepare them to be useful for the new knowledge-based economy.<sup>6</sup>

These new educational methodologies and activities are possible thanks partially to Web 2.0 tools such as wikis, blogs, and user-generated content platforms, which promote access, communication, and the transformation of knowledge.<sup>7</sup> Collaboration, for example, seeks to promote cooperation between students and teachers toward the creation of new knowledge<sup>8</sup> and between teachers, students, and experts around the world through learning communities.<sup>9</sup> Blogs and wikis, among other things, allow everyone to be a participant in a discussion and exchange resources, tips, and opinions. Technology has facilitated and promoted lifelong learning by allowing formal institutions to open their courses to the public and individuals to engage in teaching.<sup>10</sup> Finally, a model of

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were born into a world where breath-taking technologies have become commonplace.”)

<sup>6</sup> See Robert B. Kozma, & Isaacs Shafika, *Transforming Education: The Power of ICT Policies*, (UNESCO, 2011) 22 <<http://unesdoc.unesco.org/images/0021/002118/211842e.pdf>> accessed 7 June 2016 (stating that a transformed education has implications in a knowledge-based economy and society where everyone is able and needs to produce and consume knowledge products)

<sup>7</sup> See Jonathan Anderson, *ICT Transforming Education: A Regional Guide* (2010) 72 <<http://unesdoc.unesco.org/images/0018/001892/189216e.pdf>> accessed 1 June 2017 (describing the characteristics of Web 2.0 tools and their use in education)

<sup>8</sup> See Robert B. Kozma, & Isaacs Shafika, *Transforming Education: The Power of ICT Policies*, (UNESCO, 2011) 22 <<http://unesdoc.unesco.org/images/0021/002118/211842e.pdf>> accessed 7 June 2016 (stating that technology allows collaboration between students and teachers, promoting the creation of their own knowledge products)

<sup>9</sup> *ibid*; See UNESCO, *Technologies for Education* (Wadi D. Haddad & Alexandra Draxler ed., 2002) 65 <<http://unesdoc.unesco.org/images/0011/001191/119129e.pdf>> accessed 7 June 2016 (“With ICTs, sharing knowledge resources is enhanced many times over. Putting information on the Web makes it available immediately to anyone in the world with suitable connection. Teachers can share lesson plans with their colleagues in their own jurisdictions and with those far removed from their jurisdictions. Students from all over the world can undertake joint projects, exchange findings, analyze data collectively, and draw reasoned conclusions.”).

<sup>10</sup> See William W. Fisher III et al., ‘The Digital Learning Challenge: Obstacles to Educational Uses of Copyrighted Material in the Digital Age. A Foundational White Paper.’ (2006) §§ 1-1.1 <<http://cyber.law.harvard.edu/media/files/copyrightandeducation.html#TOC>> accessed 7 June 2016 (arguing that technology allows traditional institutions to be open to the public and also allows individuals to engage in teaching and learning activities).

always-on learning seeks to promote continuity in learning by promoting learning outside the classroom.<sup>11</sup> This model is implemented through the use of blogs and cloud storage in education, which are accessible anytime and anywhere.

These methodologies and activities respond to the realities of 21st-century society. Collaboration is a crucial skill at a time when employers seek people who are able to create and work together.<sup>12</sup> Lifelong learning becomes necessary in a society where people need to continuously evolve to be valuable for the global market,<sup>13</sup> and a model of always-on learning responds to the fact that new learners are constantly accessing information.

The purpose of incorporating technology in education for developing countries goes beyond giving new children new skills or transforming the educational process. These countries are counting on the ability of technology to solve serious problems in their educational system<sup>14</sup> such as issues of access, lack of educational resources or qualified teachers. This is the case in Colombia as well.

Colombia has engaged in the process of incorporating technology in education with the strong belief that this incorporation will provide the ability to solve the present crises in its educational system and achieve social inclusion. Therefore, Colombia developed several plans and programs in order to incorporate technology in

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<sup>11</sup> See UNESCO, *Technologies for Education* (Wadi D. Haddad & Alexandra Draxler ed., 2002) 10 <<http://unesdoc.unesco.org/images/0011/001191/119129e.pdf>> accessed 7 June 2016 (“Technology’s capacity to reach learners in any place and at any time has the potential to promote revolutionary changes in the educational paradigm. Such capacity eliminates the premise that learning time equals classroom time.”)

<sup>12</sup> *Ibid* 36 (“Globalization, creativity, and collaboration are key words in the modern workplace, where employers and employees are expected to share knowledge and work together toward common goals.”)

<sup>13</sup> See Diego Ernesto Leal Fonseca, ‘Iniciativa Colombiana de Objetos de Aprendizaje: Situación Actual y Potencial para el Futuro’ (2008) 8(8) Apertura 76, 78 <<http://www.redalyc.org/pdf/688/68811215006.pdf>> accessed 1 June 2017 (stating that lifelong learning is a requirement of current society).

<sup>14</sup> See Carolina Rossini, ‘Green-Paper: The State and Challenges of OER in Brazil: From Readers to Writers?’ (Berkman Research Publication No 2010-01, 2010) 11 (...[D]eveloping nations in particular look to use the Internet to replace outdated and insufficient educational systems...”) see also Robert B. Kozma, & Isaacs Shafika, *Unesco, Transforming Education: The Power of ICT Policies* (UNESCO, 2011) 4 <<http://unesdoc.unesco.org/images/0021/002118/211842e.pdf>> accessed 7 June 2016.

education.<sup>15</sup> These included providing hardware and connectivity,<sup>16</sup> promoting collaboration and the creation and exchange of new educational resources called 'Colombia Aprende',<sup>17</sup> training teachers in the use of ICT and the development of new methodologies in connection with technology.<sup>18</sup> Thus, in spite of the scarcity of economic resources at its disposal,<sup>19</sup> it is clear that Colombia has begun implementing a comprehensive strategy directed to achieve a total incorporation of technology in education.

## 2. THE US-COLOMBIA FREE TRADE AGREEMENT: NEW OBLIGATIONS REGARDING TECHNOLOGICAL PROTECTION MEASURES

In 2003, Colombia informed the United States that it wished to enter into commercial negotiations. Colombia's motivations to sign an FTA with the US were motivated by economic reasons. *Firstly*, the US was Colombia's major

trading partner. *Secondly*, having an FTA with the United States would provide it access to the American market.<sup>20</sup> After negotiations and ratification by the US, the agreement entered into force in May 2012.<sup>21</sup>

Regarding intellectual property rights (IPRs), the United States, following its international policy in the matter, incorporated detailed IP provisions in Chapter 16.

These IPR obligations incorporated in US FTAs have several characteristics. *Firstly*, they are TRIPs-Plus standards.<sup>22</sup> *Secondly*, the US introduces these provisions as a template<sup>23</sup> and negotiates on a take-it-or-leave-it basis. *Thirdly*, such provisions tend to closely follow US legislation.<sup>24</sup> As a result, most US trading parties acquired very similar obligations regarding IPRs,<sup>25</sup> especially because most of them lack bargaining power to promote

<sup>15</sup> The Colombian government has addressed the goals in this field mainly in two plans: Vision 2019 for Education [Visión 2019 para la Educación] and the National ICTs Plan [Plan Nacional de TIC]. These plans are being developed in connection with other plans like the the National Development Plan [El Plan Nacional de Desarrollo], National Competition Policy [Política Nacional de Competitividad]; The Science and Technology Plan [Plan de Ciencia y Tecnología] and The Program of Strategic Use of Media and Information and Communication Technology for Education [Programa Estratégico de Uso de Medios y Tecnologías de la Información y Comunicaciones (MTIC) en la Educación] among others. See Ministerio De Comunicaciones, 'Plan Nacional De Tecnologías De La Información Y De Las Comunicaciones' (2008) <[www.eduteka.org/pdfdir/ColombiaPlanNacionalTIC.pdf](http://www.eduteka.org/pdfdir/ColombiaPlanNacionalTIC.pdf)> accessed 8 June 2016 [hereinafter Plan Nacional TIC].

<sup>16</sup> See Ministerio Nacional de Educación, 'Programa Nacional de Nuevas Tecnologías' (Colombia Aprende (n.d)) <[www.colombiaaprende.edu.co/html/home/1592/article-102549.html](http://www.colombiaaprende.edu.co/html/home/1592/article-102549.html)> accessed 8 June 2016 (describing the goals regarding hardware and connectivity)

<sup>17</sup> See Ministerio de Educación Nacional, *www.colombiaaprende.edu.co La Nueva Red del Conocimiento (2004)* 29 ALTABLERO No 29 <[www.mineducacion.gov.co/1621/article-87398.html](http://www.mineducacion.gov.co/1621/article-87398.html)> accessed 8 June 2016.

<sup>18</sup> See Ministerio de Tecnologías de la Información y las Comunicaciones, 'Informe de Rendición de Cuentas' (2014) 44 <[www.mintic.gov.co/portal/604/articles-4323\\_recurso\\_1.pdf](http://www.mintic.gov.co/portal/604/articles-4323_recurso_1.pdf)> accessed 8 June 2016 (describing the program for training teachers)

<sup>19</sup> See Ministerio de Tecnologías de las Información y las Comunicaciones, 'Barreras que Impiden la Masificación del Internet' (Vive Digital Colombia, (n.d)) <[www.mintic.gov.co/portal/vivedigital/612/w3-article-1519.html](http://www.mintic.gov.co/portal/vivedigital/612/w3-article-1519.html)> accessed 8 June 2016 (stating that due to the Colombian reality the Colombian government has scarce resources to invest in infrastructure).

<sup>20</sup> See Nancy R. Rueda E., 'TLC Colombia-Estados Unidos Y Sus Implicaciones En El Turismo' (2012) XIII ANUARIO TURISMO Y SOCIEDAD 265, 270 <<http://papers.ssrn.com/abstract=2269164>> accessed 1 June 2017 (Stating that an FTA with the US was seemed as a great opportunity for Colombia's development);

<sup>21</sup> See Ministerio de Comercio, Industria y Turismo, 'Acuerdo de Promoción Comercial entre la República de Colombia y Estados Unidos de América' (Mincit (n.d)) <[www.mincit.gov.co/tlc/publicaciones.php?id=14853](http://www.mincit.gov.co/tlc/publicaciones.php?id=14853)> accessed 8 June 2016.

<sup>22</sup> TRIPs-Plus standards are those standards of protection that either exceed the level of protection incorporated in TRIPs agreements or are not included in TRIPs at all. See Peter Drahos, 'Bits and Bips Bilateralism in Intellectual Property' (2001) 4 J. World Intell. Prop. 791,792-3 (explaining the TRIPs-plus concept) see also David Vivas-Eugui, 'Regional and Bilateral Agreements and TRIPs-Plus World: the Free Trade Area of the Americas (FTAA)' (TRIPs Issues papers 1, 2003) 4 <[www.quono.org/sites/default/files/resources/FTAs-TRIPs-plus-English.pdf](http://www.quono.org/sites/default/files/resources/FTAs-TRIPs-plus-English.pdf)> accessed 1 June 2017.

<sup>23</sup> See Peter Drahos, 'Bits and Bips Bilateralism in Intellectual Property' (2001) 4 J. World Intell. Prop. 791,792-4 <[www.quono.org/sites/default/files/resources/FTAs-TRIPs-plus-English.pdf](http://www.quono.org/sites/default/files/resources/FTAs-TRIPs-plus-English.pdf)> accessed 1 June 2017 (explaining that in order to reduce costs of bilatlarism, the United States brings to the negotiation an already prepared text that follows the standards of a model treaty ratified by the Senate)

<sup>24</sup> See Jakkrit Kuanpoth, *TRIPs-Plus rules under Free Trade Agreements: An Asian Perspective*, in INTELLECTUAL PROPERTY & FREE TRADE AGREEMENTS (Christopher Heath & Anselm Kamperman Sanders eds., Hart Publishing ed., 2007) 28.

<sup>25</sup> See Peter Drahos, 'Bits and Bips Bilateralism in Intellectual Property' (2001) 4 J. World Intell. Prop. 791,792-4 <[www.quono.org/sites/default/files/resources/FTAs-TRIPs-plus-English.pdf](http://www.quono.org/sites/default/files/resources/FTAs-TRIPs-plus-English.pdf)> accessed 1 June 2017 (stating that the U.S has incentives to search for standardization of bilaterals in this way. For example, free trade agreements negotiated with Jordan "will serve as a model for other FTAs being negotiated with Chile and Singapore.").

their intellectual property goals and end up accepting IPR obligations that may not benefit them.<sup>26</sup>

In the case of Colombia, its strong desire to enter into a commercial agreement with the United States played a critical role during the negotiations of the IP chapter. Colombia was not happy with the incorporation of IP obligations in the text of an FTA. The obligations regarding patent protection and biodiversity, in particular, were topics of national concern.<sup>27</sup> Regardless, the US commission rejected Colombia's proposals on the subject, and consequently, the patent provisions became a hurdle to the successful conclusion of the agreement. Therefore, the Colombian government, in order to close the agreement, decided that the "technical negotiations" were finished and that the "political negotiations" were on to take the final decision.<sup>28</sup>

The Colombian negotiation commission's discontent with the US proposal was not as strong on the copyright provisions as it was in the case of patents or biodiversity. Few concerns were raised<sup>29</sup> and as a consequence, the final text of the USCO incorporated several US-proposed obligations regarding copyright protection in the digital environment.

Therefore, the USCO's copyright provisions, like previous agreements on the subject, are based on the principle of

"national treatment".<sup>30</sup> The FTA clarifies that its terms are minimum standards<sup>31</sup> and apply retroactively.<sup>32</sup> As for copyright provisions, the FTA begins by mandating ratification of the Convention Relating to the Distribution of Programmed-Carrying Signals Transmitted by Satellite (1974),<sup>33</sup> the WCT,<sup>34</sup> and the WPPT.<sup>35</sup> Moreover, the USCO affirms the obligations acquired under the Berne Convention,<sup>36</sup> and clarifies that the application of the reproduction right to cover temporary reproductions<sup>37</sup> includes the wording of the distribution (without mentioning the right to determine the exhaustion) and public communication rights included in the WCT.<sup>38</sup> It also increases the general rule of copyright duration established in Berne to 70 years after an author's death,<sup>39</sup> and provides that initial ownership shall vest in the author.<sup>40</sup>

Moreover, the USCO establishes common obligations for copyright and related rights to "ensure that no hierarchy is established between rights of authors, on the one hand, and rights of performers and producer of phonograms on the other hand".<sup>41</sup> It also mandates the application of article 18 of the Berne Convention,<sup>42</sup> and ratifies the transferability of the economic rights of the author and neighbouring rights.<sup>43</sup> Furthermore, it incorporates a system for limiting the liability of Internet service providers.<sup>44</sup>

Regarding technological protection measures, the USCO contains detailed provisions based on the US Digital Millennium Copyright Act (DMCA). Article 16.7.4 requires the trade parties to sanction with criminal penalties and civil remedies the three acts prohibited by the DMCA, which are (1) circumventing access-control measures; (2) anti-trafficking provisions of circumventing devices and services of an access-control measure; and (3) anti-trafficking provisions of circumventing devices and services

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<sup>26</sup> See Peter K. Yu, 'Currents and Crosscurrents in the International Intellectual Property Regime' (Michigan State University College of Law Research paper No.02-12, 2004) 44-5 <<http://ssrn.com/abstract=578572>> accessed 1 June 2017 (stating that less developed countries do not have bargaining power to negotiate better agreements and end up accepting intellectual property provisions that might not benefit them).

<sup>27</sup> See Ministerio de Comercio, Industria y Turismo, 'La Negociación Del TLC de Colombia Con Los Estados Unidos' (n.d) 19-20 [www.mincit.gov.co/tlc/publicaciones.php?id=747](http://www.mincit.gov.co/tlc/publicaciones.php?id=747) accessed 1 June 2017 (follow 1. La Negociación del TLC de Colombia con los Estados Unidos) (stating that biological piracy and access to medicine are sensitive topics for Colombia).

<sup>28</sup> See Johanna von Braun, 'La Negociación en Propiedad Intelectual en los Tratados de Libre Comercio de los EE.UU con Colombia y Perú' (ICTSD, 2012) <<http://ictsd.org/i/news/puentes/132572/#sthash.GXvyHtic.dpuf>> accessed 8 June 2016 (describing the position of Colombia's government of finishing "technical negotiation" and starting "political negotiations")

<sup>29</sup> See concerns at Dirección Nacional de Derecho de Autor Unidad Administrativa Especial Ministerio Del Interior y de Justicia, 'Informe XIII Ronda de Negociaciones Tratado de Libre Comercio Andinos- Estados Unidos' (2005) <[---

<sup>30</sup> See Free Trade Agreement, US- Colom., Nov. 22, 2006, art.16.1.8<\[www.ustr.gov/trade-agreements/free-trade-agreements/colombia-fta/final-text\]\(http://www.ustr.gov/trade-agreements/free-trade-agreements/colombia-fta/final-text\)> accessed 1 June 2017.](http://www.aplicaciones-mcit.gov.co/mcit_tlc/> (typing in the search bar derechos de autor) accessed 7 June 2016</a></p></div><div data-bbox=)

<sup>31</sup> Ibid art. 16.1.7.

<sup>32</sup> Ibid art. 16.1.11.

<sup>33</sup> Ibid art. 16.1.2(a).

<sup>34</sup> Ibid art. 16.1.2(c).

<sup>35</sup> Ibid art. 16.1.2(d).

<sup>36</sup> Ibid art. 16.5.1.

<sup>37</sup> Ibid art. 16.5.2.

<sup>38</sup> Ibid art. 16.5.3, 16.5.4.

<sup>39</sup> Ibid art. 16.5.5.

<sup>40</sup> Ibid art. 16.5.6.

<sup>41</sup> Ibid art. 16.7.1.

<sup>42</sup> Ibid art. 16.7.2.

<sup>43</sup> Ibid art. 16.7.3.

<sup>44</sup> Ibid art. 16.11.29.

of an copy-control measure.<sup>45</sup> Additionally, the USCO incorporates specific characteristics of the US model, including seven confined exceptions<sup>46</sup> with instructions about application to the different prohibited acts,<sup>47</sup> a stand-alone provision,<sup>48</sup> a no-mandate rule,<sup>49</sup> and a TPM definition.<sup>50</sup> The USCO also requires that the parties create a process for additional exceptions to the act of circumvention,<sup>51</sup> as the DMCA requires. The USCO permits the parties to develop this as either an administrative or a legislative procedure.

Thus, the USCO's TPM obligations have become the new international standard on this aspect of technology incorporation for Colombia.

### 3. COLOMBIA'S ATTEMPTED IMPLEMENTATION OF THE USCO'S TPM PROVISIONS AND ITS IMPACT

Colombia's desire to have an FTA with the United States played a central role<sup>52</sup> in its fast-track implementation of the copyright provisions<sup>53</sup> vide law 1520 de 2012 in order to bring the agreement in force. It did not attempt to rebalance the existing legal framework, which was disrupted as a consequence of the incorporation of new

provisions.<sup>54</sup> Moreover, Colombia did not focus on establishing a user-friendly implementation of the FTA obligations to continue promoting the use of the technology in education. Instead, the attempted implementation of the TPM obligations followed an FTA-Plus system and a DMCA-plus model which, as explained in the following subsection, can pose problems for its program of incorporation of technology in education.

#### A. THE ATTEMPTED IMPLEMENTATION

Before law 1520 of 2012, Colombia had a TPM legislation in force. The original legislation on TPM was part of the Criminal Code as a result of the WIPO Copyright Treaty's implementation. Article 272 of the Criminal Code<sup>55</sup> prohibited both the circumvention of copy-control technological measures<sup>56</sup> and trafficking on devices to circumvent a copy-control<sup>57</sup> measure. Violation of these provisions was punishable by fines. However, the law had some deficiencies. For example, neither did it require the TPM to be an "effective" TPM,<sup>58</sup> nor did it provide a definition for TPM.<sup>59</sup> It also did not require commercial scale or an intent to profit; and finally, it did not create any exceptions.<sup>60</sup>

The Criminal Code's TPM provisions were modified as a result of the USCO even before the USCO was ratified. After the negotiation stage of the USCO, the Colombian Congress – with the purpose of lobbying in favour of the USCO<sup>61</sup> – amended the TPM provisions by increasing the punishment of both the act of circumvention on copy-control and the act of trafficking on devices to circumvent a copy-control. This fact evidences the commercial desire that motivated the implementation. The new amendment left the substantive text of the previous provision

<sup>45</sup> Ibid art. 16.7.4(a).

<sup>46</sup> Ibid art. 16.7.4(e).

<sup>47</sup> Ibid art. 16.7.4(g).

<sup>48</sup> Ibid art. 16.7.4(d).

<sup>49</sup> Ibid art. 16.7.4(c).

<sup>50</sup> Ibid art. 16.7.4(b).

<sup>51</sup> Ibid art. 16.7.4(f).

<sup>52</sup> See Carolina Botero Cabrera, 'Ley Lleras 2 es Inconstitucional' (El Espectador, 31 January 2013) <[www.elespectador.com/opinion/ley-lleras-2-inconstitucional-columna-402262](http://www.elespectador.com/opinion/ley-lleras-2-inconstitucional-columna-402262)> accessed 8 June 2016

<sup>53</sup> See Camilo Romero, 'Ley Lleras 2.0 en Riesgo los Derechos a la Igualdad, a la Libertad de Expression, y a la Intinidad' (n.d) 2 <[www.asleyes.com/descargas/pdf/comentario/ley\\_lleras.pdf](http://www.asleyes.com/descargas/pdf/comentario/ley_lleras.pdf)> accessed 8 June 2016 (the Congressman Camilo Romero criticizes the process given to Ley Lleras 2.0 stating that it came to Congress as an urgent matter and the Congress did not make a public debate for the subject). See also Editorial El Espectador, 'Los Problemas de la 'Ley Lleras 2.0'' (El Espectador, 11 April 2012) <[www.elespectador.com/opinion/editorial/los-problemas-de-ley-lleras-20-articulo-337685](http://www.elespectador.com/opinion/editorial/los-problemas-de-ley-lleras-20-articulo-337685)> accessed 8 June 2016 (stating that law 1520 was criticized because of its fast enactment in order to have it as a present for the visit of president Obama); see also Juliana Vargas Prieto, 'Responsabilidad de los Prestadores de Servicio de Almacenamiento de Datos por Infracciones a Derechos de Autor' (2013) 10 Revista de Derecho, Comunicaciones y Nuevas Tecnologías 5, 25 <[https://derechoytics.uniandes.edu.co/components/com\\_revista/archivos/derechoytics/ytics134.pdf](https://derechoytics.uniandes.edu.co/components/com_revista/archivos/derechoytics/ytics134.pdf)> accessed 1 June 2017 (stating that law 1520 was enacted quickly with the purpose of having it ready for the "Summits of the Americas").

<sup>54</sup> See Text of Ley 1520 de 2012 (incorporating the FTA's obligations regarding TPM; it does not rebalance the current legal framework)

<sup>55</sup> See Código Penal (Colom.).

<sup>56</sup> Ibid art. 272(1) (Colom.).

<sup>57</sup> Ibid art. 273(3) (Colom.).

<sup>58</sup> Ibid art. 272, 272(1) (Colom.). See also Jhonny Pabón, 'Los Riesgos de la Tecnología. Medidas Tecnológicas de Protección: el Caso de los DVD' (2008) 12 Propiedad Inmaterial, 121, 131 (stating that the Colombian legislation does not require a Technological Protection Measure to be "effective").

<sup>59</sup> See Jhonny Pabón, 'Medidas Tecnológicas de Protección en el Tratado de Libre Comercio con los Estados Unidos de Norteamérica' (2007) 10-11 Propiedad Inmaterial, 93, 104 (stating that the Colombian legislation does not provide a TPM definition).

<sup>60</sup> See Código Penal art. 272(Colom.) (see article 272 is not subject to exceptions).

<sup>61</sup> See Ernesto Rengifo, 'Un Nuevo Reto del Derecho en la Edad de la Información' (2008) 12 Propiedad Inmaterial 105, 116 (stating that law 1032 of 2006 that increased the punishment for the circumvention of the technological protection measures was promoted as a lobby for the USCO).

unchanged but increased the punishment against the circumvention of TPM to imprisonment between four and eight years and a fine between 26.66 to 1000 times the minimum wage.<sup>62</sup> As the substantive part of the law remained unchanged, the provision did not require commercial scale or an intent to profit or private gain and did not establish any limitation and exception despite its severe punishment. This is the law currently in force.

After Colombia ratified the USCO, there was another amendment to the TPM provisions in order to actually implement USCO's obligation in that respect. Law 1520 of 2012 implemented the anti-circumvention measures provisions of the USCO in addition to other copyright provisions. As mentioned above, the attempted implementation did not seek to re-balance the existing copyright law. Additionally, the implementation went beyond the minimum obligations incorporated in the USCO generating an FTA-Plus regime and a DMCA-Plus model.

Law 1520 practically added the text of the USCO to the existing TPM provisions. Article 14 established civil liability for the circumvention of a technological protection measure.<sup>63</sup> This was a new aspect to Colombian law because the previous regulation on the subject established only criminal sanctions. This article prohibited four acts: (1) the trafficking on devices and services to circumvent a copy-control measure; (2) the trafficking on devices and services to circumvent an access-control measure<sup>64</sup> (3) the circumvention of an access-control measure, as the USCO required; and (4) the circumvention of a copy-control measure, as the previous law stated.<sup>65</sup> Finally, the law clarified that the civil liability for circumventing a technological protection measure is a standalone provision.<sup>66</sup> This type of implementation outlawing four acts, went beyond the minimum requirements of USCO, which required only sanction for circumventing an access-control measure<sup>67</sup> and trafficking on devices of both type

of measures. Also, it went beyond the DMCA model, which outlaws only the circumvention of an access-control measure.<sup>68</sup>

In Article 15, law 1520 implemented the exceptions to the act of circumventing an access-control measure by closely following the text of the USCO. The text of the law confined these exceptions to the seven exceptions allowed by the treaty.<sup>69</sup> No exception was created for circumvention of a copy-control measure. In deciding whether to provide a legislative or administrative procedure to create additional exceptions, Colombia created a legislative procedure and put the Government in charge of determining the need to present a bill of law to the Congress to deliberate the enactment of further exceptions.<sup>70</sup> Finally, the law established a no-mandate rule,<sup>71</sup> as the USCO provided.

This type of implementation neither provided a user-friendly implementation of USCO, nor took advantage of the flexibilities of the treaty. For example, providing a legislative procedure for the creation of new exceptions to circumvent an access control measure may be too long and cumbersome to meet the needs of technology users. Moreover, failing to create exceptions to the circumvention of a copy-control measure goes beyond the treaty obligations, which are silent about protection against the circumvention of a copy-control TPM in the first place. Additionally, this type of implementation provides a model more restrictive than that set out in the DMCA, which involves an administrative procedure that kicks in every 3 years.<sup>72</sup>

As for criminal liability, Article 17 closely followed the wording of Article 14 imposing civil liability but is not a standalone provision. The Colombian Congress exercised the ability granted by the USCO to establish either civil or criminal provisions as a standalone measure.<sup>73</sup> The criminal prohibition also sanctioned four circumventing acts,<sup>74</sup> although in some aspects it narrowed the scope of the previous criminal legislation. *Firstly*, the law sanctioned only the acts that were not authorized by the copyright holder or the law. Therefore, it sets some limits to the anti-circumvention provisions.<sup>75</sup> *Secondly*, the law

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<sup>62</sup> See Ley 1032 de 2006, junio 22, 2006 DIARIO OFICIAL [D.O] art. 3. (Colom.).

<sup>63</sup> See Ley 1520 de 2012 art. 14 (Colom.).

<sup>64</sup> Ibid art. 14(b) in connection with the definition of technological protection measure established in article 2.

<sup>65</sup> Ibid Art. 14(a).

<sup>66</sup> The USCO allowed the possibility of making the protection against circumvention either a civil or criminal standalone provision. Ley 1520 de 2012 seems to choose the first possibility. Article 14 of Ley 1512 de 2012 expressly established the standalone nature of the civil remedies against the circumvention of a TPM. Article 17 of Ley 1520 de 2012, regarding the criminal penalties, does not expressly state it.

<sup>67</sup> See Free Trade Agreement, US- Colom., Nov. 22, 2006, 16.7.4(a) <[www.ustr.gov/trade-agreements/free-trade-agreements/colombia-fta/final-text](http://www.ustr.gov/trade-agreements/free-trade-agreements/colombia-fta/final-text)> accessed 1 June 2017.

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<sup>68</sup> See 17 USC §1201(a)(1)(A).

<sup>69</sup> See L. 1520 de 2012 art. 15.

<sup>70</sup> Ibid art. Art. 15(g) paragrafo.

<sup>71</sup> Ibid art. 14 paragrafo.

<sup>72</sup> See 17 USC § 1201 (a)(1)(C).

<sup>73</sup> See Free Trade Agreement, US- Colom., Nov. 22, 2006, 16.7.4(d) <[www.ustr.gov/trade-agreements/free-trade-agreements/colombia-fta/final-text](http://www.ustr.gov/trade-agreements/free-trade-agreements/colombia-fta/final-text)> accessed 1 June 2017 (stating that the standalone provision can be either civil or criminal).

<sup>74</sup> See Ley 1520 de 2012 art. 17(1)-(2).

<sup>75</sup> Ibid art. 17.

requires the purpose of commercial advantage or private financial gain in order to be a punishable act. *Thirdly*, it exempted from criminal liability non-profit libraries, archives, educational institutions, and public non-commercial broadcasting entities,<sup>76</sup> as the USCO requires.<sup>77</sup>

Therefore, although the scope of implementation of criminal liability was narrower than that in the previous legislation, the implementation provided an FTA-plus and DMCA-plus model, thereby creating a more restrictive regime. Like civil liability, law 1520 outlawed more acts of circumvention and further restricted the availability of exceptions.

#### **B. THE EFFECTS OF THE ATTEMPTED IMPLEMENTATION ON A TRANSFORMED LEARNING PROCESS**

TPM regulation enacted under law 1520 created a more restrictive regime than the one required by USCO and the DMCA. This new regulatory scenario creates barriers for a country attempting to use ICT in education to solve salient problems of its system and bring about social inclusion.<sup>78</sup> The implementation did not provide a more user-friendly implementation to promote the use of ICT in education and may end up creating difficulties for the actual transformation of the learning process with the use of technology.

This legislation can make it difficult to engage in the new types of methodologies and activities needed for a transformed learning process in several ways. *Firstly*, legislation that outlaws circumvention of both copy and access-control measures does not allow users to engage in permitted uses. For example, a Colombian professor would not be allowed to circumvent a copy-control TPM in order to make a quotation. However, an American professor would be allowed to circumvent such TPM if he were technologically knowledgeable. This is especially true when the protection of copy-control measures is not subject to exceptions and the exceptions that do exist to circumvent access control measures are narrow, as in Colombia's attempted regulation. Engaging in permitted uses is what allows and promotes collaborative activities and learning communities where every participant of the process should be able to bring resources and information for knowledge creation.<sup>79</sup> Such activity is hindered when permitted uses are restricted by legislation.

*Secondly*, narrowing exceptions to the act of circumventing an access-control measure may leave important non-infringing uses for a transformed learning process behind, as happened in the United States. For

example, a model of always-on learning<sup>80</sup> cannot be adopted where data synchronization, a process where two different data storage devices can have the same information at a given time, can be inhibited by TPM and the law does not provide a solution.

TPM can prevent the synchronization of information such as that available from research articles, pictures, or songs with different devices, even if legal access to the work has been acquired or the work is in the public domain.<sup>81</sup> In the United States, copyright holders have used TPM protection not only to prevent access or exercise an exclusive right but also to attach the content to a specific device or software.<sup>82</sup> For example, software programs such as Adobe digital editions,<sup>83</sup> only allow the sharing of content between two devices if certain conditions are met, such as when both devices have been activated with the same ID.

Such a situation has arisen in the United States because access-TPMs are protected and subject to very narrow exceptions. For example, the reverse engineering exception covers only program-to-program interoperability,<sup>84</sup> leaving outside its scope program-to-data interoperability as software to content. This situation may well be replicated under the Colombian legislation, which, as mentioned above, did not provide a more user-friendly implementation than the DMCA.

*Thirdly*, the creation of learning communities can be affected especially on the subject of encryption research, where researchers may be afraid to share their results online due to the narrow scope of the encryption research exception. This has already become a problem in the US. In one case, the Dutch cryptographer Neils Ferguson identified some flaws in Intel's HDCP video encryption system.<sup>85</sup> Instead of sharing this information, Ferguson chose to self-censor and did not upload his findings on his

<sup>80</sup> See supra for explanation about a model of always-on learning.

<sup>81</sup> See infra.

<sup>82</sup> See Gwen Hinze, Brave New World, 'Ten Years Later: Reviewing The Impact of Policy Choices in The Implementation of the WIPO Internet Treaties' Technological Protection Measures Provisions' (2006-2007) 57 Case W. Res. L. Rev. 779, 800 (stating that, in practice, TPM restrict uses of e-books such the number of copies and the ability to print. Also, TPM can determine the device where the e-book will be read)

<sup>83</sup> See Adobe e-book Platform, 'Adobe Digital Editions/FAQ,Content Portability' (Adobe, (n.d)) <<http://www.adobe.com/mx/products/digital-editions/faq.html>> accessed 1 June 2017( "6. If the permission limits the books to be viewed on only one device, the copied books will not be able to be opened").

<sup>84</sup> See 17 USC § 1201 (f).

<sup>85</sup> See Electronic Frontier Foundation, 'Unintended Consequences: Fifteen Years under the DMCA' (EFF, 2013) <[www.eff.org/pages/unintended-consequences-fifteen-years-under-dmca](http://www.eff.org/pages/unintended-consequences-fifteen-years-under-dmca)> accessed 8 June 2016.

<sup>76</sup> Ibid art. 17 paragraph.

<sup>77</sup> Ibid 16.7.4.

<sup>78</sup> See supra for the purposes of incorporating technology in education.

<sup>79</sup> See supra for explanation for collaborative activities.



website. His stated reason for this self-censoring was his fear of prosecution under the DMCA anti-circumvention provisions in one of his trips to the United States.<sup>86</sup> The situation could be worse in Colombia, where the encryption research exception is as narrow as in the United States, but criminal sanctions are higher.

Thus, the attempted regulatory scenario may set back all the investment and efforts that the Colombian government is putting in to develop its policy of ICT in education. Fortunately, the Constitutional Court struck down this law, which means that Colombia still has the opportunity to attempt a better approach to implementation. Unfortunately, its second attempt at implementation (the bill was eventually tabled) sought to present the same type of legislation.<sup>87</sup> This situation thus merits the need for greater discussion about the consequences of such legislation for Colombia's ICT policy with regard to education.

#### 4. SOLUTIONS

Any new implementation of the law needs to take into account, promote, and allow the use of technology in education. These goals are particularly important for the implementation of a policy crucial for the betterment of Colombian society.

In order to achieve this, some key points must be kept in mind. *Firstly*, there is a need to stay within the minimum requirements of the USCO which are already characterized as a TRIPS-plus standard. *Secondly*, Colombia needs to take advantage of USCO's flexibilities to achieve a more user-friendly implementation of the treaty. For instance, in the choice between a legislative or administrative procedure for creating new exceptions to the circumvention of an access control measure, Colombia should select an administrative procedure. A legislative procedure is more likely to be affected by time or political decisions. Finally, it must be understood that the USCO is not a statutory text but an international treaty that needs to be adapted to local needs. Colombia must therefore carry out implementation according to its desired policy of assimilating technology in education.

The text of the treaty is flexible enough to achieve a different implementation. In order to do so, Colombia could take advantage of other countries' experiences in implementing their US FTAs. For instance, Australia narrowed down the definition of TPM to link the use of such measures to the exercise of copyright.<sup>88</sup> In addition,

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<sup>86</sup> Ibid.

<sup>87</sup> See B.L Cámara 306 de 2013, mayo 15, 2013 <[www.imprenta.gov.co/gacetap/gaceta.mostrar\\_documento?p\\_tipo=05&p\\_numero=306&p\\_consec=36125](http://www.imprenta.gov.co/gacetap/gaceta.mostrar_documento?p_tipo=05&p_numero=306&p_consec=36125)> accessed 1 June 2017.

<sup>88</sup> See Copyright Amendment Bill 2006. Explanatory Memorandum Sch 12 Item 1 Subsec. 10(1) 12.6 explaining subparagraph (a)(ii)

Australia also limited the terms "importation" and "manufacturing" to allow private importation and manufacturing to limit the scope of the anti-trafficking provision.<sup>89</sup> It also provided for action against groundless threats of TPM procedure<sup>90</sup> to avoid censoring researchers, as often happens in the case of encryption research.

Finally, Colombia should establish a procedure that controls the effects of TPM on permitted uses. This procedure could be similar to other consumer rights procedures or the TPM complaints process from the United Kingdom. It can, for example, establish a procedure allowing the user who owns a legal copy of a TPM-protected work to contact the copyright holder when TPM protection is not allowing him or her to engage in a permitted use. In case the user does not get a prompt resolution, the system should provide an action against the copyright holder that could result in the imposition of a fine. Such solutions could help users, and especially the academic community, in continuing to enjoy permitted use and engage in new methods.

#### 5. CONCLUSION

Technology opens up a broad set of possibilities when it is incorporated in education. This incorporation creates the possibility to not just broaden access to educational resources but also to engage in new types of methodologies directed at new learners. Moreover, technology provides tools for developing countries such as Colombia to overcome social disparities and educational crises. Therefore, Colombia is looking to develop different public policies and plans on the subject and has invested a large amount of money for this purpose.

On the other hand, Colombia is bound by the provisions of the USCO. USCO's TPM obligations need to be carefully implemented otherwise they can hinder the engagement and development of new methods, even if there is no copyright infringement. So far, however, Colombia has not attempted a flexible and user-friendly implementation of those obligations during its different attempts at implementation. Instead, the attempted implementation of TPM obligations has gone beyond the obligations of these bilateral agreements and established a more restrictive model that will create barriers for incorporating the use of technology in education. This approach has potentially harmful social consequences for Colombia due to the important objectives of these policies. However, with the Colombian Constitutional Court striking down the earlier legislation, there is still an opportunity for Colombia

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(Austl.)

[www.austlii.edu.au/au/legis/cth/bill\\_em/cab2006223/memo\\_0.html](http://www.austlii.edu.au/au/legis/cth/bill_em/cab2006223/memo_0.html) accessed 1 June 2017.

<sup>89</sup> Ibid Sch 12 Item 9 Subsec. A 12.64.

<sup>90</sup> See *Copyright Act 1968* 202A (1) (Austl.)

to adopt a more user-friendly implementation of its TPM obligations which could facilitate its ICT-education policy.

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### 3. IMPLEMENTING A SUI GENERIS REGIME FOR GRANTING COLLECTIVE RIGHTS TO LEGITIMATE HOLDERS OF TRADITIONAL KNOWLEDGE IN ECUADOR

Catalina Vera Moscoso\*

#### ABSTRACT

While acknowledged as one of the most biodiverse regions in the world, Ecuador has suffered from unauthorized use of its biodiversity due to poorly defined guidelines, a lack of understanding about the protection of Traditional Knowledge systems (TK) and information asymmetry.

As there were no clearly defined guidelines on the protection of TK rights, the Ecuadorian Government approved one of the most important laws on the issue. The law strived for recognizing the rights of nature, the protection of biodiversity and imbuing the importance of TK as part of a strategy for a shared knowledge economy. Long before Ecuador adopted its own TK legislation, the development of a specific system for the protection of traditional knowledge was considered a priority not only in Ecuador, but in the entire Andean region. After extensive negotiations over a six-year period, Peru became the first Andean country to adopt a Sui Generis Regime in 2002, followed by Ecuador in 2016.

Based on lessons learnt from the various strategies adopted to address the issue, this paper proposes three approaches for policymakers and for researchers to evaluate the efficacy of systems for the protection of TK. The first determines the benefits of using IP tools like Geographical Indicators, which local authorities have been advocating for to protect TK derived products. The second analyses the effectiveness IP tools or the Sui Generis Regime for the preservation of TK. Finally, to establish the structures that enhance the entrepreneurial skills in TK

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holders who commercializes or allows commercial use of their knowledge.

**Key words:** *Traditional Knowledge, Sui Generis protection, proposal, policymakers, efficacy.*

#### 1. INTRODUCTION

Ecuador is one of the most biologically and ecologically diverse regions of the world, housing a variety of unique ecosystems, microclimates and Traditional Knowledge systems (TK)<sup>1</sup>. Despite the wealth of TK in the country, the importance of protection of this TK was scarcely known. As a result, there were no clearly defined guidelines on the subject<sup>2</sup>. This resulted in problems in the assignation of property rights, which in turn resulted in a loss of this biodiversity and the associated traditional practices.<sup>3</sup>

Indigenous communities and small-scale farmers were not as aware as other agents, of the potential and real value of their knowledge about the uses of this biodiversity. When analyzing the protection of TK, due consideration must be given to the economic significance of the phenomenon known as information asymmetry.<sup>4</sup> This information asymmetry resulted in high profile cases of bio-piracy in Ecuador, e.g.: the Ayahuasca case<sup>5</sup>, which highlighted the importance of searching for strategies to address the

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<sup>1</sup> World Intellectual Property Organization affirms that there is not yet an accepted definition of TK, but in international debate, “traditional knowledge” in the narrow sense refers to knowledge as such, in particular the knowledge resulting from intellectual activity in a traditional context, and includes know-how, practices, skills, and innovations. Traditional knowledge can be found in a wide variety of contexts, including: agricultural knowledge; scientific knowledge; technical knowledge; ecological knowledge; medicinal knowledge, including related medicines and remedies; and biodiversity-related knowledge, etc.

<sup>2</sup> Manuel Ruiz Muller, ‘Regulating Bioprospecting and Protecting Indigenous Peoples’ Knowledge in the Andean Community: Decision 391 and Its Overall Impacts in The Region’ (2004) *Protecting and Promoting Traditional Knowledge: Systems, National Experiences and International Dimensions* (eds. Twarog, S. and P. Kapoor) United Nations, Geneva, 2004, pp. 241

<sup>3</sup> Ramón Espinel, ‘Multifunctionality in Peasant Agriculture: A Means of Insertion into Globalization’ (2008)

<sup>4</sup> In economics and contract theory, information asymmetry deals with the study of decisions in transactions where one party has more or better information than the other.

<sup>5</sup> The Amazonian plant Ayahuasca or Yagé, (*Banisteriopsis caapi*), has been used by Shamans to prepare a traditional drink during their religious and healing ceremonies. In 1986, the United States Patent and Trademark Office (USPTO) granted the plant patent No. 5751 to Mr. Loren Miller who claimed rights of a variety of *B. caapi* that he dubbed Da Vine. This proved to be extremely controversial among the Amazonian peoples, who unsuccessfully pursued legal efforts until 2003, when the patent protection expired.

prevalent information asymmetry and to prevent the unauthorized use of traditional knowledge.

On 9 December 2016, the Ecuadorian National Assembly approved the Código Orgánico de Economía Social del Conocimiento e Innovación – Código INGENIOS- drafted by the Secretaría de Educación Superior, Ciencia, Tecnología e Innovación (SENESCYT). This Code replaces the previous Intellectual Property (IP) Law and mandates the protection of TK, implementing a Sui Generis Regime.

## 2. LEGAL BACKGROUND

In a broader context, Ecuador is a part of the Andean Community, which has an extensive and up-to-date set of provisions on IP including:

- Decision No. 345 Establishing the Common Regime on the Protection of the Rights of Breeders of New Plant Varieties, which was the first legal instrument to protect breeder's creations in accordance with the UPOV convention and Bio Diversity Convention.
- Decision No. 351 Establishing the Common Provisions on Copyright and Neighbouring Rights in accordance with Berne Convention.
- Decision 391 Establishing the Common Regime on Access to Genetic Resources, adopted in 1996, one of the first access and benefit-sharing laws to recognize indigenous and local communities' right to decide about the use of their know-how, innovations and the traditional practices associated with these genetic resources, and;
- Decision No. 486 Establishing the Common Industrial Property Regime, adopted in 2000. It recognizes the need to safeguard and protect biological and genetic heritage. It also protects the TK of indigenous and local communities in the process of granting patents or inventions.

In accordance with this framework, a law regulating IP (consolidated in 2006) applied in Ecuador from 1998 until 9 December 2016. This IP law contained a brief but explicit reference to Plant Variety Protection, which establishes the rights of farmers to preserve their traditional practices (Article 258).

As there were no clearly defined guidelines on the protection of TK rights in Ecuador<sup>6</sup>, in the last decade, one of the priorities of the Ecuadorian Government was the

rescue, preservation and protection of their TK. In 2007, a new Constitution was drafted which is considered as one of the leading precedents for the recognition of the rights of nature, the protection of biodiversity and the enshrinement of the importance of TK as a part of a broad strategy for a shared knowledge economy. The new Constitution was accepted by Ecuadorians through a Referendum held in September 2008. It established the right of individuals to enjoy the benefits of scientific progress and ancestral knowledge (Article 25). Of particular significance is an entire chapter devoted to the recognition of the rights of communities, individuals and nations to freely uphold, develop and strengthen their TK in accordance with the Convention on Biological Diversity (CBD). It also mandates that all forms of appropriation of their knowledge, innovations, and practices are forbidden while granting rights to by-products or synthetics obtained from collective knowledge associated with national biodiversity (Article 402).

## 3. PROTECTION AND RECUPERATION OF TK IN ECUADOR:

The World Intellectual Property Organization (WIPO) has recognized that there exists a need to assess the interface of IP and development in different socio-economic contexts.<sup>7</sup> It is against this background that the need to examine the efficacy of IP legislation arises particularly for the people whose TK it seeks to protect.

### A. THEORETICAL FRAMEWORK ABOUT TK AND IP TOOLS

Extensive literature (Correa, 2001; Cottier and Panizzon, 2004; Caldas, 2004; Hansen, 2007) can be found about recommended approaches (i.e. use of standard forms of IP, unfair competition or Sui Generis Systems) to the protection of TK in the developing world. However, the effectiveness of these systems has hardly been evaluated. Moreover, the factors determining the success or failure of these approaches have evolved from experiences in the developed world.

García-Bermejo advocates for recognizing the effectiveness of voluntary and direct commercial exchanges, among TK holders and outsiders of their community, as a means for protecting TK holders.<sup>8</sup> In this scenario, the holders of TK will be directly involved in the innovative, productive and commercial processes. Its effectiveness –in the economic sense- will be revealed by the prevailing market conditions. On the demand side of the equation, factors like the consumers' willingness to pay, the size of the market, their market share, etc. but

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<sup>6</sup> Manuel Ruiz Muller, 'Regulating Bioprospecting and Protecting Indigenous Peoples' Knowledge in the Andean Community: Decision 391 and Its Overall Impacts in The Region' (2004) Protecting and Promoting Traditional Knowledge: Systems, National Experiences and International Dimensions (eds. Twarog, S. and P. Kapoor) United Nations, Geneva, 2004, pp. 241

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<sup>7</sup> The Economics of Intellectual Property: Suggestions for Further Research in Developing Countries and Countries with Economies in Transition, WIPO, New York, 2009

<sup>8</sup> Juan Carlos García-Bermejo, "La Protección de los Conocimientos Tradicionales desde una Perspectiva Económica" (2011) Cuadernos de Economía Vol. 34. Núm. 96, 107

importantly on the supply side, by the capacity of the TK holders to face the aforementioned processes.

Due to the characteristics of the products and services offered by the TK holders, recommendations for the use of distinctive signs such as Collective Marks, Certification Marks and, in particular, Geographical Indications (GIs)<sup>9,10</sup> are nothing new (Panizzon, 2006; Gopalakrishnan, 2007; Bramley, 2011). The primary objective of GIs is to create, in the mind of the consumer, a direct relationship between the origin of a product and a particular quality it possesses. As a corollary, it is required that products bearing the seal of a GI satisfy the quality standards expected by the entities created for this purpose. As the FAO (2008) argues, these standards are often traditional practices that contribute to the conservation of the diversity of local resources and traditions. They also strengthen local organization, fight against rural exodus and offer a wider range of products to consumers. However, there is a lack of evidence demonstrating the contributions of such distinctive signs in protecting and preserving TK in developing countries.

## **B. PREVIOUS INTERACTIONS WITH INTELLECTUAL PROPERTY SYSTEMS FOR THE PROTECTION AND RECUPERATION OF TK**

Various initiatives established under the umbrella of the Ecuadorian Constitution envisaged to the protection and recuperation of TK, such as:

(1) The Co-ordination of Traditional Knowledge by the National Secretary of Science and Technology (SENESCYT). It consisted of four programs for the recuperation and development of TK. One focused on medical practices among the rainforest communities, which were presented in the form of a series of books. Another programme broadcasted the uses of local flora and set up ancestral medicine as an alternative to allopathic medicine, which has not been implemented.

(2) In the coastal regions, a recent case has been the use of the Appellation of Origin “Sombrero de Montecristi” for the protection of straw and the ancestral knowledge involved in the production of straw hats (incorrectly recognized worldwide as “Panama Hats”). This example is explained ahead in detail.

(3) In the Ecuadorian highlands, despite the communities located there being highly organized compared to the coastal or the Amazonian regions, there was no awareness

or understanding about the importance of IP protection. In this region, IEPI was involved in a pilot project to register genetic resources associated with TK of the Tsáchila tribe and plans to commence the same work with other indigenous communities. Their work includes registration of Trademarks and Appellations of Origin for traditional clothing styles, cultural expressions, dances, and crafts of several indigenous groups.

(4) As Almeida (2005) asserts, Amazonian Indigenous communities have been reluctant to share their knowledge due to a lack of mechanisms for economic compensation and the exploitative approaches involved in the “sharing” process. To curb such tendencies, various indigenous and local groups participated in an experimental project which protected their TK as trade secrets, in conjunction with an assessment conducted by an NGO.<sup>11</sup>

The “I Cumbre Regional Amazónica Saberes Ancestrales, Pueblos y Vida Plena en Armonía con los Bosques” and the Mandate of Manaus in 2011 stressed, once again, the demands of the indigenous people of the Amazonas River Basin. They seek to guarantee the legal security of the indigenous territories. The goal is to enable their protection, engender respect and prevent commercialization of their TK which makes clear that they prefer to maintain the secrecy of their TK.

## **C. THE USE OF THE APELLATION OF ORIGIN “SOMBREROS DE MONTECRISTI” TO PROTECT TK IN ECUADOR**

Under the framework of the TRIPS Agreement and Decision No. 486 of the CAN, Ecuadorian Law grants the use of “Appellation of Origin” as a special kind of GI. GIs, as defined by Article 22.1 of the TRIPS Agreement, are indications that identify goods as originating in the territory of a particular country, or a region or a locality in that country, where a given quality, reputation or other characteristic of the goods are essentially attributable to its geographical origin. The objective of these indications is to create in the mind of the consumer a direct relationship between the origin of a product and a particular quality (ESCOBAR, TORRES, VERA, 2012).

Ecuador has two Appellations of Origin (A.O.) namely: “Cacao Arriba” granted in 2008, and the second A.O. is “Sombreros de Montecristi” filed in 2005 after the establishment of the Unión de Artesanos de Paja Toquilla de Montecristi in 1995.

The “Sombrero de Montecristi” is made from the Toquilla palm leaf that grows in the warm coastal lowlands of Ecuador. It was discovered that this species of palm only grows on the coast of Ecuador, between a 100 and 400 meters above sea level. The soil in this region is rich in salt

<sup>9</sup> I will use the expression “Geographical Indicators” to refer both to Appellations of Origin and Indications of Source.

<sup>10</sup> Several researches explain the rationale for the legal protection of GIs; Dr Dwijen Rangnekar in 2004 analyses clearly how consumers protects themselves from information asymmetry using various distinctive signs as markers of quality and reputation. These distinctive signs can acquire a high reputation and commercial value.

<sup>11</sup> Joseph Henry Vogel, *El cártel de la biodiversidad: transformación de los conocimientos tradicionales en secretos comerciales* (Quito, CARE: ECOCIENCIA. 2000) 138

and calcium, which along with the rains, humidity, average temperature and the shadows generated by other larger plants, make up the ideal habitat for this species. The palm leaves are first shredded into fibre straws and then dried in the sun. They are then woven by hand, trimmed and shaped over, at least, two months, into what is arguably the finest handmade hat. The knowledge of this process has been dated back to the sixteenth century (Toko, 2009; Escobar et al, 2012).

Between its registration, in 2008, and 2011, there were no requests for authorizations for its use. Therefore, IEPI in conjunction with Ministry of Productivity and UNIDO, are running several projects to strengthen associated practices and innovation amongst artisans. Though the process is still in development, 91 artisans have made requests for authorizations. However, the impact of IP in the creation of benefits for the TK holders or the preservation of their knowledge has not yet been assessed or documented. Nevertheless, the Ecuadorian government has expressed the intention to use the same IP tool to protect between 10 to 15 products, at least two of which are related with TK like the Transcutucú peanut produced in the Ecuadorian rainforests.

#### **4. DEVELOPING A SUI GENERIS SYSTEM TO PROTECT COLLECTIVE RIGHTS IN ECUADOR**

The development of a specific protection system for TK was considered a priority for a long time not only in Ecuador, but in the entire Andean region. The Andean Community, through the Development Bank of Latin America (CAF), became the forum for indigenous groups to discuss the characteristics of the protection needed to remedy the gaps in the Andean Community's Decisions.

After 6 years of negotiations and following the WIPO Intergovernmental Committee on Intellectual Property and Genetic Resources, Traditional Knowledge and Folklore's recommendations, Peru was the first country of the region to adopt a Sui Generis Regime in 2002. Law No. 27811 was enacted for the protection of collective indigenous knowledge related to biological resources.

This regime for the promotion of fair and equitable benefit-sharing and recognition of knowledge holders is based on five main strategies, as BENGGOA (2013) summarizes:

- a) Implementation of licensing agreements between the indigenous peoples and the users;
- b) Granting of Prior Informed Consent by the indigenous holders, as an essential requirement for obtaining access to TK;
- c) Registration of TK in public, but confidential, local registries;
- d) Implementation of a fund (Fondo para el Desarrollo de los Pueblos Indígenas) for funding

projects that contribute to the development of indigenous holders of TK; and

- e) Development of compliance and awareness tools.

Benefitting from this regional experience, the Ecuadorian Government presented a new legal framework in 2014, in line with the Constitution accepted in 2008, the Organic Code for Social Economy of Knowledge, Creativity and Innovation known as INGENIOS (Código Orgánico de Economía Social del Conocimiento, Creatividad e Innovación – Código INGENIOS). The main objective of INGENIOS is to regulate the National System of Science, Technology, Innovation and Ancestral Knowledge. INGENIOS stems from the Constitution of Ecuador and along with the National Education System, the Higher Education System and the National Culture System, establishes a legal framework in which knowledge, creativity and innovation are rooted in the context of a social economy.

The INGENIOS Code was approved by the National Assembly on 9 December 2016. It advocated an open knowledge economy that would enhance entrepreneurship and the research, while granting collective rights to the holders of traditional knowledge.

INGENIOS aims for the preservation and development of TK. Importantly, it protects against commercial misappropriation. This knowledge, both tangible and intangible, has evolved from generation to generation. The people who are recognized as legitimate holders of this knowledge are the indigenous communities like the Afro-Ecuadorian people, the Montubio people and the communities legally recognized in the Ecuadorian State.

Adopting the principle of free, prior, informed consent and benefit sharing, the legitimate holders are granted the right to authorize the access, use or exploitation of their TK. Once the third party obtains their consent, contracts should be drafted to establish the terms and conditions on which the use has been authorized. These terms cover aspects such as potential uses, fair benefit-sharing as well as sustainability.

In broad terms, the Ecuadorian State guarantees the positive and effective protection of TK through prevention, monitoring and penalty mechanisms. Moreover, funding is granted to the authorities to promote community controlled registers and to enhance their capability to maintain them, as well as conduct research for the continuous development of TK.

#### **5. CRITIQUES OF THE SUI GENERIS REGIME FOR PROTECTING TK: LESSONS LEARNT**

The regional experience has clearly demonstrated the important role of the State in capturing the expectations, interests and conditions of TK holders when framing Sui Generis Regimes.

Evidence from Peru has shown that the main challenge has been the shared nature of TK and the complexity in determining who the legitimate holders are to share potential benefits that could arise from the process. Scientists expressed concerns about how the regime created barriers for research due to the lack of staff and resources with the regulator, the Instituto Nacional de Defensa de la Competencia y de la Protección de la Propiedad Intelectual (INDECOPI). INDECOPI is the safe keeper of IP in Peru, and it has not increased its capacity to deal with its additional responsibilities under Law 27811. This is a challenge yet to be overcome in Peru.<sup>12</sup>

Even though, one of the objectives of the Law was the implementation of the Fondo para el Desarrollo de los Pueblos Indígenas, financed with the 0,5% of royalties collected from the commercialization of TK. Up until December 2016 no registry of licenses has been granted.

For the Ecuadorian government, one of the main challenges to overcome was the clash between article 402 of the Constitution<sup>13</sup> and the open nature of contractual rights under INGENIOS (Article 532).

Proper structures, budgets and appropriate expertise should be made available to properly implement the Sui Generis Regime.

The Ecuadorian government should analyze the effectiveness of the current strategy *vis a vis* the experimental regime in protecting TK while also creating benefits for the holders of that knowledge. Specifically, the economic benefits directly received by TK holders when IP tools or contracts have been used should be considered. Thereafter, the next step would be to ascertain whether the use of the IP tools or the Sui Generis Regime has enhanced the preservation and transmission of TK among the community. Finally, it must be determined whether the entrepreneurial activities (or the lack thereof) of the TK holders has had a significant impact on the community, specifically in terms of benefits created as a result of the legal protection of their TK.

## 6. CONCLUDING WITH A PROPOSAL FOR POLICY MAKERS

In order to guide policymakers on how to meet the expectations of TK holders, I would like to present some approaches recommended by experts to develop a national strategy:

Determine the benefits of using IP tools like Geographical Indicators (for the TK holders):

<sup>12</sup> Carla Bengoa Rojas, El régimen peruano de protección de conocimientos tradicionales: logros obtenidos y retos pendientes in XII Taller de Derecho Ambiental, Sociedad Peruana de Derecho Ambiental<sup>(2013)</sup>

<sup>13</sup> Art.402: The granting of rights, including intellectual property rights, to by-products or synthetics obtained from collective knowledge associated with national biodiversity is forbidden

The Ecuadorian government has expressed its intention to keep using Appellations of Origin to protect TK products. Private companies have always used valuation methods to value trademarks and brands but policymakers could also use it to determine the market importance and economic impact of GI status, as is done for any other intangible asset. Therefore, it can be valued and analyzed.

A possible solution when determining the efficacy of IP tools and specifically GIs, in disseminating economic benefits to TK holders, is by building models. These models can estimate the distribution of benefits among the different stakeholders when using GIs. Xiao et al (2008) modified and applied a two-factor model for agricultural policy to estimate the distribution of benefits from GIs in developing countries. They used Oolong and Darjeeling teas as examples, showing that the least elastic element in the supply/demand equilibrium received the greatest share of benefits.

Grote points out that evidence on the actual cost of GIs is even scarcer than their net benefits, which Bramley further develops explaining that this lack of information makes it difficult to measure the increase in welfare for the producers and also its impact on rural development. Besides, the latter reinforces the fact that the distribution of rents in GI supply chains is a void in current empirical studies.

Salazar and Van der Heyden from the Dutch Development Organization (SNV) develop and propose a methodology that allows the analysis of supply chains oriented to local development. If economic modelling is not possible due to the lack of data, it will be possible to infer how the benefits are distributed among the stakeholders by using the methodology indicated above. As the authors conclude, visualizing the costs and sales margins, allows analysis of the economic inequities that exist in a supply chain.

Analysing the Preservation of TK when using IP tools and the Sui Generis Regime:

Teuber, after reviewing the extensive economic literature related to GIs, asserts that protecting biodiversity, traditional knowhow and authenticity have not been included as factors in theoretical models, and, the empirical evidence from GI case studies is rather inconclusive, reasoning as follows:

‘...to what extent GI regulation supports issues surrounding the



protecting of biodiversity, traditional knowledge, or authenticity still needs to be further analyzed to address the efficiency of GI policy instruments in supporting these goals.<sup>14</sup>

Bramley points out that according to some researchers, the impact of GIs on TK could be ambiguous. In some instances it has had a negative effect on the preservation of TK due to the pressure for massive production or disclosure obligations because of legal provisions, :

‘GIs however do not protect traditional knowledge as such but rather, as explained earlier, the collective reputation of an origin based product. It cannot prevent the appropriation of traditional knowledge embedded in the GI. It does however, by valorizing the products which draw on traditional knowledge in its production, allow for the traditional knowledge to be recognized and for the knowledge holders to benefit from its commercialization.’<sup>15</sup>

The adoption of an IP tool must require the consent of the TK holder, which ensures that it does not interfere with the communities’ own values, laws and protocols. Anthropological studies have shown that indigenous values and practices are based on sharing. Therefore, preservation in this context should seek to determine whether new generations of the community where the knowledge originated are actively promoting and maintaining the vitality of such knowledge.

Methodologies like VITEK<sup>16</sup> measure the vitality of TK through different generations of a

community based on interviews and observation. They can be adapted to assess the impact of an IP tool in preserving TK.

Establish structures to develop Inclusive Business Models:

One of the most important advances in the development of business models is the recognition of the need to empower low-income communities (the base of the Pyramid) and ensure that they benefit from market activities. In this context, several organizations have perfected a model known as Inclusive Business that entails the “inclusion of people living in poverty into business processes all along the value chain”. This new model of doing business has been used by the alliance between the World Business Council for Sustainable Development (WBCSD), the Dutch Development Organization (SNV) and the United Nations Development Programme (UNDP) within their “Growing Inclusive Markets Initiative”.

Evidence has shown that inclusive business models can make a significant contribution to the fight against poverty. Local populations can benefit as basic needs are provided for along with access to services which make life more efficient. They also create new business opportunities, jobs and income. Looked at from this perspective, poverty has been defined as a lack of access to productive resources, markets, employment opportunities and basic services especially for the poor and extremely poor in rural areas.

Inclusive Business Models could be developed for products or services related to or based on TK with the aim of creating benefits for the holders of that knowledge. An Inclusive Business Model aims to develop a tool to be used by policymakers in making decisions to optimize scarce resources.

In light of the above, the Ecuadorian government has the duty to establish the required administrative structure (human and physical) to implement and operate the Sui Generis Regime. A regime that enhances the use of contractual agreements to create benefits from the use of collective knowledge. Such a system will be premised on encouraging the entrepreneurial intentions of the TK holders within the broad context of a market driven economy.

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for relative comparisons of that status among groups at various levels of inclusiveness.

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<sup>14</sup> Ramona Teuber, ‘Protecting Geographical Indications: Lessons Learned from the Economic Literature’ (EAAE 2011 Congress Change and Uncertainty, August 30 – Sept. 2, 2011, Zurich, Switzerland) <<https://core.ac.uk/download/pdf/6699343.pdf>> accessed 19 September 2016

<sup>15</sup> CERKIA BRAMLEY, ESTELLE BIÉNABE and JOHANN KIRSTEN, *The Economics of Geographical Indications: Towards a Conceptual Framework for Geographical Indication Research in Developing Countries*, in *The Economics of Intellectual Property: Suggestions for Further Research in Developing Countries and Countries with Economies in Transition*, WIPO, New York, 2009, 109

<sup>16</sup> As explained by its developers, Stanford & Eglee Zent, VITEK (acronym for “Vitality Index of Traditional Environmental Knowledge”), rates the vitality status of TEK (i.e. inferable trends of retention or loss over time) within selected groups and allow

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#### 4. THE PROTECTION OF “BATIK” CRAFT UNDER GEOGRAPHICAL INDICATION: THE STRATEGY FOR DEVELOPING CREATIVE INDUSTRY IN INDONESIA

Mas Rahmah<sup>\*</sup>

##### ABSTRACT

This paper proposes that the techniques, symbolisms, philosophies and cultures surrounding hand-dyed cotton and silk garments, known as Indonesian should be protected as a Geographical Indication (GI). GIs are an effective way to promote products having unique characteristics which are influenced by their geographical origin. To support this proposition, this paper starts to describe *Batik* with its exotic characteristics, the inclusion of the craft as a GI and outlines the benefits of GI protection to the creative industry in Indonesia. However, this paper assumes that *Batik* protection under GI may present challenges since the process can be time-consuming, costly, require complicated procedures, multiform infrastructure and a diverse range of stakeholder's involvement. The main obstacles to protecting *Batik* as a GI will likely be (a) registration; (b) maintaining the quality or characteristic; (c) promotion and marketing. Finally, the paper offers strategies to overcome these challenges in order to provide certain best practices for protecting *Batik* as a GI.

**Keywords** : Geographical Indication, *Batik*, protection, creative industry, handcraft, Indonesia

##### 1. INTRODUCTION

Indonesian *Batik* was inaugurated as a part of the world's intangible cultural heritage from Indonesia by UNESCO in 2009<sup>1</sup>. It has gained prominence with a high reputation because of its specific characteristics and unique quality. Indonesian *Batik* is often famous for the regions in which it is produced since *Batik* has a unique quality and special characteristic associated with geographical factors like

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<sup>1</sup>UNESCO, 'Indonesian *Batik*', <http://www.unesco.org/culture/ich/en/RL/indonesian-batik-00170>, viewed on 3 January 2016.

local value, culture, tradition, local wisdom and other traditional knowledge.

The reputation and prominent qualities of *Batik* should be protected by GI status. This paper argues that GIs will be an effective mechanism because GIs function as an identifier for *Batik* products. By protecting *Batik* under a GI scheme, *Batik* crafters will gain benefit by earning premiums for their *Batik* products because of their exotic images. It will also help them obtain competitive advantages through market recognition and product differentiation.

However, it seems difficult to protect *Batik* as a GI because of some practical challenges. The process of gaining GI status involves complicated procedures that are very time-consuming, expensive and multiform infrastructure. It also involves a wide range of stakeholders who would be involved in its preparation, monitoring, management, promotion and marketing.

This paper will build on the ideas expressed above. In Part I, the paper will describe the exotic nature of Indonesian *Batik*. In Part II, the definition of GIs and the inclusion of crafts will be addressed. In Part III, the benefits of using GI status for protecting *Batik* will be analyzed. Finally, in the last part, strategies to overcome the challenges identified will be proposed, providing certain best practices for the protection of *Batik*.

##### 2. INDONESIAN BATIK HANDCRAFT

The origin of *Batik* began in South Asia, the earliest samples of *Batik* found in Egypt have been dated to the 5th or 6th century A.D. *Batik* reached its zenith in Java (Indonesia) in the 7th century AD. Therefore, most agree that Indonesia is one of the most important regions for the development and popularity of *Batik*.<sup>2</sup>

Indonesia has been known for its *Batik* for decades and in 2009 UNESCO inaugurated *Batik* as a part of the world's intangible cultural heritage from Indonesia. *Batik* is a masterpiece of Indonesian cultural heritage with dye techniques and designs that are as numerous as the Indonesian islands and their diverse cultures. Recently, *Batik* has become popular in both formal and informal settings in Indonesia. *Batik* clothes with contemporary designs are also worn regularly in business and academic settings. Even in government institutions and private companies, employees are required to wear *Batik* on certain days, generally Tuesday or Friday. While special *Batik* decorations are commonly incorporated into ceremonies for marriages, pregnancies and even funerals, it is also seeing growing use in puppet theatre, decoration, fashion design and other art forms. In addition, *Batik* fabrics play a central role in these rituals.

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<sup>2</sup>Genevieve Marie Lawrence, "Digital Printing and Traditional Surface Design Techniques", *Tesis*, Master of Science of North Carolina State University, 2002, 6.

The word *Batik* is derived from the Javanese words: (a) 'amba' meaning 'to write', and (b) the suffix 'titik' meaning little dot or to make dots.<sup>3</sup> A manuscript written on a Lontar leaf dating to 1520 AD found in Galuh, Southern Cirebon (west Java) revealed that *Batik* also means 'seratan' ('writing' in Javanese).<sup>4</sup> *Batik* was originally reserved for Javanese royalty and particular patterns like the "parang" were reserved for royalty in the Sultan's palace (in Yogyakarta, Surakarta, and other central Javanese royal courts), but over time those sumptuary laws have fallen away.<sup>5</sup>

The traditional method of making *Batik* is of two types: *Batik 'canting'* and *Batik 'chop'*. These two types of making *Batik* are of traditional, ancient tools and are still used widely in the modern times. *Batik "chop"* or block printed *Batik* is produced using metal blocks made of several strips of metal which are welded together to create a particular pattern. While *Batik "canting"* (known as writing *Batik*) is, labour intensive and, requires significant skill and creativity from the *Batik* artisan to create high quality patterns of written *Batik*. The process can take up to weeks or months depending on the complexity of the colours and the pattern to be drawn, which is why canting *Batik* is highly valued (Fine *Batik*).<sup>6</sup>

Fine *Batik* is a handicraft product, which is labour-intensive and involves multiple processes<sup>7</sup>. It starts with preparing the 'mori' (fabric), drawing the pattern or writing using 'canting'<sup>8</sup> and 'malam' (wax) on both sides. It is then coloured using synthetic or natural dyes, peeling of the

'malam' (called 'Ngorot'), washing the product, and drying it in shade as the last step. Motifs are drawn, waxed, and dyed, first on one and then the other side of the fabric. As the wax is the key substance in *Batik* process, thus *Batik* is also called 'wax writing'. It involves decorating cloth by covering a part of it with a coat of wax and then dyeing the cloth. The waxed areas keep their original colour and when the wax is removed, the contrast between the dyed and undyed areas form the pattern.<sup>9</sup> The crafters, usually woman, hold the "canting" with its bamboo handle, scoop up the heated wax and blow through the tip of the pipe to keep the wax fluid. Then, using the canting's pipe as a pen, she draws the design on the fabric, outlining with wax instead of ink.<sup>10</sup> For instance, if the desired design is a green leaf on a yellow background, wax is drawn to make the green leaf. Then the white cloth is dipped in yellow dye and dried. Since the wax resisted the yellow dye, a white leaf on yellow background appears when the wax covering the leaf pattern is peeled off the cloth. Then, for creating the green leaf, the yellow background is covered with wax and the entire cloth is immersed in green dye and dried. After drying, the wax is peeled from the cloth and a green leaf emerges on a yellow background. This process is repeated as more desired colours are created. Since some of the greatest *Batik* products are multi-coloured, it is not surprising that designers, waxers, dyers, and finishers take twelve months or more to complete a single piece, a yard long.<sup>11</sup> This long and intricate process creates the scarcity and exoticness of *Batik*.

In addition, the uniqueness of *Batik* can be found in the imperfections that are characteristic of *Batik*, since they are ultimately handmade goods. According to Laurie Shifrin : *In Batiks, you will find many characteristics that may seem like imperfections but are merely the nature of handmade goods. I prefer to think of these imperfections as rustic qualities and choose to celebrate their uniqueness.* (Sic)<sup>12</sup>

*Batik* has its exoticness because it is a unique composition of art, history, culture, life style and tradition. *Batik* is not only a decorated garment, but it also has a deeper philosophy for Indonesian people, depicting the important life stages right from the cradle to the grave.<sup>13</sup> The unique values of Indonesian *Batik* permeate Indonesians life from beginning to end. In Javanese culture, *Batik* symbolizes a philosophy of the importance of life, the cycle of birth,

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<sup>3</sup> "Batik, the Traditional Fabric of Indonesia", <http://www. expat.or.id/info/Batik.html>, viewed on 23 January 2016.

<sup>4</sup>Ministry of Trade of Republic of Indonesia, *Indonesian Batik: the Cultural Beauty*, Balitbangdang/PK/001/IX/2008, 1.

<sup>5</sup>Suleiman Sunkanmi Oparinde, "Batik As A Cultural Identity of The Yoruba: Hand Colouring Techniques And Applications, Possibility of Adaptations", (2012) 2(3) *Journal of Arts, Science & Commerce*, 33.

<sup>6</sup>Mohammad Muaz Bin Nordin, "Design and Developement of Semi Automatic Canting Too (Body Design and Mechanism)", *Tesis*, Faculty of Manufacturing Engineering University Malaysia Pahang, 2012, 1-2.

<sup>7</sup>Leesa Hubbell, "Trading Hands and Trade Secret : A *Batik* Colaboration", *American Quilter*, March 2008, 21.

<sup>8</sup>The "canting" is a modification of the Javanese instrument, which is a little cup-shaped tool with a handle set at right-angles to the base on one side and on the other is a fine spout arrangement. Canting is a pen-like tool use to apply liquid hot wax (Javanese: malam) to be drawn on cloth in the *Batik*-making process, more speciallly for *Batik tulis* ("hand drawn *Batik*"). Traditional canting consists of copper (or bronze, zinc, iron (traditional) or teflon (modern) wax-container with small pipe spout and bamboo or reer handle. See more at Mohammad Muaz Bin Nordin (n 6) 7.

<sup>9</sup> *Ibid.*

<sup>10</sup>Jan Smiley, "About *Batik* Fabric", [http://www.Batiks.com/a\\_Batik.html](http://www.Batiks.com/a_Batik.html), accessed on 4 January 2016.

<sup>11</sup>Inger McCabe Elliott, *Batik Fabled Cloth of Java*, (Periplus Editions (HK) Ltd : Singapore, 2004) 52.

<sup>12</sup>Laurie Shifrin, *Batik Germs : 29 Dazzling Quilt Projects*, (C&T Publishing : California, 2008) 7.

<sup>13</sup>*Ibid*

marriage and death. When a baby is born, the baby is wrapped and carried in *Batik*.<sup>14</sup> During the wedding ceremony, the bride, the groom, their parents and their relatives are attired in *Batik*.<sup>15</sup> At the end of one's life, *Batik* is used to cover the bodies during the funeral. This philosophy also adds to the exoticness of *Batik*.

Indonesia is considered as the birthplace of *Batik* with many designs for different wearers and occasions since there are around three thousand different *Batik* patterns that have been recorded since the 19th century and many are considered to be antique designs.<sup>16</sup> The design of *Batik* has ritualistic significance and the majority of motifs are taken from natural objects like flowers, leaves, trees, birds, twinning plants, buds, mountains, water, clouds, animals and geometric forms that are rich in symbolic meaning. These decorative designs often represent religious or mystical symbols related to the beliefs of the local people in the area. Therefore, the design and colours of *Batik* vary in accordance with the villages and ethnic groups that have spread out in different geographical areas. Since some of the regions have unique *Batik* patterns and designs, there are thousands of different *Batik* decorative designs and some designs have been associated with traditional festivals, specific religious ceremonies and are of ritualistic significance in certain regions.

The colours of *Batik* vary in accordance with different geographical areas using local processing affected by the local culture. Their cultures affect the choice of colouring *Batik*, for example *Batik* Madura tends to have bright and brave colour reflecting the brave type of Maduranese, while in Javanese *Batik*, the colours used to dye the *Batik* consisted primarily of beige, blue, brown and black reflecting the characteristic of Javanese who more calm and humble.

Most *Batik* colours are made from natural dye derived from indigenous plants. Blue, which is the oldest colour used to make traditional *Batik*, is made from the leaves of the Indigo (Nila) plant mixed with molasses, sugar and lime and left to ferment overnight. Sometimes sap from the "Tinggi" tree is added to act as a fixing agent. Another colour that is applied when making traditional *Batik* is *soga* (a brown colour which can range from shades of light yellow to a dark shade of brown), and its dye is made from the bark of the *Soga* tree. The leaves of the *Morinda Citrifolia* is used as *Mengkuda* (a dark red colour).

The intricate *Batik* designs obtained through the resist dyeing technique and process creates the exotic and unique characteristic of *Batik*. Nowadays, *Batik* is not only produced for garments (traditional or modern costumes), but also for a variety of handicrafts and household items. Some geographical areas have also developed *Batik*

designs that are printed and decorated on many kinds of handicrafts like leather crafts, wooden crafts, painting, household ceramics, pottery, gift ornaments, bamboo, silver, and many others.

### 3. THE INCLUSION OF HANDCRAFTS IN GIs

Article 22 (1) of Trade Related Aspect of Intellectual Property Right (TRIPS) defines GIs as:

*indications, which identify a good as originating in the territory of a member, or a region or locality in that territory, where a given quality, reputation or other characteristic of the good is essentially attributable to its geographical origin.*

This TRIPS definition is incorporated in the new Indonesian Trademark Law (Law No 20/2016)<sup>17</sup> and the Government Regulation on GIs (PP 51/2007).<sup>18</sup> There is a slight difference between GIs definition in Indonesian Trademark Law and the Government Regulation on GIs. Government Regulation on GI defines GI as:

*a sign which indicates the place of origin of goods, which due to its geographical environment factors, including the factor of the nature, the people or the combination of the two factors, gives a specific characteristics and quality on the goods produced there in.*<sup>19</sup>

Whereas, the new Indonesian Trademark Law improves the GI definition by adding the product and reputation thereof. Article 1 (6) of Indonesian Trademark Law defines GI as:

*a sign which indicates the place of origin of goods and/or products which is due to its geographical environmental factors including the factor of the nature, people or the combination of these two factors, gives reputation, quality, and specific characteristics on the goods and/or products produced there in.*

The GI definition in TRIPs and Indonesian Trademark regulation differs in some aspects. First, the GI definition in Article 1(1) of the Indonesian Trademark Act uses the term 'sign', while TRIPS includes the term 'indication' not necessarily the name of a geographical place.<sup>20</sup> It would be effective to include 'indication' in the GI definition rather than 'sign' because indication may be more broader than a sign since the definition of a sign suggests

<sup>14</sup> Ministry of Trade of Republic of Indonesia (n 4),2

<sup>15</sup> *Ibid*

<sup>16</sup> *Ibid*, 11.

<sup>17</sup>In order to amend and replace Law No 15/2015 regarding Trademark, Indonesian government has enacted new Indonesian Trademark Law (Law No 20/2016 regarding Trademark and Geographical Indication) on 25th November 2016.

<sup>18</sup>The Government Regulation on GI (PP 51/2007) issued on 4th September 2007 is the implementation rules of previous Indonesian trademark law (Law No 15/2015).

<sup>19</sup> Article 1(1) of Government Regulation GI.

<sup>20</sup> Mark Davidson, "Geographical Indication", *Paper*, 2007, p. 3.

a more direct connection between the sign and the information conveyed by the sign, whereas an indication may be a suggestion as well as a sign.<sup>21</sup>

Second, the scope of the GI definition in Article 1(6) Indonesian Trademark Law differs from TRIPS because the definition covers all products. The Indonesian GI definition includes within the scope of GI protection for products achieving specific characteristics because of natural and human factors influence as well as the combination of both, thus, it includes crafts. This scope is similar to Article 2 (1) of the Lisbon Agreement:

*the geographical name of country, region or locality, which serves to designate a product originating therein the characteristic qualities of which are due exclusively or essentially to geographical environment, including natural and human factor.*

Whereas, the TRIPS definition includes within GI protection, products having specific characteristics because of the natural aspects only and excludes the human factor's influence. The exclusion of man-made crafts in TRIPS is in order to prevent overlapping protection under the copyright and design law, which protect human creations.

Inclusion of the human aspect in the GI definition in Indonesia Trademark Law may exceed the definition of GI in TRIPS. However, Indonesia as a member of TRIPS is allowed to provide broader scopes of protection as long as the GI regulation complies with the TRIPS basic standards. Article 1.1. of TRIPS is relevant here:

*.... Members may, but shall not be obliged to, implement in their law more extensive protection than is required by this Agreement, provided that such protection does not contravene the provisions of this Agreement. Members shall be free to determine the appropriate method of implementing the provisions of this Agreement within their own legal system and practice.*

This paper argues that GIs should be broader in their scope. Therefore, since the GI definition covers an indication for identifying goods with a specific characteristic and quality associated with geographical aspects, produced in a given geographical or cultural area - this means that GIs also cover the *Batik* handcrafts as cultural products with a unique and specific quality. GIs will assure the consumer that *Batik* crafts have unique characteristics and a specific quality as a result of their geographical origin. Thus, GIs are not just an indication of origin but are also references for quality. The quality of product may be affected by geographical environment

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<sup>21</sup> *Ibid.*

such as soil composition, climate, biodiversity, local know-how and other human factors, that make them unique.<sup>22</sup> The quality can also be determined by the product's nutritional properties, flavour, appearance or the process and raw materials used to produce it.<sup>23</sup> Moreover, the physical, chemical, organoleptic traits<sup>24</sup> or relevant attributes such as colour, texture or fragrance can be determined as a product characteristic associated with its geographical origin.<sup>25</sup> In addition, geographical factors such as local breeds, plant varieties, traditional equipment and human factors such as know-how, traditional knowledge, tradition, local culture and philosophy play a key role in forming the quality, characteristics and reputation of the concerned products.<sup>26</sup> The quality, characteristics and reputation linked to the geographical factor are important in distinguishing the *Batik* product from equal items produced elsewhere.

#### 4. BENEFITS OF GI PROTECTION FOR *BATIK* AND DEVELOPMENT OF CREATIVE INDUSTRY

*Batik* crafters need GI protection to distinguish their products from their competitors, because GIs are markers of quality and assurances of reputation. The distinctive signs and reputation, which symbolize the consistency and quality, play a key role in identifying a certain standard of product.<sup>27</sup>

The quality of *Batik* products can be associated with their places of origin. Natural factors, local culture and the human factor are the main contributors to excellence and the reputation of products. According to Laurence Be´rard and Philippe Marchenay, there is a link between the quality, the origin, and the reputation that derive from their place of origin.<sup>28</sup> Numerous *Batik* products with their unique qualities are identified by their places of origin (such as *Batik Solo*, *Batik Yogyakarta*, *Batik Pekalongan*, *Batik Madura*, *Batik Bali*, etc.)

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<sup>22</sup> Monique Ngo Bagal, Massimo Vittori, *Practical Manual on Geographical Indications for ACP Countries*, (CTA and origin, Agridea: Switzerland, 2011) 12.

<sup>23</sup> *Ibid*

<sup>24</sup> *Ibid*

<sup>25</sup> David Vivas Eugui, Christoph Spennemann, "The Treatment of Geographical Indications in Recent Regional and Bilateral Free Trade Agreement, in Meir Perez Pugatch (eds), *The Intellectual Property Debate, Perspective from Law, Economic and Political Economy* (Edward Elgar, Cheltenham :UK, 2006) 305

<sup>26</sup> *Ibid*

<sup>27</sup> Mevhibe Albayrak, Melda Ozdemi, "The Role of Geographical Indication in Brand Making of Turkish Handcrafts", *International Journal of Business and Social Research (IJSBR)*, Volume -2, No.-3, June 2012, 100.

<sup>28</sup> Laurence Be´rard and Philippe Marchenay, "Local products and geographical indications: taking account of local knowledge and biodiversity", (2006) 187 *International Social Science*, 110.

Further, since GIs function as indications and guarantees of quality, it enables *Batik* crafters to trade a considerable quantity of products and it becomes a worthwhile marketing tool. GIs help *Batik* crafters to gain market power because if a product is to bear a GI, it must have the special qualities attributable to the good's geographical source.<sup>29</sup>

*Batik* crafts with unique characteristics and specific qualities may serve as a basis for the creation of a strong local brand. GIs may be founded on natural, traditional, cultural factors, which make the product unique and distinct. GI status for these products that constitute the local identity<sup>30</sup> are a crucial tool in promoting local traditions or cultural products.<sup>31</sup>

GIs will improve the local branding of *Batik* and will become an effective tool in achieving market recognition, gaining a competitive advantage and distinguishing their products from those produced elsewhere. The *Batik* crafters or producers can then earn premiums on their products. Without an ability to distinguish between the products, all products tend to be sold at the same price. Thus, there will be no incentives for producers of high-quality goods to remain in such a market.<sup>32</sup> By promoting GIs, *Batik* crafters can also create an image of "exoticness" or scarcity" that enables them to earn additional premiums on their *Batik* products that would otherwise be ascribed regular commodity status. The exoticness comes from unique characteristics that may be attributed to production in a particular geographical area and based on the quality associated with that location.<sup>33</sup> Also, the source of this exoticness may derive from the history and traditions associated with the production processes used in these specific geographical areas from which the products originate.<sup>34</sup> The aura of exoticness can be explored by revealing the mystique surrounding, human diligence, heroism, morality and sacrifice<sup>35</sup> in producing *Batik* crafts. Most *Batik* crafts are hand-made, prepared over long periods with high quality materials. They are usually not mass produced. It thus results in the scarcity of *Batik* crafts. Thus it will add economic value to the *Batik* crafts and encourage professionalism in producing and improving *Batik* quality. Then, the premium price and added economic value of *Batik* will also attract many crafters to enter the creative industry and potentially

encourage existing *Batik* crafters to develop their small scale enterprises to grow with greater production.

GI protection can also encourage tourism, enhancing rural development and the growth of the creative industry. Since GIs allow the *Batik* producers to create special products whose quality is attributable to its geographical source, numerous tourists will visit the location in order to witness the production process and get original products. Thus, GIs become a promotional advertisement for the country. The increasing tourism will further encourage local development, growth of the creative industry and investments in the *Batik* industry. Since there are various unique *Batik* products in local regions, this will attract investors to these regions and will increase the investment in the *Batik* sector. Such investments may lead to increased employment, local revenue and value add which play an important role in economic growth. They also reduce migration from the rural areas to the city, bridge the income gap between the rural and urban areas and have a positive effect on income distribution at the same time.<sup>36</sup>

Further, in line with Emilie Vandecandelaere's opinion regarding the benefit of GIs,<sup>37</sup> this paper studies the significance of GI protection on the *Batik* industry, such as: (a) increasing local revenues and local employment in creative industry in every stage of the *Batik* production process (production, processing, distribution, marketing and promotion); (b) allowing local people to remain, stay and live in the *Batik* producing areas, thus reducing urbanization; (c) preserving the local wisdom and philosophy (d) maintaining traditional *Batik* processing systems and its intrinsic values; (e) keeping alive local traditions and culture related to *Batik*; (f) providing positive contributions to the traditional plants for *Batik* colouring, biodiversity and soil preservation.

## 5. CHALLENGES FOR PROTECTING BATIK AS A GI

### A. CHALLENGES IN REGISTRATING

*Batik* as a GI, it is very important to register GIs. Registration is a crucial tool to protect GIs because Article 53 (2) of the Indonesian Trademark Law requires that GIs shall be protected after registration.

However, the registration of GIs requires complicated procedures, which are costly, time consuming and involve a wide range of stakeholders. As a result, the number of GI applications registered at Indonesian Directorate General of Intellectual Property (DGIP) is still

<sup>29</sup> Article 22 (1) of TRIPS Agreement.

<sup>30</sup>Ernes Oliva, et.al, "Agricultural Produce of Istria Used in Regional Branding : Strategic Concept", *Paper*, 22nd Cromar Congress, Marketing Challenges in New Economy, 2011, 3.

<sup>31</sup> Mevhibe Albayrak and Melda Ozdemi (n 29) 111.

<sup>32</sup>Chuthaporn Ngokkuen and Ulrike Grote, "Challenges and Opportunities For Protecting Geographical Indications In Thailand", (2012) 19 *Asia-Pacific Development Journal* 2, 9.

<sup>33</sup> *Ibid*

<sup>34</sup> *Ibid*

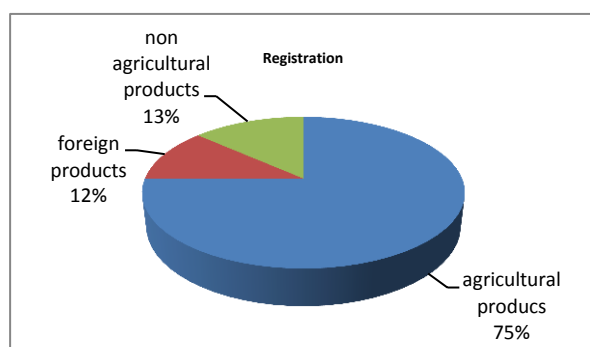
<sup>35</sup> *Ibid*, 3.

<sup>36</sup> *Ibid*.

<sup>37</sup>Emilie Vandecandelaere, et.al, "Linking People, Places and Products: a Guide for Promoting Quality Linked to Geographical Origin and Sustainable Geographical Indications, Food and Agriculture Organization of the United Nations (FAO) and SINER-GI", *Paper*, 2009-2010, 19.



small.<sup>38</sup> Based on the GI registration data, the total GI registrations for local products is only 46. Of the 46, 40 were agricultural products, 3 were handicrafts (Jepara wood carving, Gringsing Bali Woven, Mandar Silk Woven Fabric) and 3 processed products (Sumbawa Horse Milk, Sidoarjo Milky Fish and Kulonprogo Palm Sugar). The 6 foreign products such as Parnigiano Reggiano, Champagne, Pisco, Lamphun Brocade Thai Silk, Tequila, and Grana Padano have also been registered in Indonesia. This means that 75% of registrations are dominated by agricultural commodities, 12% by foreign products, and 13 % by non-agricultural products.



Ironically, although Indonesia has a lot of *Batik* crafts with unique characteristics and specific qualities, *Batik* has not yet been registered as a GI. One factor responsible for this is the difficult and complicated procedures involved for registration. Applicants have to (a) register the *Batik* product name and GI name; (b) describe in detail the distinguishing characteristics and qualities of the *Batik* product; (c) specify the originating location of *Batik* production; (d) provide an acknowledgement of the *Batik* product from the community of origin; and (e) describe the geographical environment, the natural and human factors affecting *Batik* quality including the production process and quality testing methods.

A further obstacle to GI registration for *Batik* is the need for the applicant to provide a Book of Requirements.<sup>39</sup> Preparing the Book of Requirements is a very difficult process because it must describe the qualities and characteristics of *Batik* that distinguish it from other products in the same category. It is also difficult because in the Book of Requirements the applicant must define the description of the geographical factor affecting the *Batik* characteristic, and provide a description of the method used to examine the *Batik* characteristic or quality. Since Indonesia lacks a database of superior products potentially

<sup>38</sup>Denise Miranda, 'Indonesia GI Protection', available at <http://www.hg.org/article.asp?id=5041>, accessed on 27 December 2015.

<sup>39</sup>Article 6(3) of Indonesian GI Government Regulation.

protected under GIs,<sup>40</sup> it is also difficult to describe the history and tradition of GI utilization, including acknowledgements from society relating to its benefits. Another difficulty is to specify the description of the geographical area or border associated to the *Batik* quality as it may create conflict among local authorities in the border areas.

Moreover, there is a double burden of registration since producers or crafters must also register to use and produce GI products.<sup>41</sup> GI registration does not give an automatic exclusive right for *Batik* producers or crafters to use and produce GI products.

## B. CHALLENGES IN MAINTAINING BATIK QUALITY

Maintaining and ensuring *Batik* quality and its characteristics are very important because the objective of GI protection is to preserve and maintain the quality and reputation of the products. Thus, protecting the quality is the most vital factor for GI protection to *Batik* products. The obligation to preserve the quality or characteristic is required in Article 61 (1) of the Indonesian Trademark Law: *a registered Geographical Indication enjoys a legal protection, which persists as far as the reputation, the quality or characteristic on which the protection has been conferred still exist* (Sic).

However, maintaining the quality of GI products makes it difficult to proceed. GIs are the only form of Intellectual Property related to territory, thus, GIs represent a type of collective property. As collective property, a single producer in a geographical area cannot own GIs. Therefore, it will be difficult to internally and externally manage the use of GIs by *Batik* producers, especially to maintain the quality of *Batik* products. Once a GI is successful, new entrants will enter the geographical area to take advantage of the GI's brand equity as long as they are able to adhere to the regulations governing the use of the brand. As a consequence of collective ownership, the GI brand is not restricted to a single producer so that it leads to an increase of *Batik* production in the local area, decreasing the scarcity and exoticness of *Batik* and reducing the premium nature of the *Batik* products. In addition, if everyone in that group has same right, they may produce *Batik* products based on their consumers desire and thereby fail to maintain its quality. If one *Batik* crafter provides sub-standard products, it will affect the

<sup>40</sup>Directorate General of International Trade Cooperation, 'The potential improvement of High Quality Export of agricultural product by the protection of geographical Indication', *Paper* at Workshop of 'With Geographical indication Protection, We enhance the Image and Competitiveness of Indonesian Local Specific Products', 12-13 December 2006, Bali, Indonesia.

<sup>41</sup>Article 15 (2) of Indonesian GI Government Regulation.

entire group and will dilute the superiority of *Batik* products.<sup>42</sup>

### C. CHALLENGES IN PROMOTING AND MARKETING

GIs promotion is crucial because it will maintain constant communications with both current and potential consumers, providing information about the specific quality and characteristics of the product in order to increase consumer willingness to purchase it.<sup>43</sup> The promotion must explain the meaning of a GI in general, its unique features and traditions associated with the territory.

Furthermore, promoting and marketing of GIs are important to create quality perception and improve the reputation<sup>44</sup> of these products. Retaining market trust and maintaining ongoing sales are important to maintain the longevity of these superior products. However, it is not easy to develop and maintain the market for GI products. The lack of empowerment of producers and improvements in their capacity to incorporate certain technical or managerial innovations for sustainable development of the marketing system can be identified as the one of the main problems in GI promotion and marketing. Moreover, according to Anson C. J, producers of GIs are not able to utilize the value of GIs and effectively adopt marketing techniques to use GIs as assets.<sup>45</sup> In addition, GI producers usually cannot control the sustainability of their product supply. As a result, it will affect the price strategy since marketing management is highly dependent on supply and demand. If they produce GI items as per their own expectations, this will generate ineffective marketing strategies.

### 6. STRATEGIES FOR PROTECTING BATIK USING GIs

Establishing GI status for *Batik* requires the involvement and support of different stakeholders such as local producer's organizations, the government, the private sector (exporters and other local entrepreneurs) and other institutions. Local governments have an important role in guiding public policy on GIs, building up physical infrastructure such as equipment, training, assistance and facilitation of access to financial support (soft loans) and

access to the market. External support from foreign institutions and foreign research institutions is also very important in building up the capacity of the local community by initiating intensive technical training courses in order to enhance their knowledge, technological expertise and market expertise.

The main preparatory steps for obtaining GI status include empowering crafter's organizations, defining unique and specific characteristics of the product, improving the quality of products, marketing good quality products, undertaking a remote sensing study (to provide information on the estimated area of production and distribution of growing areas), preparing the Book of Requirements for registration of producers and establishing GI organizations.<sup>46</sup> GI organizations can be established based on pre-existing traditional or local crafters organizations as representatives of the local community. Pre-existing local crafters organizations have an important role in managing GI registration, controlling and marketing activities. It also helps to avoid social conflicts. The model can be adopted by encouraging the *Batik* crafters to establish or transform *Batik* crafters organizations into 'the Community of GIs Protection for *Batik*.'

Further, before promoting or protecting *Batik* under a GI scheme, it is important to qualify the specific characteristics and qualities linked to the geographical origin that must be sufficiently specific to differentiate it from those produced elsewhere. The characteristics and qualities are not only because of geographical factors or natural factors like the climate, soil, local flora (plants for colouring), but also traditional equipment (such as "canting" pens), its history and human factors (such as know-how, the philosophical background or local traditions). The philosophy or meaning of every *Batik* pattern will contribute to the uniqueness and exoticness of *Batik*. Indonesian *Batik* is so meaningful since it still has traditional practices, rituals and customs behind it. The value of *Batik* is its intangible heritage, how it is made, widely used for rituals, etc. For instance, *Batik* with "Sido Mukti" pattern (showing boxes in diagonal pattern and inside each box there are 'meru' or house, small 'sawat' or half wing and sometimes butterfly) means prosperity (*sido*) and full of happiness (*mukti*) that is only worn by the bride and groom to signify that the bride and groom who wear this *Batik* will get happiness and prosperity. *Batik* with "Kawung" pattern symbolizes justice, power and the hope that human beings will always remember their origins. Whereas *Batik* with the "Parang" pattern symbolizes power and strength.

<sup>42</sup>Anson C. J, "Marketing flexibilities in Geographical Indications (GI) and trademark: a Comparative Study", (2012) 1 *International Journal of Marketing, Financial Services & Management Research* 11, 105.

<sup>43</sup>*Ibid*, 121.

<sup>44</sup>Chengyan Yue, et.al, "How to Promote Quality Perception in Wine Markets: Brand Advertising or Geographic Indication?", *Paper at the 3<sup>rd</sup> International Wine Business & Marketing Conference, Montpellier, July 6-8, 2006*, 1.

<sup>45</sup>Lena Göransson Norrsjö, "Indications of Geographical Origin as part of the Intellectual Property Law", Thesis, Stockholm Universitet, 2007, 55.

<sup>46</sup>Surip Mawardi, et al, "Developing Geographical Indication Protection in Indonesia: Bali Kintamani Arabica Coffee as a Preliminary Case", Paper presented in Seminar on Geographical Indication: A Land of Opportunities", Hanoi (Vietnam), 15 – 16 November 2005, 3-10.

In order to maintain the qualities and characteristics of *Batik*, controlling and monitoring the quality of *Batik* products will be important. This monitoring system can only be developed by establishing internal and external controls in order to ensure: (a) the fulfilment of the Book of Requirements, (b) origin of the products and (c) its quality, specific characteristics, etc. It is proposed that the national GI Expert Team of the DGIP carries out the external control. While internal control is carried out by the 'Community of GI Protection' and local *Batik* producer's organizations. The internal controls could include three monitoring elements: (a) self or automatic control by each producer to ensure the *Batik* production meets the stipulations of the Book of Requirements; (b) control by *Batik* crafter organizations that is carried out annually and reported to Community of GI Protection; (c) surveys by Community of GI Protection carried out each year to ensure the conformity of *Batik* production with the Book of Requirements.

Therefore, *Batik* quality controlling problems can be solved by revitalizing the external control mechanism and by empowering internal control mechanisms of the association of *Batik* crafters or producers and Community of GI Protection. They have an important role in quality control, especially to: (a) define the guarantee system and control plan, by identifying the control points and sanctions related to each requirement, (b) organize the internal control of the GI value chain or when applicable, to be part of a participatory guarantee system, (c) contribute to the controls and keep records of them (traceability system).

For establishing more effective quality control, it is also important to regulate GI use. The regulation will prevent the misuse of the GI sign, which is important to: (a) identify the product and define its production and processing practices; (b) avoid unfair production and commercial practices, preventing abuse or damage to the GI's reputation by products with different and/or lower quality characteristics while bearing the quality sign; (c) guarantee the quality of the product and its geographical origin, fostering consumer confidence; (d) guide the behaviour of local producers and support coordination to create, preserve and improve the GI product's reputation and brand value.<sup>47</sup>

In order to develop marketing processes for *Batik*, *Batik* producers or crafters, crafter organizations and the Community of GI Protection must be given the requisite training to improve their marketing skills and access to the market. This is important to develop knowledge of the market, its demands and the competition. It also helps to educate them about the risk of business failure and increasing their ability to generating income and profit

from the GI product.<sup>48</sup> The qualitative aspects, territorial, social and cultural issues and related economic sectors (such as tourism, trade exhibition/promotion) can be considered to market GIs. In addition, it is necessary to develop an integrated market by collective (organization of *Batik* crafters) and individual participants (its each member) based on the right balance to ensure coherence to agreed standards. If membership is small with limited production capacity, *Batik* crafters or producer's organizations may enhance the participation of all stakeholders in its marketing activities. Where the members are well organized and have clearly defined their marketing strategies, the *Batik* crafter's organization should not be too involved and may intervene on specific occasions where the need arises.

## 7. CONCLUSION

The reputation and quality of *Batik* products should be protected under a GI mechanism since the GI status signals to consumers that *Batik* products have specific qualities and unique characteristics. The challenges in this process will be maintaining the qualities or characteristics, promotion and marketing of *Batik* based products. However, the greater benefits of GI protection for the development of creative industries should be emphasized over the associated challenges. Such challenges can be solved by involving local governments and empowering *Batik* crafter's organizations to register and maintain *Batik* qualities and characteristics by developing internal and external control mechanisms and effective promotion of *Batik* products.

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<sup>47</sup> *Ibid*, 33.

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## 5. USING INTELLECTUAL PROPERTY RIGHTS AS LOAN COLLATERAL IN INDONESIA

Selvie Sinaga\*

### ABSTRACT

Intellectual Property Rights (IPRs) are a set of property rights that have economic value. Each of these rights serves as an asset or source of income for those who own it. As a property right, IPRs are able to function as collateral for borrowing funds from financial institutions like banks. This practice is common in many countries but not in Indonesia. Currently, all Indonesian banks only accept tangible assets as collateral to obtain loans. Accepting IPRs as loan collateral would be a great assistance to owners of Indonesian small-medium enterprises (SMEs), especially first starters. All SME owners need capital to finance their businesses and most of them expect to get the funds through bank loans. However, they rarely have tangible assets that can be used as loan collateral. Therefore, if banks accept their IPRs as loan collateral, SME owners would get the utmost benefits of IPRs. While the idea of using IPRs as loan collateral is beneficial, its realization in Indonesia requires a number of things to happen. At present, the Government of Indonesia (Gol) is preparing regulations that support the realization of this idea. In this preparation, it is understood that these regulations go beyond the sphere of IP law.

**Keywords:** *Intellectual Property Rights, Loan Collateral, Indonesia*

### 1. INTRODUCTION

There is no doubt that Intellectual Property Rights (IPRs) have economic value. These rights, just like tangible assets, can be used as collateral for borrowing money from financial institutions. Allowing IPRs to function as loan collateral helps entrepreneurs, especially from SMEs, who do not have tangible assets, to borrow from financial institutions. Yet, using IPRs as loan collateral is an uncommon practice in Indonesia not just because the benefits of IPRs are not widely known in the country, but also because the government has not prepared the supporting system to realize the use of IPRs as loan collateral in Indonesia yet. This paper discusses what preparations have been made by the Gol to make IPRs acceptable as loan collateral in the country.

### 2. THE ROLE OF SMES IN INDONESIA

Small and Medium Enterprises (SMEs)<sup>1</sup> are an important part of the economy of Indonesia. The number of SMEs in

Indonesia is huge, accounting for 56.534.592 units in 2012 and 57.895.721 units in 2013.<sup>2</sup> These numbers comprise 99.99 per cent<sup>3</sup> of the total number of business units in Indonesia in both years.

Because of their enormous number, SMEs contribute significantly to the Gross Domestic Income (GDI) and have become massive providers of employment in Indonesia. During 2013, SMEs contributed more than IDR 5.4 trillion to Indonesia's GDI. The percentage of SME contribution to the total GDI is more than 60 per cent of the total national GDI.<sup>4</sup> With regard to labour absorption, SMEs provided employment to 107,657,509 people in 2012 and the number increased (6.03 per cent) to 114,144,082 in the following year.<sup>5</sup>

Indonesia's first brush with IPRs occurred under the Dutch colonial administration. Since then, IP has developed as a part of the Indonesian legal system. However, the utilization of IPRs is low among residents of the country. Data shows that Indonesia paid USD 1,736,373,354 and only received USD 51,972,617 as charges for the use of Intellectual Property<sup>6</sup> (IP) in 2013.<sup>7</sup> This means that it

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enterprises into three categories, namely micro, small and medium, based on assets and annual turnover. Micro and Small enterprises have total assets from less than IDR 50 million to IDR 500 million and annual turnover from less than 300 million to IDR 2,5 billion. Total assets for medium enterprises are between more than IDR 500 million and IDR 10 billion with annual turnover between IDR 2,5 billion and IDR 50 billion. The term 'SME' is used not only to designate small (SEs) and medium enterprises (MEs) in this article, but also applies to micro enterprises (MIEs). In other words, MIEs and SEs will be categorized as SEs.

<sup>2</sup> Kementerian Koperasi dan Usaha Kecil dan Menengah Republik Indonesia, 'Data UMKM 2012-2013' (*Kementerian Koperasi dan Usaha Kecil dan Menengah Republik Indonesia*, 2015) <[http://www.depkop.go.id/index.php?option=com\\_phocadownload&view=file&id=335:data-usaha-mikro-kecil-menengah-umkm-dan-usaha-besar-ub-tahun-2012-2013&Itemid=93](http://www.depkop.go.id/index.php?option=com_phocadownload&view=file&id=335:data-usaha-mikro-kecil-menengah-umkm-dan-usaha-besar-ub-tahun-2012-2013&Itemid=93)> accessed 25 September 2015.

<sup>3</sup> Ibid.

<sup>4</sup> Ibid.

<sup>5</sup> Ibid.

<sup>6</sup> Charges for the use of IP are the amount of money in US Dollars paid and received between residents and non-residents for the permitted use of proprietary rights (i.e. patents, trademarks, copyrights, industrial designs, trade secrets and franchises). Also, it includes payments and receipts for the use of produced originals or prototypes (i.e. copyrights on books and manuscripts, computer software, cinematographic works, and sound recordings) and related rights (i.e. stage performances and television, cable or satellite broadcast). See, 'Data: Charges For the Use of Intellectual Property, Payments (BoP, current US\$)' (*World Bank*, 2015) <<http://data.worldbank.org/indicator/BM.GSR.ROYL.CD/countries>> accessed 15 August 2015.

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<sup>1</sup> There are various definitions of SMEs in the world; however, in this article, the definition of SMEs follows what has been provided in a relevant law that applies in Indonesia, namely Law No 20 of 2008 on Micro, Small and Medium Business. It classifies

spends a higher amount of money than it earns from IPRs. Rather than being a creator, it has become a market for non-resident IP producers. Therefore, there is an enormous opportunity for Indonesia to reap the full economic benefits of its IP.

### 3. INTELLECTUAL PROPERTY IN INDONESIA

An IP system has existed in Indonesia since the first half of the nineteenth century. The Dutch colonial administration introduced IP protection through the enactment of legislation<sup>8</sup> and the ratification of some international IP agreements, which not only bound the country, but also had legal effect in its colony, the Dutch East Indies, which is now known as Indonesia. After attaining independence in 1945, Indonesia inherited a set of national IP laws and international agreements, which had been passed and ratified during the Dutch colonial period. At the domestic level, Indonesia continued to apply the Copyright Law of 1912, the Trade Mark Law of 1912, and the Patent Law of 1910. At the international level, Indonesia was a party to the Paris Convention of 1883 on Industrial Property, The Hague Agreement of 1925 on the International Deposit of Industrial Designs, the 1911 Washington revision of the Madrid Agreement of 1891 on the Repression of False or Deceptive Indications of Source on Goods and the Berne Convention of 1886 on the Protection of Literary and Artistic Works.<sup>9</sup>

In the first two decades after independence, IPRs were considered as an impediment to development in Indonesia. As a young developing country, Indonesia needed the transfer of knowledge and technology from developed countries to boost its economy. When there was a change of regime in 1965, Western industrialized countries were invited to support Indonesia financially through international financial organisations, like the IMF and the World Bank.<sup>10</sup> The involvement of Indonesia in these international financial organisations was intended to attract foreign investment to the country. However, in spite of the fact that legal certainty in the area of IPRs would support foreign investment, the government

continued to neglect these issues at that time. Compared to international standards, the legal protection of IPRs in Indonesia was inadequate and, to make matters worse, enforcement was lax.

In the mid-1980s, the price of oil, which had become the primary source of income of the country dropped significantly, causing an economic crisis in Indonesia. To recover from this crisis, Indonesia had no option but to adjust its economic policies in favour of investors, one of whose concerns was the inadequacy of IPR protection in the country. At the same time, US concern about the infringement of its IPRs in developing countries increased. The US government employed persuasive<sup>11</sup> and coercive<sup>12</sup> strategies to stop the infringement of US IP in developing countries.

As a consequence, many initiatives were taken by the Gol to protect IPRs within its borders. Indonesia passed the first national copyright law in 1982 that revoked the 1912 Copyright Law made by the Dutch administration. Nevertheless, the law was still considered weak by the standards of the Berne and Rome Conventions. In the area of patents, the response of the Indonesian government was to pass the first national Patent Law in the year 1989. Prior to that, in 1953, the Gol had passed two decrees, the Decree of the Minister for Justice No JS. 5/41/4 and the Decree of the Minister for Justice No JG. 1/2/17 which provided for the provisional registration of domestic and foreign patent applications respectively. Both legal instruments served as provisional rules to fill the legal hiatus that had emerged in the patent administration since the 1910 Patent Law made by the Dutch colonial government was no longer relevant<sup>13</sup> in Indonesia.

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<sup>7</sup> Ibid.

<sup>8</sup> The first legislation introduced in the East Indies was an Act of the Granting of Exclusive Rights to Inventions, Introductions and Improvements of Objects of Art and of the People's Diligence, which was previously implemented in the Netherlands in 1817 and extended to the colony in 1844. After that, in 1871, provisions on trademark were first introduced providing that a deposit of seals, stamps and trademarks were protected in the Criminal Code. Several years later, in 1885, a complete trademark law was passed in the East Indies. See C. Antons, 'Indonesia' in Paul Goldstein and Joseph Straus (eds), *Intellectual Property in Asia: Law, Economics, History and Politics* (Springer 2009) 87.

<sup>9</sup> C. Antons, *Intellectual Property Law in Indonesia* (Christopher Heath ed, 1st edn, Kluwer Law 2000), 44.

<sup>10</sup> Ibid 31.

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<sup>11</sup> There were continuous rounds of diplomatic meetings between these two countries with an agenda of improving IP protection in Indonesia during that period. Ibid.

<sup>12</sup> The US government threatened to impose trade sanctions. For example, in 1986, the US threatened to cancel the Generalized System of Preferences (GSP) if Indonesia did not improve its IP protection by October 1987. GSP is a US program which provides preferential duty-free entry for about 4800 products from 131 designated beneficiary countries and territories. See The Office of the United States Trade Representative, 'Generalized System of Preference' (2009) <<http://www.ustr.gov/trade-topics/trade-development/preference-programs/generalized-system-preference-gsp>> accessed 24 June 2009.

<sup>13</sup> The Patent Law of 1910 was in contradiction of Indonesia's sovereignty since it provided that the substantive examination of patent application had to be done in the Netherlands and the Patent Office in Jakarta would only be a branch that could not grant patents. See Sudargo Gautama and Robert N. Hornick, *An Introduction to Indonesian Law: Unity in Diversity* (Alumni Press 1972), 8; Affifah Kusumadara, 'Analysis of the failure of the implementation of intellectual property laws in Indonesia' (PhD, University of Sydney 2000) 55.

The development of trademark law was a bit different. Trademark law was one area of IP law which saw legislation even before the 1980s. Indonesia had already enacted the first national trademark Law in 1961, which had mainly adopted the provisions of the colonial Trademark Law of 1912.<sup>14</sup> However, protection provided by the law, which applied the 'first to use' rather than the 'first to file' in its trademark registration system, did not satisfy countries looking to invest. At the time, there were massive infringements of well-known trademarks and production of counterfeit products in the country<sup>15</sup> that resulted in protests from international well-known trademark owners and US pressure on the Indonesian economy. In response to this, the Minister for Justice issued two decrees in 1987 and 1991 to protect foreign well-known trademarks for both the same and different kinds of goods respectively.<sup>16</sup> Following that, Indonesia passed a new Trademark Law in 1992, which employed the 'first to file' system of trademark registration.

In 1994, Indonesia joined the World Trade Organization, which necessarily involved the ratification of the TRIPS Agreement. As a developing country, Indonesia was entitled to delay the implementation of TRIPS for up to 5 years. However, because the country was not yet ready at that date, the agreement took effect fully a year later in 2001.<sup>17</sup> Shortly before the GoI accepted its full obligation to implement TRIPS in 2001, a package of IP laws that were adjusted to match the TRIPS minimum standards were enacted. These IP laws are: Law No 29 of 2000 on Plant Variety Protection, Law No 30 of 2000 on Trade Secrets, Law No 31 of 2000 on Industrial Design, Law No 32 of 2000 on Integrated Circuit Layout Design, Law No 14 of 2001 on Patent Law, and Law No 15 of 2001 on Trade Mark. One year later, Law No 19 of 2002 on Copyright was passed. In 2014, Indonesia revoked the 2002 Copyright Law and replaced it with a new one, Law No. 28 of 2014.

#### 4. UTILIZATION OF IPRS IN INDONESIA

Although the laws that form the core of IPR have been issued and finalized, the implementation of these laws has never been effective. Part of the problem is the time it

takes to issue the required implementing decree<sup>18</sup> for IP.<sup>19</sup> Despite the fact that the core legislation had been passed several years earlier, some legislations for crucial IP issues, such as patent compulsory license<sup>20</sup> and well-known trademarks<sup>21</sup> still lack the necessary implementing decree. One possible explanation for the delay in the issuance of such implementing decrees may be that the government believes it needs to prioritize other issues that are far more important to the country than IPR. It is overwhelmed by an abundance of complex issues, such as poverty, politics, and natural disasters and IPR has not been a highly prioritized issue.

Beyond legislation, the GoI has also carried out reforms in other areas, such as administration, enforcement, and court proceedings.<sup>22</sup> For example, the branch agencies of the Department of Law and Human Rights at the provincial and district levels were given the power to receive applications for IPR in 2001.<sup>23</sup> Before that, applications for IPR were only submitted to the central office of the *Direktorat Jenderal Hak Kekayaan Intelektual* (Directorate General of Intellectual Property Rights - DGIPR) in Tangerang-West Java.<sup>24</sup> Other reforms include the transfer of most IP disputes settlement<sup>25</sup> at first instance to the Commercial Court from the District Court<sup>26</sup> and the simplification of procedural laws related to settlement of IP cases in the Commercial Court.<sup>27</sup>

<sup>18</sup> This decree contains details of practical implementation to enable legislation to work properly in Indonesia.

<sup>19</sup> C. Antons, 'Intellectual Property Law in Southeast Asia: Recent Legislative and Institutional Developments' (2006) 1 *Journal of Information, Law and Technology* 1, 3.

<sup>20</sup> An implementing decree for a compulsory license has been requested to regulate compulsory license issues in Indonesia in the 2001 Patent Law: Elvani Harifaningsih and Suwantin Oemar, 'Lisensi Wajib Terbantur PP (Compulsory License is Hindered by Government Regulation)' *Bisnis Indonesia* (Jakarta, 12 June 2009).

<sup>21</sup> Implementing decree for well-known trademark has been required by the 1997 Trademark Law and then again by the 2001 Trademark Law. Suwantin Oemar, 'Jangan Gantung PP Merek Terkenal (Don't Delay Government Regulation on Well-Known Trademark)' *Bisnis Indonesia* (Jakarta, 24 June 2008) <<http://haki.depperin.go.id/advokasi-hukum/cetak.php?id=100>> .

<sup>22</sup> S. Sinaga, 'Intellectual Property Law in Indonesia After 2001' (2013) 25 *Mimbar Hukum* 152.

<sup>23</sup> *Minister of Justice and Human Rights Decree No M.11.PR.07.06 of 2003 on The Assignment of the Regional Office of Department of Justice and Human Rights to Receive IPR Application* (2003).

<sup>24</sup> Antons, 'Intellectual Property Law in Indonesia' (n 13), 44.

<sup>25</sup> Related to IP, the Commercial Court only has jurisdiction over copyright, patents, trademarks, industrial designs and the layout design of integrated circuit disputes. Sinaga (n 26) 156.

<sup>26</sup> The transfer is meant to reduce burden of the District Court, so IP cases could be settled in a shorter time. *Ibid.*

<sup>27</sup> All of the IP appeal requests, except in cases related to trade secrets and plant variety protection, can skip the appeal process

<sup>14</sup> Antons, 'Intellectual Property Law in Indonesia' (n 13) 204.

<sup>15</sup> Among the cases, there were two famous cases involving 'Pierre Cardin' and 'Levis' trademarks. All levels of Indonesian court made decisions, which upheld the local company's registration of those two international well-known trademarks. See Kusumadara (n 17) 108–109; A. Rosser, *The Politics of Economic Liberalisation in Indonesia: State, Market and Power* (1st edn, Curzon 2002) 155.

<sup>16</sup> Rosser, 'The Politics of Economic Liberalisation in Indonesia' (n 19) 205.

<sup>17</sup> 'Indonesia Admits Failure in Implementing WTO Commitments' *The Jakarta Post* (online, 22 December) <<http://www.thejakartapost.com/news/1999/12/22/indonesia-admits-failure-implementing-wto-commitments.html>> .



Despite all reforms done by the GoI, utilization of IPRs among local entrepreneurs, particularly among SMEs, is low. The number of IPRs applied for by an Indonesian resident actually outnumbered IPR applications filed by non-residents in 2013 (see table below); however, as mentioned earlier, Indonesia received only around one third of what the country paid for charges for the use of IP in 2013.<sup>28</sup> This means that compared to the total population of Indonesia, which is more than 255 million people, the number of IPR applications by Indonesian residents is insufficient to result in commensurate financial benefits of IPRs to the Indonesian economy.

**Table 1. Statistic of IPRs Application in Indonesia (2013)**<sup>29</sup>

IPRs	Resident	Non- Resident
Trademark	44,288	16,698
Patent	663	6,787
Industrial Design	2,771	1,488
Utility Model	233	116

There is no comprehensive statistical data that explains the extent of IPR use among Indonesian SMEs. The only data available is on the application of industrial design in 2013 that includes SME and non-SME categories.<sup>30</sup> Nevertheless, the data seems invalid since out of 4,251 applications of industrial design filed in 2013, only 7 applications have come from the SMEs category. Although the data is rare, based on a quick overview of trademark applications in Indonesia between 2009-2013, it may be assumed that only a small percentage of Indonesian SMEs register their trademark. In this context, the total number of domestic trademark applications for the years between 2001 and 2013 is around 440,000,<sup>31</sup> while the number of

Indonesian SMEs is estimated to be around 57.8 million in 2013.<sup>32</sup> This means that only 0.76 per cent SMEs seek protection for a trademark. Compared to other IPR applications, such as for copyright, patents and industrial designs, statistics show that the number of applications in the trademark field in Indonesia is higher.<sup>33</sup> Thus, it may be concluded that the use of other IPRs, which require registration to obtain protection (that is, copyright, patents, industrial designs, layout design (topography) of integrated circuits, and PVP) in the Indonesian business sector is even lower than the percentage mentioned above for trademark applications.<sup>34</sup>

There are various reasons why the utilization of IPRs is so low among Indonesian SMEs. These include a complicated and lengthy registration process, high costs and weak IP law enforcement which make SMEs reluctant to use IPRs in their business activities.<sup>35</sup> Another reason offered is that SMEs do not have sufficient knowledge of the benefits of IPRs.<sup>36</sup> Since Indonesia ratified the TRIPS in 1994 and adjusted its IP legislations to the standard of TRIPS, the GoI, primarily through the Directorate General of Intellectual Property Rights, has actively promoted the importance of IPRs to Indonesian entrepreneurs through various programs. Yet, such programs are given low priority in terms of their budgets, are poorly designed, and are not implemented on a national scale.<sup>37</sup> In addition, compared to the number of Indonesian entrepreneurs, the programs are insufficient and discuss merely legal aspects

in the High Court and go directly to the Supreme Court. It has the effect of shortening the time required to settle the disputes. Ibid, 157.

<sup>28</sup> See above sub-chapter "Key Facts on Indonesia", 3.

<sup>29</sup> World Intellectual Property Organization, 'Statistical Country Profiles: Indonesia' (2015) <[http://www.wipo.int/ipstats/en/statistics/country\\_profile/profile.jsp?code=ID](http://www.wipo.int/ipstats/en/statistics/country_profile/profile.jsp?code=ID)> accessed 11 September 2015.

<sup>30</sup> Direktorat Jenderal Hak Kekayaan Intelektual Republik Indonesia, 'Statistik HKI Tahun 2013-14 (Statistics of IPRs 2013-14)' (2015) <[https://www.dgip.go.id/images/adelch-images/pdf-files/statistik/statistik\\_hki\\_jadi\\_2013-2014.pdf](https://www.dgip.go.id/images/adelch-images/pdf-files/statistik/statistik_hki_jadi_2013-2014.pdf)> accessed 23 September 2015.

<sup>31</sup> Direktorat Jenderal Hak Kekayaan Intelektual - Kementerian Hukum dan Hak Asasi Manusia Republik Indonesia (Directorate General of Intellectual Property Rights - Ministry of Law and Human Rights of Republic of Indonesia, 'Permohonan Pendaftaran Merek Asing & Domestik Tahun 2001 s.d. 2011 (Application of Foreign and Domestic IP Registration from 2001 to 2011)'

(Directorate General 2011) <<http://www.dgip.go.id/ebscript/publicportal.cgi?ucid=376&ctid=3&type=0&id=123>> accessed 2 May 2011; Direktorat Jenderal Hak Kekayaan Intelektual - Republik Indonesia, 'Statistik Merek (Statistic of Trademark)' (Direktorat Jenderal Hak Kekayaan Intelektual - Republik Indonesia, 2014) <<https://www.dgip.go.id/statistik-merek>> accessed 25 September 2015; World Intellectual Property Organization (n 35).

<sup>32</sup> Kementerian Koperasi dan Usaha Kecil dan Menengah Republik Indonesia, 'Data UMKM 2012-2013' (n 7).

<sup>33</sup> For detailed statistics for copyright, patents, and industrial designs, see the website of the Directorate General of Intellectual Property Rights, <<http://www.dgip.go.id/ebscript/publicportal.cgi?ucid=376&ctid=4&type=0&id=139>>.

<sup>34</sup> S. Sinaga, 'Utilization of Intellectual Property Rights By Indonesian Small and Medium Enterprises: A Case Study of Challenges Facing The Batik and Jamu Industries' (University of Wollongong 2012) 7.

<sup>35</sup> S. Sinaga, 'Faktor-Faktor Penyebab Rendahnya Penggunaan Hak Kekayaan intelektual di Kalangan Usaha Kecil Menengah Batik (Factors that Cause Low Utilization of Intellectual Property Rights Among Small Medium Enterprises in Batik Industry)' 21 *Ius Quia Iustum* 61, 70-77.

<sup>36</sup> Sinaga, 'Utilization of Intellectual Property Rights By Indonesian Small and Medium Enterprises' (n 40) 277-278 & 329-331.

<sup>37</sup> Ibid, 226.

of IPRs (how to protect IPRs and the benefits of IPRs protection). They rarely discuss other more relevant issues to the business sector, such as how to market IPRs and how to increase the value of IPRs. For most entrepreneurs, especially small and medium ones, the marketability of their products and services is more important than the protection of their assets.

## 5. INTELLECTUAL PROPERTY RIGHTS AS LOAN COLLATERAL IN INDONESIA: CURRENT SITUATION AND PREPARATION FOR IMPLEMENTATION

### A. CURRENT SITUATION

Apart from the initiatives which are insufficient to promote the utilization of IPRs, there is another Gol program related to IPRs, which deals with the promotion of a creative economy. This program was started in 2007 and is expected to come to fruition in 2025. The creative economy, which includes creative industries, is believed to be suitable for Indonesia, which has rich and diverse cultures and a great deal of creative human resources.<sup>38</sup> Patent, copyright, trademark, and industrial design rights are regarded as IPRs essential to support and give protection to creative industries in Indonesia.<sup>39</sup>

The idea of developing the creative economy of Indonesia has been taken up with full force. It was reflected in the issuance of Presidential Instruction No 6 of 2009 on the development of the creative economy.<sup>40</sup> The former President of Indonesia, Susilo Bambang Yudhoyono, in this instruction, requests the officials who head 27 government agencies<sup>41</sup> and all heads of regional governments (governors and regents/mayors) to support the policy of

The Development of Creative Economy 2009–2015,<sup>42</sup> which focuses on 14 sub-sectors of the creative industry.<sup>43</sup> While there have been new governments in power since October 2015 after Yudhoyono's regime, creative economy programs have been continued. Even the current President of Indonesia, Joko Widodo, has established a special agency, *Badan Ekonomi Kreatif* (Creative Economy Agency - CEA) that has been managing creative economy issues in Indonesia since January 2015.<sup>44</sup>

The idea of a creative economy is worth mentioning here not just because IPRs are a way to meet the target of developing creative industries in Indonesia. In addition to that, the creative industry is dominated by SMEs<sup>45</sup> which need financial assistance to start up and run their businesses. However, lending distribution to the Indonesian creative industry is relatively low. As per Central Bank of Indonesia records from August 2014, only 17.4 per cent credit (IDR 115.4 trillion) was disbursed to the creative industry sector.<sup>46</sup> Banks, as the most common financial institutions which disburse loans to Indonesian SMEs, have strict conditions related to the approval of loan applications. According to Indonesian banking law,<sup>47</sup> a bank needs to apply the precautionary principle in processing loans from their consumers. The precautionary principle is applied by assessing five elements, namely character, capacity, capital, collateral and condition of the economy.<sup>48</sup> Among these five elements, collateral is the

<sup>38</sup> Ibid, 196.

<sup>39</sup> Departemen Perdagangan [Department of Trade], *Rencana Pengembangan Ekonomi Kreatif Indonesia 2009-2015* (Department of Trade 2008) 35.

<sup>40</sup> *Instruksi Presiden No 6 Tahun 2009 tentang Pengembangan Ekonomi Kreatif [Presidential Instruction No 6 of 2009 on the Development of the Creative Economy] (Indonesia)* (2009)

<sup>41</sup> These government agencies are: the Coordinating Ministries for People's Welfare; Economic Affairs; and Ministries of Trade; Industry; Finance; Justice and Human Rights; Agriculture; Communication and Information; Culture and Tourism; National Education; Foreign Affairs; Home Affairs; Manpower and Transmigration; Public Works; Forestry; Marine Affairs and Fisheries; Energy and Mineral Resources; Transportation; National Development Planning; Cooperatives and Small Medium Enterprises; Research and Technology; State-Owned Enterprise; Environment; Agency for the Assessment and Application of Technology (*Badan Pengkajian dan Penerapan Teknologi* – BPPT); the Indonesian Institute of Sciences (*Lembaga Ilmu Pengetahuan Indonesia* - LIPI); Capital Investment Coordinating Board (*Badan Koordinasi Penanaman Modal* – BKPM); and National Standardisation Agency of Indonesia (*Badan Standarisasi Nasional*).

<sup>42</sup> *Instruksi Presiden No 6 Tahun 2009 tentang Pengembangan Ekonomi Kreatif [Presidential Instruction No 6 of 2009 on the Development of the Creative Economy] (Indonesia)*.

<sup>43</sup> The 14 sub-sectors of creative industry mentioned in the Instruksi Presiden No. 6 Tahun 2009 are advertising; architecture; art and antique markets; handicraft; design; fashion (mode); film, video, and photography; interactive games; music; performing arts; publishing and printing; computer and software service; radio and television; and research and development; Ibid art 2.

<sup>44</sup> 'Harapan Para Pekerja Seni terhadap Badan Ekonomi Kreatif (Hope of the Art Workers to Creative Economy Agency)' *Suara Pembaruan* (Jakarta, 29 January 2015) <<http://sp.beritasatu.com/ekonomidanbisnis/harapan-para-pekerja-seni-terhadap-badan-ekonomi-kreatif/76432>> accessed 15 October 2015.

<sup>45</sup> There are no detailed statistics on the number of SMEs in the Indonesian creative industry; however one can conclude SMEs dominate the creative industry sector as 99.99 per cent of the total number of business units in Indonesia are SMEs. See also above p. 2.

<sup>46</sup> Muhammad Khamdi, 'BI: Kredit untuk Industri Kreatif Sangat Kecil (Central Bank of Indonesia: Credit for Creative Industry is Very Small)' *Bisnis Indonesia* (Jakarta, 25 Nov 2014) Finansial <<http://finansial.bisnis.com/read/20141125/90/275382/bi-kredit-untuk-industri-kreatif-sangat-kecil>> accessed 19 October 2015.

<sup>47</sup> Law No. 10 of 1998 on Banking, which amended Law No. 7 of 1992 on Banking.

<sup>48</sup> Elucidation of Article 8 of Law No. 7 of 1992 on Banking.

most difficult requirement for SMEs, especially those which have just started their business. Therefore, this is one reason for the low percentage of loan distribution for SMEs in Indonesia.<sup>49</sup>

Lack of capital is certainly a major obstacle that hampers the development of SMEs in the Indonesian creative industry. It becomes worse when they experience difficulty in accessing credit from banks.<sup>50</sup> This also has a negative impact on the success of the creative economy program, the target for which has been set as 2025.<sup>51</sup> Accordingly, the GoI has begun looking for solutions to help SMEs, especially those in the creative industry, to access loans from banks. One possible solution is allowing IPRs to be used as loan collateral for banks.

## B. PREPARATION TO INCORPORATE IP AS COLLATERAL IN THE INDONESIAN LEGAL SYSTEM

Although it is a new idea in Indonesia, some countries have used IPRs as loan collateral earlier. For example, in 2008, the government of China, through the State Intellectual Property Office (SIPO), launched the pilot IPRs pledge financing project, which uses patent as loan collateral.<sup>52</sup> In 2013, the project has been initiated with several rounds in 29 regions with a total credit amount of CNY 25.4 billion distributed.<sup>53</sup> Another example is that of Malaysia which allocated a budget of RM 200 million to Malaysian Debt Ventures Bhd (MDV) for developing the IP financing fund scheme with IPRs in 2013. Malaysian SMEs in the areas of biotechnology, green technology, advanced technology, and information, communication and technology (ICT) with IPRs will be able to use their IPRs as collateral to obtain funding. Under this scheme, the government of Malaysia provides 2 per cent interest rate subsidy and guarantee of 50 per cent through the Credit

Guarantee Corp.<sup>54</sup> All these examples have inspired the GoI to use IPRs as loan collateral in the country.

The National Law Development Agency (NLDA) under the Ministry of Law and Human Rights took the initiative to prepare for this move. It organized two events in 2013 and 2014 to discuss this matter. The first event was a seminar held in Bandung in 2013 and the other event was a 2014 workshop in Jakarta. The events concluded discussion on some issues such as regulation, method of appraisal, risks posed, and coordination among relevant agencies, that need to be resolved if IPRs will have to be accepted as loan collateral by Indonesian banks.<sup>55</sup>

Currently, in terms of regulation, the only law that deals with the issue is Law No. 28 of 2014 on Copyright, which was passed in 2014. Article 16 (3) provides that 'Copyright may be used as object of *fiducia* security'. According to Law No. 42 of 1999 on *Fiducia* Security, *fiducia* is a transfer of title of an asset on the basis of trust with the condition that the asset be in the possession of the owner of the object.<sup>56</sup> A *fiducia* is a security interest on movable assets, whether tangible or intangible, and on immovable goods that are not subject to a (i) *Hak Tanggungan*<sup>57</sup> under the Security Rights Law; (ii) hypothec on ships with gross tonnage of 20 meters<sup>3</sup> or more; (iii) hypothec on aircraft; or (iv) pledges.<sup>58</sup> Since IPRs are movable assets, in theory, *fiducia* security would be applicable to IPRs. Accordingly, Indonesian lawmakers can include provisions on *fiducia* security in the new Indonesian Copyright Law.

The inclusion of such a provision must be done in other Indonesian IP laws as well.<sup>59</sup> At this moment, there are drafts of three Indonesian IP Laws on Trademark Law and

<sup>49</sup> Naomi Siagian, 'Perlu Skema Pendanaan Kreatif untuk UMKM: UMKM sulit memenuhi jaminan tambahan yang diminta bank. (Need Creative Financial Scheme for Micro, Small and Medium Enterprises (MSMEs): MSMEs are Difficult to Fulfill Additional Collateral Required by Banks.)' *Sinar Harapan* (Jakarta, 15 June 2015) Financial <<http://www.sinarharapan.co/news/read/150616035/perlu-skema-pendanaan-kreatif-untuk-umkm>> .

<sup>50</sup> No additional collateral, high interest rate and lack of capability in making financial reports have been mentioned as factors that make SMEs difficult to access loan from Banks in Indonesia. *Ibid.*

<sup>51</sup> 'Creative Economy: Rencana Jangka Panjang' <<http://program.indonesiakreatif.net/creative-economy/>> accessed 15 October 2015.

<sup>52</sup> SIPO, Brief on Intellectual Property Development in China, IPSDM 2014, Tokyo, Japan <[https://www.jpo.go.jp/torikumi\\_e/ibento\\_e/program/img/BriefOnIPInChina.pdf](https://www.jpo.go.jp/torikumi_e/ibento_e/program/img/BriefOnIPInChina.pdf)> accessed on October 13, 2017.

<sup>53</sup> 'Patent Right Pledge Financing Amounted to 25 Billion Yuan' <[http://english.sipo.gov.cn/news/official/201402/t20140226\\_907967.html](http://english.sipo.gov.cn/news/official/201402/t20140226_907967.html)> accessed 16 October 2015.

<sup>54</sup> 'BUDGET 2013: Venture Company MDV to Launch Intellectual Property Fund for SMEs' <<http://www.mdv.com.my/en/budget-2013-venture-company-mdv-launch-intellectual-property-fund-smes/>> accessed 16 October 2015.

<sup>55</sup> *Prosiding: Lokakarya Penyiapan Regulasi Hak Kekayaan Intelektual Sebagai Alat Kolateral Dalam Sistem Hukum Nasional (Proceeding: Workshop on Preparation of Intellectual Property Regulation as A Collateral in the National Legal System)* (Badan Pembinaan Hukum Nasional (National Law Development Agency) 26-28 Maret 2014) 91-92.

<sup>56</sup> Article 1 (1) of Law No. 42 of 1999 on *Fiducia* Security.

<sup>57</sup> *Hak Tanggungan* or land security right is security interest that may be granted over certain types of titles to land. This security right can only be imposed on a right of ownership, a right of development and a right of use. See Law No 4 of 1996 Regarding Security Rights Over Land and Goods Attached to Land; Darrel R. Johnson, Muhammad Kadri and Astrid A. Sihombing, 'Indonesia: Enforcement of Security Interests in Banking Transactions' Bank Finance and Regulation: Multi-jurisdictional Survey <[http://www.ibanet.org/LPD/Financial\\_Services\\_Section/Banking\\_Law/BankingLawSurveyApril2010.aspx](http://www.ibanet.org/LPD/Financial_Services_Section/Banking_Law/BankingLawSurveyApril2010.aspx)> 3.

<sup>58</sup> Johnson, *ibid.*

<sup>59</sup> *Prosiding* (n 59) 92.

Patents that are being discussed in the House of Representatives of the Republic of Indonesia.<sup>60</sup> The House is expected to pass these three drafts as Laws by 2019 at the latest.<sup>61</sup> In addition, similar provisions need to be inserted in other IP legislations<sup>62</sup> which have not been considered for renewal or amendment yet. The GoI also needs to harmonize laws and regulations in other relevant areas apart from IP, such as corporate, share market, banking and finance, in order to facilitate transactions which utilize IPRs as loan collateral.<sup>63</sup>

Additionally, it is also important to set up an appraisal agency that assesses the value of IPRs, which will be used as loan collateral.<sup>64</sup> Currently, there is no agency that offers such service in Indonesia; although any accounting firm might be able to do a valuation on IPRs if the model of assessment is agreed on in Indonesia. It would be a good idea for the GoI to learn from neighbouring countries, such as China and Malaysia, which have already introduced the use of IPRs as loan collateral and formed the model assessment. The appraisal agencies must also have good understanding and coordination with other relevant stakeholders, such as banks, the Directorate General of Intellectual Property and the Financial Services Authority.

## 6. CONCLUSION

The idea of IPRs being accepted as collateral by Indonesian banks is still at an early stage. Nevertheless, it is certain that the idea would result in a lot of benefits to Indonesian businesses, especially SMEs. Moreover, it would also support the creative economy program in Indonesia, the most important target for which is SMEs in the creative industry. In order to realize this idea in Indonesia, there is work to be done with respect to the harmonization of IP laws and related legislations, coordination between relevant organizations and the setting up of an assessment model for IP valuation.

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<sup>61</sup> *Ibid.*

<sup>62</sup> These legislations are in the areas of topography, trade secret and plant variety protection.

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<sup>64</sup> *Prosiding* (n 59) 63.

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## 6. IN THE PUBLIC INTEREST: HOW KENYA QUIETLY SHIFTED FROM FAIR DEALING TO FAIR USE

Victor B. Nzomo\*

### ABSTRACT

In 2014, the Supreme Court of Kenya had to determine whether the broadcast rights in free-to-air (FTA) programme-carrying signals were infringed by allowing the re-broadcasting of these signals pursuant to the so-called 'must-carry' rule in the Broadcasting Regulations of the Kenya Information and Communication Act. In a unanimous decision, the apex court ruled that the 'must-carry' rule fell under the fair dealing provisions of the Kenya Copyright Act despite the fact that the dealing in question did not fit within one of the enumerated allowable purposes.

From a strictly statutory perspective, Kenya is a fair dealing country but the Supreme Court's approach consisted entirely of a fairness analysis identical to one of an open-ended fair use system. This paper argues that the apex court seized an opportunity to answer the question of how a court should determine whether an act done in relation to a work constitutes fair dealing under Kenya's Copyright Act. However, in doing so, the court disregarded the statutory approach based on the enumerated allowable purposes in favour of an approach that confers on all courts the responsibility to assess on a case-by-case basis defendants' assertions that they should be excused for making unauthorized uses of copyrighted works. The court's emphasis on the importance of limitations and exceptions to safeguard public interest laid the foundation for a shift away from a fair dealing test based on the enumerated allowable purposes toward a single analysis based on fairness of the use of a copyrighted work. Until the Legislature substantively amends section 26 of the Copyright Act, this interpretation of fair dealing by the Supreme Court has binding force in Kenya. Therefore, this paper suggests that Kenya has three options if it wishes to review the fair dealing provision, namely: (1) expand the list of enumerated allowable purposes; (2) codify the Supreme Court's fair use approach; or (3) codify the two-step fair dealing approach in the case of *CCH Canadian Ltd. v Law Society of Upper Canada* which was cited but partially applied by the Supreme Court.

**Keywords:** *copyright; fair dealing; fair use; fairness; Kenya*

### 1. INTRODUCTION

In 2013, three of the largest free-to-air (FTA) broadcasters in Kenya: Royal Media Services, Nation Media Group, and Standard Group filed a suit at the

High Court of Kenya<sup>1</sup> claiming that certain digital broadcasters were illegally re-broadcasting their programme-carrying signals pursuant to a so-called 'must-carry' rule in the Kenya Information and Communication Broadcasting Regulations.<sup>2</sup> The High Court dismissed the FTA broadcasters' claims. However, this was reversed in the Court of Appeal.<sup>3</sup> As a result, the matter was appealed before the highest court in the land – the Supreme Court in the case of *Communications Commission of Kenya & 5 others v Royal Media Services Limited & 5 others* [or 'the CCK case'].<sup>4</sup>

The background of the CCK case is a 2006 Regional Radio Communication (RRC) Conference under the auspices of the International Telecommunications Union (ITU), a specialized UN agency established to co-ordinate the shared global use of radio spectrum among nation states. The conference culminated in an agreement binding on Kenya and other ITU member states to switch over from analogue to digital terrestrial television broadcasting. As such, the ITU member states agreed that the switch-off date for analogue television broadcasting would be set for 17th June 2015 and could not be varied, save with the approval of a further RRC.

Following the RRC, the Kenya Communications (Amendment) Act, 2009 was enacted along with the Kenya Information and Communication (Broadcasting) Regulations 2009 which introduced the 'must-carry' rule compelling a signal distributor to carry a prescribed minimum number of Kenyan FTA broadcasting channels, as a precondition for retaining its broadcasting licence. The 'must-carry' rule originated in North America, with the advent of cable television and required cable television companies to carry locally-licensed television stations on their cable system. Under the 'must-carry'

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<sup>1</sup> *Royal Media Services Ltd & 2 others v Attorney General & 8 others* [2013] eKLR.

<sup>2</sup> Kenya Information and Communications (Broadcasting) Regulations, 2009.

<sup>3</sup> *Royal Media Services Limited & 2 others v Attorney General & 8 others* [2014] eKLR.

<sup>4</sup> *Communications Commission of Kenya & 5 others v Royal Media Services Limited & 5 others* [2014] eKLR.

rule, transmission frequencies for radio or television broadcasting and telecommunication are considered national resources to be utilized for the public interest.

Therefore, the Supreme Court had to strike an appropriate balance between various competing rights: on the one hand, the intellectual property (IP) rights of the FTA broadcasters and on the other hand, society's right of access to information as well as the rights of consumers which are both at the core of the 'must-carry' rule. In a unanimous decision, the court ruled that the 'must-carry' rule fell under the fair dealing provisions of the Copyright Act.

Central to the Supreme Court's decision was an emphasis on the importance of 'broad limitations and exceptions integrated into the copyright system to safeguard public interest'. From a statutory perspective, Kenya remains a fair dealing country but the Supreme Court's approach points the way to a fairness analysis similar to an open-ended fair use system.

With a specific focus on the CCK case, this article seeks to examine the extent to which copyright law in Kenya has achieved an appropriate balance between the private rights of owners and rights of users through reforms that strengthen exclusive rights and safeguard the public interest through robust exceptions and limitations.

## 2. EVOLUTION OF FAIR DEALING IN KENYA

The concepts of fair dealing and fair use are analogous but not synonymous.<sup>5</sup> Fair dealing was first developed by courts in the United Kingdom (UK) in the eighteenth century, and was codified in 1911.<sup>6</sup> Whereas fair use, which developed in the United States (U.S.), is attributed to Justice Story's 1841 decision in *Folsom v. Marsh*, which was based on the English fair dealing case law.<sup>7</sup> Both concepts share the same fundamental idea of permitting uses which are considered fair but these concepts differ in their approach as construed in statute and interpreted by courts. The approach in fair dealing is restrictive whereas the approach in fair use is broader.

Dealing generally refers to exploitation of any exclusive right in a copyright work without the permission of the author or owner of the work in question. The two-step test used to determine 'fair dealing' is as follows: firstly,

does the dealing fall within one of the specific purposes listed in the Copyright Act? Secondly, is the dealing fair? In the UK, the second limb of the two-step test regarding the 'fairness' of the dealing has not been defined in the Copyright Act but it is said to be a question of degree.<sup>8</sup> The restricted approach adopted in the UK thus differs significantly from the position in US Copyright law, which has a general defence of fair use such that if the court is satisfied that the use is fair, then there will be no infringement.<sup>9</sup> In this regard, section 107 of the US Copyright Act reads as follows:

'Notwithstanding the provisions of sections 106 and 106A, the fair use of a copyrighted work, including such use by reproduction in copies or phonorecords or by any other means specified by that section, for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research, is not an infringement of copyright. In determining whether the use made of a work in any particular case is a fair use the factors to be considered shall include—

- (1) the purpose and character of the use, including whether such use is of a commercial nature or is for non-profit educational purposes;
- (2) the nature of the copyrighted work;
- (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and
- (4) the effect of the use upon the potential market for or value of the copyrighted work.

The fact that a work is unpublished shall not itself bar a finding of fair use if such finding is made upon consideration of all the above factors.

Since Kenya was a British colony until 1963, copyright law in Kenya evolved from the United Kingdom Copyright Acts of 1842, 1911 and 1956.<sup>10</sup> Kenya enacted its first domestic Copyright Act in 1966 and developed its copyright system through subsequent amendments in 1975, 1982, 1989, 1995 and 2000.<sup>11</sup> The fair dealing provision in the current Copyright Act<sup>12</sup> was last amended in 1995 with the insertion of the following words: 'subject to acknowledgement of the source'.<sup>13</sup> As

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<sup>8</sup> *Hubbard v. Vosper* [1972] 1 All ER. 1023, 1027.

<sup>9</sup> Lionel Bently and Brad Sherman, *Intellectual Property Law* (4<sup>th</sup> edn, OUP 2014) 224

<sup>10</sup> Marisella Ouma and Ben Sihanya, 'Kenya' in Chris Armstrong and others (eds), *Access to Knowledge in Africa: The Role of Copyright* (UCT Press, 2010) 86.

<sup>11</sup> *Ibid* p. 88.

<sup>12</sup> Chapter 130 Laws of Kenya.

<sup>13</sup> See section 7(1)(a) of Copyright (Amendment) Act, No. 9 of 1995. In the Copyright Act No. 14 of 1989, section 7(1)(a) stated: 'the doing of any of those acts by way of fair dealing for

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<sup>5</sup> Tobias Schönwetter, 'Safeguarding a Fair Copyright Balance - Contemporary Challenges in a Changing World: Lessons to be Learnt from a Developing Country Perspective' (PhD thesis, University of Cape Town 2009) 111.

<sup>6</sup> Jonathan Band and Jonathan Gerafi, 'Fair Use/Fair Dealing Handbook' (SSRN, 7 May 2013) <[www.ssrn.com/abstract=2333863](http://www.ssrn.com/abstract=2333863)> accessed 19 October 2016.

<sup>7</sup> Craig Joyce, Marshall Leaffer, Peter Jaszi and Tyler Ochoa, *Copyright Law* (7<sup>th</sup> edn, LexisNexis 2006) 774.

a result, the section reads: ‘...the doing of any of those acts by way of fair dealing for the purposes of scientific research, private use, criticism or review, or the reporting of current events subject to acknowledgement of the source’.<sup>14</sup>

Unlike Kenya which retained the fair dealing purposes in the 1956 UK Copyright Act, other Commonwealth jurisdictions have since expanded the list of purposes to include education and satire,<sup>15</sup> caricature and parody or pastiche.<sup>16</sup>

Two important sources of law on fair dealing and fair use are the Berne Convention for the Protection of Literary and Artistic Works (Berne Convention) and Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement) Kenya ratified the Berne Convention on 11 June 1993. In 1995, Kenya joined the World Trade Organization (WTO) thus becoming a party to the WTO TRIPS Agreement.<sup>17</sup> For our present purposes, Article 9(2) of the Berne Convention is noteworthy as it embodies the so-called ‘Three-Step Test’. It states that: ‘It shall be a matter for legislation in the countries of the Union to permit the reproduction of such works in certain special cases, provided that such reproduction does not conflict with a normal exploitation of the work and does not unreasonably prejudice the legitimate interests of the author.’

It is also noteworthy that Article 13 of the TRIPS Agreement adopts and expands the ‘Three-Step Test’ in Article 9(2) of the Berne Convention. It states that, ‘Members shall confine limitations or exceptions to the exclusive rights to certain special cases which do not conflict with a normal exploitation of the work and do not unreasonably prejudice the legitimate interests of the right holder’. In the context of the judge-made doctrine of fair use, there is considerable debate on whether this doctrine violates the Berne Convention and the TRIPS Agreement with its specific restrictions which serve to guarantee the rights of authors and the interests of users by providing them with legal certainty.<sup>18</sup>

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the purposes of scientific research, private use, criticism or review, or the reporting of current events’

<sup>14</sup> See section 26(1)(a) of the Copyright Act, 2001.

<sup>15</sup> See sections 29-29.2 of Canada Copyright Act.

<sup>16</sup> See sections 2A and 30A of UK Copyright, Designs and Patents Act 1988.

<sup>17</sup> Article 2(6) of the Constitution of Kenya states that any treaty or convention ratified by Kenya shall form part of the law of Kenya.

<sup>18</sup> See for instance, Herman Cohen Jehoram, ‘Restrictions on Copyright and their Abuse’ (2005) 27 EIPR 359; Paul Goldstein, *International Intellectual Property Law: Cases and Materials*

Prior to the CCK case, the fair dealing provision in Kenya’s Copyright Act had been problematic for at least two major reasons; firstly, there was no definition of the requirement of fairness,<sup>19</sup> and secondly, there was no guidance on whether the list of enumerated fair dealing purposes was exhaustive.<sup>20</sup> In other words, if the dealing by the digital broadcasters were to be considered fair by a court, would it still be found to be infringing solely on the basis that the dealing could not fit into any of the enumerated categories in section 26(1)(a) of the Act? What follows is a critical analysis of how the court in the CCK case addressed these two problems with fair dealing in Kenya.

### 3. FAIRNESS CRITERIA

In the CCK case, the Supreme Court noted that the Copyright Act does not define what is ‘fair’ in terms of section 26 which contains the ‘fair dealing’ provision. As such, the court stated that the definition of ‘fair’ depends on the facts of each case.<sup>21</sup> More importantly, the court held that a dependable basis for ‘determining fairness’ in the future should be the six-factor test endorsed by the Supreme Court of Canada in *CCH Canadian Ltd. v. Law Society of Upper Canada*<sup>22</sup> (‘CCH case’).

In the CCH case, the court endorsed a six factor test which acknowledged that there was no set test for fairness, but outlined a series of factors that could be considered to help assess whether a dealing is fair.<sup>23</sup> Drawing from the doctrine of fair use in the U.S., the Canadian Court proposed that the following factors should be considered in assessing whether a dealing was fair: (1) the purpose of the dealing; (2) the character of the dealing; (3) the amount of the dealing; (4)

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(2<sup>nd</sup> edn, Foundation Press 2008) 281; Silke von Lewinski, *International Copyright Law and Policy* (OUP 2008) 57; Craig Joyce, Marshall Leaffer, Peter Jaszi and Tyler Ochoa, *Copyright Law* (7th edn, LexisNexis 2006) 866 – 868.

<sup>19</sup> Marisella Ouma and Ben Sihanya, ‘Kenya’ in Chris Armstrong and others (eds), *Access to Knowledge in Africa: The Role of Copyright* (International Development Research Centre, 2010) 92.

<sup>20</sup> Josphat Ayamunda & Chudi Nwabachili, *Copyright Exceptions and the Use of Educational Materials in Universities in Kenya*, *Journal of Law, Policy and Globalization* Vol.39, 2015 at p. 106. See also Ariel Katz, ‘Fair Use 2.0: The Rebirth of Fair Dealing in Canada’ in Michael Geist (ed), *The Copyright Pentology: How the Supreme Court of Canada Shook the Foundations of Canadian Copyright Law*, (University of Ottawa Press 2013) 96: Katz argues, from a historical perspective, that there are no indications that the fair dealing provisions were intended to be exhaustive.

<sup>21</sup> CCK case (n 4) Para 246.

<sup>22</sup> [2004] 1 SCR 339, 2004 SCC 13.

<sup>23</sup> *Ibid* para 53.



alternatives to the dealing; (5) the nature of the work; and (6) the effect of the dealing on the work.<sup>24</sup>

The facts of the CCH case were briefly as follows. The Plaintiffs were publishers of commercial legal works who sued the Law Society of Upper Canada for copyright infringement in relation to certain services offered by the Great Library, a law library funded by the Law Society of Upper Canada, which provides its services principally for the benefit of Law Society members.

One such service offered at the Great Library was a custom photocopying service to allow lawyers to access single copies of published legal materials for research purposes. The Great Library claimed that it had put in place several policies to ensure that access to the Library's custom photocopy service was in accordance with the fair dealing exceptions for private study and research.

The Supreme Court of Kenya in the CCK case noted that although the CCH case dealt with copyright infringement vis-à-vis print media, its six-factor test is relevant and can be applied in the CCK case to determine whether the actions carried out under the 'must carry' rule fall within the copyright exception under the fair dealing provision.<sup>25</sup>

#### A. THE PURPOSE OF THE DEALING<sup>26</sup>

In the CCK case, the court simply states that the purpose of the 'must-carry' rule is to ensure that the public has access to information.<sup>27</sup> By taking a literal approach, it appears that the court has considerably broadened the definition of the purpose. By contrast, in the CCH case, the purpose of the dealing related strictly to one of the enumerated allowable purposes under the Copyright Act, namely research, private study, criticism, review or news reporting.<sup>28</sup> However, the court in the CCH case pointed out that these allowable purposes should not be given a restrictive interpretation or this could result in the undue restriction of 'users' rights'.<sup>29</sup>

It is likely that the court in the CCK case departed from the interpretation in the CCH case on the 'purpose of the dealing' factor so as not to negate its overall fairness

finding. In other words, had the court in the CCK case followed the CCH case's approach to the 'purpose of the dealing' factor, then the 'must carry' rule would have been found inexcusable as a fair dealing. The principal reason is that the 'must carry' rule does not fall in any of the enumerated allowable purposes under the 'fair dealing' provision of the Copyright Act.

Finally, it may be argued that the court's interpretation of the first factor involves a consideration of whether the use in question was commercial. This is clearly echoed by the court's statement that the purpose of rebroadcasting under the 'must-carry' rule was to ensure that the public had access to information. It follows that a dealing is likely to be fair if it is done for public and/or charitable purposes as opposed to uses for profit-making and/or commercial purposes.<sup>30</sup>

#### B. THE CHARACTER OF THE DEALING

The court in the CCK case states that the programs carried by the FTA broadcasters were 'merely rebroadcast or retransmitted' by the digital broadcasters. According to the court, this second factor requires the court to examine how the works in question were dealt with. In determining whether the character of the dealing is fair, the court recommends a consideration of the custom or practice in a particular trade or industry. Whereas in the CCH case, the examination of how the works were dealt with must be done in the context of the enumerated allowable purpose in question. In this regard, the court in the CCH case cited the case of *Sillitoe v. McGraw-Hill Book Co. (U.K.)*<sup>31</sup> in which the importers and distributors of 'study notes' that incorporated large passages from published works claimed that the copies were fair dealings because they were for the purpose of criticism.<sup>32</sup>

The court in the CCH noted that in the *Sillitoe* case, a review of the ways in which copied works were customarily dealt with in literary criticism textbooks led to the conclusion by the court that the study notes were not fair dealings for the purpose of criticism.<sup>33</sup> In the CCH case, the court found the dealing to be fair after having considered that the Law Society provided single copies of works for the specific purposes allowed under the Copyright Act and that there was no evidence that the Law Society was disseminating multiple copies of works to multiple members of the legal profession.<sup>34</sup>

Therefore, while the court in the CCK case agreed with the CCH case's interpretation of the character of the dealing, the Kenyan court's approach differs significantly

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<sup>24</sup> Ibid.

<sup>25</sup> CCK case (n 4) Para 248.

<sup>26</sup> Lionel Bently and Brad Sherman, *Intellectual Property Law* (4<sup>th</sup> edn, Oxford University Press 2014) 244: 'In deciding the purpose for which the work was used, the test does not depend on the subjective intentions of the alleged infringer; rather, a more objective approach is adopted, so that the question is whether the dealing is 'in the context of' research, criticism, instruction... or reporting.'

<sup>27</sup> CCK case (n 4) para 248.

<sup>28</sup> CCH case (n 17) para 54.

<sup>29</sup> Ibid.

<sup>30</sup> See for instance, CCH case (n 17) para 54.

<sup>31</sup> [1983] F.S.R. 545 (Ch. D.).

<sup>32</sup> CCH case (n 17) para 55.

<sup>33</sup> Ibid.

<sup>34</sup> CCH case (n 17) para 67.

since it considers the dealing in isolation from the enumerated allowable list of purposes. Therefore, the finding that the character of the dealing was fair may have resulted from the court's opinion that the rebroadcasting of the free-to-air programming in the CCK case was in line with standard custom and/or practice in the broadcasting industry.

Finally, it may be argued that the court's interpretation of the second factor involves a consideration of whether the nature or character of the use in question was necessary, reasonable and in good faith under the circumstances. This is clearly echoed by the court's statement that the programs were merely rebroadcast by the digital broadcasters. It follows that the character of a dealing is likely to be fair where a defendant simply acts as any other person or undertaking in the same trade or industry would have acted and the dealing does not extend to excessive or exploitative use of the plaintiff's works in question.

### C. THE AMOUNT OF THE DEALING

The court in the CCK case states that the quantity of the work taken is not determinative of fairness; instead, it makes its determination that the dealing is fair by looking at the purpose of the must-carry rule, which in its view, serves a public interest purpose.<sup>35</sup> Overall, the court in the CCK case stated that both the amount of the dealing and importance of the work allegedly infringed should be considered in assessing fairness.

According to the CCK case, the assessment of the amount of the dealing by the court must consider the type of work and the purpose of the dealing. In this connection, the amount taken, which could be the whole work or a substantial part thereof, may well be fair depending on the purpose for which it is taken. For instance, dealing in an artistic work such as a photograph for purposes of criticism or review may be fair even though it may involve dealing in the whole work.<sup>36</sup> Similarly for the purpose of research or private study, it may be essential to copy an entire academic article.<sup>37</sup> However, if a literary work is copied for the purpose of criticism, it will not likely be fair to include a full copy of the work in the critique.<sup>38</sup>

In the CCK case, the court found that the quantity of the work taken should not be determinative of fairness and instead looked at the purpose of the 'must-carry' rule. According to the court, the carrying of the broadcast content of the free-to-air broadcasters served a 'public interest purpose' and thus satisfied the fairness requirement under this third factor.

<sup>35</sup> CCK case (n 4) para 248.

<sup>36</sup> Ibid.

<sup>37</sup> Ibid.

<sup>38</sup> Ibid.

It is clear that the question of amount of use has a quantitative as well as qualitative dimension. More importantly, a determination of fairness under this third factor is strongly connected with the first and second factors on purpose and character of the dealing. It may be argued that this new 'public interest purpose' announced by the court creates a provision comparable in scope to the open-ended fair use doctrine.<sup>39</sup>

### D. ALTERNATIVES TO THE DEALING

The court in the CCK case found the dealing to be fair since it was not apparent that there were alternatives to the must-carry rule whose ultimate purpose is to guarantee access to information.<sup>40</sup> Whereas in the CCH case, the court stated that this fourth factor requires courts to determine whether the dealing was reasonably necessary to achieve the ultimate purpose.<sup>41</sup> To illustrate this fairness assessment, the court states: 'if a criticism would be equally effective if it did not actually reproduce the copyrighted work it was criticizing, this may weigh against a finding of fairness.'<sup>42</sup>

In its application of this factor, the approach taken by the court in the CCK case is analogous to self-defence in tort.<sup>43</sup> In tort law, the scope of the defence of self-defence depends on the question of whether the defendant needed to defend himself and if so, whether his reaction was commensurate with the threat.<sup>44</sup> Similarly, the court in the CCK case stated that if there were means, other than the must-carry rule, of guaranteeing that the public had access to information, then such alternatives would have to be considered. According to the court, there were no substitutes to the must-carry rule. More importantly, the court once more establishes fairness by referring to the purpose of the must-carry rule. In other words, a dealing would be fair if it advances or serves a public interest purpose for which there are no apparent alternatives.

### E. THE NATURE OF THE WORK

This fifth factor of fairness defines the nature of the work as either published or unpublished. The basic idea behind this factor is that to support the public interest there should be greater access to some kinds of works than others. In other words, a determination of fairness under this factor is likely to be based on the need for public access and dissemination of a work. Conversely, a

<sup>39</sup> See for instance Paul Goldstein, 'International Intellectual Property Law: Cases and Materials 2<sup>nd</sup> Edition', (Thomson West, 2009), p 281.

<sup>40</sup> CCK case (n 4) para 248.

<sup>41</sup> CCH case (n 17) para 57.

<sup>42</sup> Ibid.

<sup>43</sup> See for instance Marshall Leaffer, 'Understanding Copyright 4<sup>th</sup> Edition', (LexisNexis, 2005) 480.

<sup>44</sup> Ibid.

determination of fairness is less likely where the work is particularly susceptible to harm from mass reproduction.

In connection with this, the court in the CCK case found that 'the broadcasts are meant for public consumption, and broadcasters are in the business of transmitting their work.'<sup>45</sup> Therefore, the court categorised all works broadcast under the must-carry rule as published information and as such it would be fair for digital broadcasters to re-broadcast them since such a dealing allows the public to have access to information.

In the application of this fifth factor, the court in the CCK case appears to suggest that the nature of broadcasts as a copyright work is such that it is in the public interest that these works are rebroadcast under the must-carry rule to ensure that the public has access to information. However, unlike in the CCH case,<sup>46</sup> the court in CCK did not consider the extent to which users allowing access to 'published' broadcasts under the 'must-carry' rule are sufficiently regulated to ensure that the works are only broadcast in accordance with the public interest purpose of the rule.

#### F. THE EFFECT OF THE DEALING ON THE WORK

In the CCK case, the court was of the opinion that the digital rebroadcasts were not competing with the market for the original FTA broadcasts. Furthermore, the court stated that no evidence was tendered to show that the rebroadcasts had decreased the market for FTA broadcasts. In other words, the likelihood that a rebroadcast would compete with the market of the original broadcasts is sufficient for a consideration that the dealing is not fair.<sup>47</sup>

From the court's application of this market effect factor, it is not clear what kinds of harm to the potential market for the copyrighted work count for a determination of fairness. However, at the core of this factor, the rationale appears to be the preservation of the copyright owners' monopoly over their works so as to incentivise innovation and creativity. Therefore, future courts are called to determine on a case-by-case basis whether a particular type of use of a work is likely to threaten the incentives for creativity that a copyright tries to protect.<sup>48</sup>

#### 4. THE SHIFT FROM FAIR DEALING TO FAIR USE

After its application of the six factors in the CCH case as above, the court in the CCK case concludes as follows:

'From the foregoing consideration of relevant principles, in the context of the comparative lesson, we would hold that the 'must-carry' rule which required the appellants to carry the signals of the 1st, 2nd and 3rd respondents, is by no means inconsistent with the requirement of fairness. Indeed, it is clear to us that the appellants' dealings with the 1st, 2nd and 3rd respondents, do satisfy the 'fair dealing' defence, and therefore did not infringe upon the copyrights of the 1st, 2nd and 3rd respondents.'

This passage signals Kenya's shift from a fair dealing framework to a flexible standard determined solely by the fairness of the use of a copyrighted work. It is submitted that this new standard is fair use. As discussed above, the primary indication of this shift is the court's particular application of the fairness factors in the CCH case. These CCH factors are identical to the four fairness factors that characterise the doctrine of fair use. Furthermore, the court's interpretation of the CCH factors is particular because it deliberately ignores the enumerated list of fair dealing purposes in the Act.

In this connection, it is interesting to note that the court remarks that its interpretation of fair dealing in fair use terms is grounded on the conventional wisdom that fair use is 'more flexible' than fair dealing and that the distinction between fair dealing and fair use is 'disappearing'.<sup>49</sup> While this approach by the court may be a positive step for safeguarding user rights and the public interest, the open-ended fair use system endorsed by the court appears to be in conflict with Kenya's international obligations under Article 9(2) of the Berne Convention and Article 13 of the TRIPS Agreement as discussed above.

Surprisingly, there has been little academic analysis or public commentary in Kenya related to the Supreme Court's departure from fair dealing in favour of fair use.<sup>50</sup> One commentator Wachira Maina argues that the Supreme Court's reasoning is incoherent and provides several reasons why the retransmission of FTA signals by a pay TV broadcaster cannot be fair dealing.<sup>51</sup> In particular, Maina argues that the fact that the digital broadcasters were using the FTA programming as a selling point for their product shows that the latter were enjoying a commercial benefit from the 'must-carry' rule. As a result, this commercial purpose and character of the use necessitates a determination of unfair

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<sup>45</sup> CCK case (n 4) para 248.

<sup>46</sup> CCH case (n 17) para 71.

<sup>47</sup> CCK case (n 4) para 248.

<sup>48</sup> Marshall Leaffer, *Understanding Copyright Law* (4th edn, LexisNexis 2005) 482.

<sup>49</sup> CCK case (n 4) para 244.

<sup>50</sup> Hezekiel Oira, 'Using 'Must Carry' Cloak to Violate TV Firms' Copyright', *Daily Nation* (Nairobi, 31 January 2015). The author simply notes that: 'The 'must carry' rule does not fit into this particular exception and limitation [fair dealing].'

<sup>51</sup> Wachira Maina, 'Supreme Confusion: How Authority, Court Muddled the Copyright Law' *Daily Nation* (Nairobi, 23 January 2015).

dealing. In the same vein, Maina points out that the digital broadcasters had appropriated and re-branded the news broadcasts of FTA broadcasters; in effect, making it seem as if they were the joint owners of those broadcasts.

A more detailed commentary on the CCK case can be gleaned from a publication by the Kenya Copyright Board (KECOBO).<sup>52</sup> While analysing the Supreme Court judgment in the CCK case, KECOBO Chief Legal Counsel stated the following:

The court however failed to explain ‘the how’ by way of express provisions of the Copyright Act and the decision on plain reading of the definitions of the Act is erroneous. Clearly for it to be transmitted, the analogue signal must be converted or modified before it is made available to the public in the digital platform which is contrary to Broadcasters copyright which is not limited under section 29 of the Copyright Act as declared by the court. The reference to a ‘working paper’ prepared by World Intellectual Property Organization (WIPO) Standing Committee on Copyright and Related Rights (SCCR) for the purpose of negotiating a possible treaty which is still underway is also suspect. A much safer option would have been the three-step test article 9(2) of Berne Treaty or under the TRIPS article 13.<sup>53</sup>

The Chief Legal Counsel at KECOBO concluded that the Supreme Court judgment in the CCK case provides the relevant authorities ‘the opportunity to consider the possibility of safeguarding ‘must carry’ provisions by enacting express provisions under the Copyright Act to cater for public interest as enunciated by the court at its next review.’<sup>54</sup> According to KECOBO, the court in the CCK case interpreted the fair dealing section of the Copyright Act to include a new ‘public interest’ defence<sup>55</sup> similar to the one relied upon by the Supreme Court of the Philippines in the case of *ABS-CBN Broadcasting Corporation v. Philippine Multi-Media System, Inc. & 6 Others* [or ‘the ABS-CBN case’],<sup>56</sup> whose facts bear close resemblance to those in the CCK case.

In the ABS-CBN case, the Supreme Court of the Philippines ruled that the ‘must-carry’ rule fell under

Section 184(1)(h) of the Intellectual Property Code of the Philippines<sup>57</sup> which provides that, ‘The use made of a work by or under the direction or control of the Government, the National Library or by educational, scientific or professional institutions where such use is in the public interest and is compatible with fair use shall not constitute infringement of copyright.’ It is interesting to note that the court in CCK case arrived at the same conclusion as the court in the ABS-CBN case despite the fact that the Kenyan Copyright Act does not have a provision analogous to Section 184(1)(h) of the Philippines’ Code.

Alongside the ‘public interest’ provision similar to the Philippines, as proposed by KECOBO, this paper suggests that there are three possible options for Kenya to amend the fair dealing provision of the Copyright Act in the wake of the CCK case. These options are as follows: (1) expand the list of enumerated allowable purposes; (2) codify the fair use approach adopted in the CCK case; or (3) codify the two-step approach adopted in the CCH case.

In option 1, Kenya would distance itself from the Supreme Court’s fair use approach in the CCK case and opt instead to expand the existing fair dealing framework. As noted above, the current fair dealing provision is identical to the UK Copyright Act of 1956. Thus, there is a clear need to continuously review and update it to justify new uses or technologies over time that may not be envisioned in the Act at the time of its passing. Therefore, this option would entail expanding the list of both general and specific exceptions and limitations. Recent copyright law reform initiatives in other common law jurisdictions with fair dealing provisions such as Canada,<sup>58</sup> Australia<sup>59</sup> and the UK<sup>60</sup> have taken this option.

<sup>57</sup> Republic Act No. 8293 of 1997.

<sup>58</sup> Guiseppina D’Agostino ‘The Arithmetic of Fair Dealing at the Supreme Court of Canada’ in Michael Geist (ed), *The Copyright Pentology: How the Supreme Court of Canada Shook the Foundations of Canadian Copyright Law*, (University of Ottawa Press 2013) 188.

<sup>59</sup> See for instance, Australian Copyright Council, ‘Submission in Response to the Australian Productivity Commission Issues Paper on Intellectual Property Arrangements’ (November 2015) <[http://www.pc.gov.au/\\_data/assets/pdf\\_file/0008/194516/sub036-intellectual-property.pdf](http://www.pc.gov.au/_data/assets/pdf_file/0008/194516/sub036-intellectual-property.pdf)> accessed 19 November 2016; Australian Copyright Council, ‘Submission to the Australian Law Reform Commission Copyright and the Digital Economy’ (November 2012) <[http://www.copyright.org.au/acc\\_prod/ACC/Submissions/SUBMISSION\\_TO\\_THE\\_AUSTRALIAN\\_LAW\\_REFORM\\_COMMISSION\\_COPYRIGHT\\_AND\\_THE\\_DIGITAL\\_ECONOMY\\_.aspx](http://www.copyright.org.au/acc_prod/ACC/Submissions/SUBMISSION_TO_THE_AUSTRALIAN_LAW_REFORM_COMMISSION_COPYRIGHT_AND_THE_DIGITAL_ECONOMY_.aspx)> accessed 19 November 2016.

<sup>52</sup> Kenya Copyright Board, *The Broadcasting Industry in Kenya* (Copyright News Issue 15, 2015).

<sup>53</sup> Edward Sigei, ‘Digital Migration in Broadcasting and Copyright: The Supreme Court Direction’ in Kenya Copyright Board, *The Broadcasting Industry in Kenya* (Copyright News Issue 15).

<sup>54</sup> Ibid.

<sup>55</sup> Paul Goldstein, *International Intellectual Property Law: Cases and Materials* (2nd edn, Foundation Press 2008) 281; Paul Goldstein & P. Bernt Hugenholtz, *International Copyright: Principles, Law and Practice* (3<sup>rd</sup> edn, OUP 2013) 375

<sup>56</sup> G.R. No. 175769-70 (2009).

In option 2, Kenya would embrace the Supreme Court's fair use approach in the CCK case and seek to codify it by amending section 26 of the Copyright Act. As discussed above, the open-ended fair use system endorsed by the court closely resembles section 107 of the US Copyright Act of 1976. Similar fair use language may be found in the Philippines copyright law of 1997 discussed above in the context of the ABS-CBN case. Under this option, the key point is to make the list of purposes open ended so that the factor analysis can apply to uses for purposes not specifically enumerated in the statute.

In option 3, Kenya would adopt the two-step fair dealing approach in the CCH case and seek to codify it by amending section 26 of the Copyright Act. This option entails the enactment of a two-stage analysis: firstly, whether the intended use qualifies for one of the permitted purposes, and secondly, whether the use itself meets the six-factor fairness criteria as listed and defined in the CCH case. This option is a hybrid of the first two options.

It is submitted that this third option would be Kenya's best choice because it combines two essential features of the fair dealing and fair use approaches. Firstly, it contains a safety valve in the form of a list of enumerated allowable purposes that preserves the rights of copyright owners and creates an acceptable degree of legal certainty. Secondly, it includes a balanced and flexible factor analysis that protects users' rights and ensures that matters of legitimate public interest are addressed.

## 5. CONCLUSION

In this paper, I have reviewed the copyright dimension of a landmark Supreme Court of Kenya decision in the CCK case which concerned the transition from analogue to digital terrestrial broadcasting. In particular, this paper focuses on the Supreme Court's finding that the rebroadcasting by some digital broadcasters of free-to-air broadcasts owned by three analogue broadcasters satisfies the 'fair dealing' defence and therefore does not infringe upon the rights of the free-to-air broadcasters under copyright law.

This paper argues that in arriving at this fair dealing finding, the court in the CCK case did not follow the enumerated allowable purposes approach in the fair dealing provision but instead imported into Kenyan law a new approach based on an open-ended fair use system. Through an analysis of the decision in the CCK case, this paper shows how the court effectively turned

the Kenyan fair dealing provision into a fair use provision in which any purpose automatically triggers a determination of fairness based on a list of factors.

Since the Supreme Court is the highest court in the land, this apparent shift from fair dealing to fair use is binding on all subordinate courts in Kenya. However, as shown in this paper, the approach in the CCK case is in direct conflict with the fair dealing wording of the Copyright Act and appears to be in violation of Kenya's international treaty obligations.

In the aftermath of the CCK case, this paper recommends legislative and/or policy interventions aimed at reviewing the fair dealing provision. In this connection, this paper suggests three options for Kenya, namely: (1) expand the list of enumerated allowable purposes; (2) codify the fair use approach in the CCK case; or (3) codify the two-step approach adopted in the CCH case.

To conclude, exceptions and limitations to copyright are necessary for both owners and users of works. The international copyright system provides a certain set of mandatory minimum requirements for any limitations and exceptions for certain exclusive rights. This paper submits that Kenya should consider option 3 as an ideal approach that complies with the minimum international standards but is flexible enough to allow creative and innovative uses while ensuring that rights holders and their interests are not unreasonably harmed.

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<sup>60</sup> Ian Hargreaves, 'Digital Opportunity: A Review of Intellectual Property and Growth' (An Independent Report, 18 May 2011) <<https://www.gov.uk/government/publications/digital-opportunity-review-of-intellectual-property-and-growth>> accessed 19 November 2016.

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## 7. INTELLECTUAL PROPERTY LAW IN RUSSIA: DEVELOPMENT, PROBLEMS AND PERSPECTIVES

Valeriy N. Lisitsa \*

### ABSTRACT

The article examines the new provisions of the Russian legislation on intellectual property in relation to the adoption of Part IV dealing with 'Rights to the Results of Intellectual Activities and Means of Individualization' of the Civil Code of the Russian Federation. It concerns the lists of objects of intellectual property protected in Russia, the kinds and contents of intellectual rights upon such objects, as well as the issues of application of rules of private international law in the sphere of intellectual property. It is suggested that there is a need to distinguish intellectual property as intangible objects which can be divided into two groups – the results of intellectual activity and means of individualization, and intellectual property rights. Not all of them are always under legal protection. It depends on the civil legislation of a particular country, which usually stipulates the exhaustive list of appropriate objects of intellectual property. It is also argued that an intellectual property statute in the sphere of private international law be introduced in Russia to cover authorship, the definition and kinds of objects of intellectual property, requirement for registration, the kinds, contents and effective terms of intellectual rights, legal means and order of implementation and protection of intellectual rights, as well as stipulate the use of *lex voluntatis*, *lex loci actus* and *lex loci protectionis* in the determination of applicable law to transnational intellectual legal relationships.

**Keywords:** *intellectual property law, results of intellectual activity, means of individualization, intellectual rights, exclusive rights, private international law*

### 1. THE CIVIL CODE OF THE RUSSIAN FEDERATION AS THE RESULT OF CODIFICATION OF CIVIL LEGISLATION ON INTELLECTUAL PROPERTY IN THE RUSSIAN FEDERATION

In recent years, significant changes in the legal regulation of intellectual property (IP) have occurred in Russia. On 1 January 2008, Part IV which deals with the 'Rights to the Results of Intellectual Activities and Means of Individualization' of the Civil Code of the Russian Federation<sup>1</sup> entered into force. It brought together a variety of previous Russian laws on IP, such as:

- (1) Civil Code of RSFSR of 11 June 1964 (sections IV-VI);<sup>2</sup>
- (2) Law of Russia of 9 July 1993 № 5351-I 'On Copyright and Related Rights';<sup>3</sup>
- (3) Law of Russia of 6 August 1993 № 5605-I 'On Breeding Achievements';<sup>4</sup>
- (4) Law of Russia of 23 September 1992 № 3523-I 'On Legal Protection of Computer Programs and Databases';<sup>5</sup>
- (5) Patent Law of Russia of 23 September 1992 № 3517-I;<sup>6</sup>
- (6) Law of Russia of 23 September 1992 № 3520-I 'On Trademarks, Service Marks and Indications of Origin of Goods';<sup>7</sup>

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<sup>1</sup> The Civil Code of the Russian Federation. Part IV. Federal Law of 18 December 2006 № 230-FZ, 52 *Sobraniye Zakonodatelstva Rossiyskoy Federatsii* [Collection of Law of the Russian Federation] (2006). English version available at <<http://www.wipo.int/edocs/lexdocs/laws/en/ru/ru083en.pdf>> accessed 18 June 2016.

<sup>2</sup> The Civil Code of RSFSR of 11 June 1964 (abolished), 24 *Vedomosti Verkhovnogo Soveta RSFSR* [Bulletin of the Supreme Council of RSFSR] (1964).

<sup>3</sup> Law of Russia of 9 July 1993 № 5351-I 'On Copyright and Related Rights' (abolished), 32 *Vedomosti Syezda narodnykh deputatov i Verkhovnogo Soveta RF* [Bulletin of the Congress of People's Deputies and the Supreme Council of the Russian Federation] (1993).

<sup>4</sup> Law of Russia of 6 August 1993 № 5605-I 'On Breeding Achievements' (abolished), 36 *Vedomosti Syezda narodnykh deputatov i Verkhovnogo Soveta RF* [Bulletin of the Congress of People's Deputies and the Supreme Council of the Russian Federation] (1993).

<sup>5</sup> Law of Russia of 23 September 1992 № 3523-I 'On Legal Protection of Computer Programs and Databases' (abolished), 42 *Vedomosti Syezda narodnykh deputatov i Verkhovnogo Soveta RF* [Bulletin of the Congress of People's Deputies and the Supreme Council of the Russian Federation] (1992).

<sup>6</sup> Patent Law of Russia of 23 September 1992 № 3517-I (abolished), 42 *Vedomosti Syezda narodnykh deputatov i Verkhovnogo Soveta RF* [Bulletin of the Congress of People's Deputies and the Supreme Council of the Russian Federation] (1992).

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- (7) Law of 23 September 1992 № 3526-I 'On Legal Protection of Topologies of Integrated Circuits',<sup>8</sup> etc.

Before the adoption of Part IV of the Civil Code of the Russian Federation, all of the above laws were unrelated and incompatible with each other and other laws. As a result, a substantial part of civil legislation was artificially isolated from the rest of its components, including the fundamental and general rules of civil law. Thus, the codification of the legislation was considered the best way to duly integrate IP law into civil law and harmonize the relevant rules, as well as to greatly simplify their use and enhance their credibility and stability.

The present Part IV of the Civil Code is a good example of such codification. Moreover, it is the full version of the systematization of IP law. It lays down the general provisions relating to all forms of IP and excludes further need for specific laws on certain types of IP. Additionally, it also ensures uniformity of legal regulation in the area concerned, eliminates many unnecessary differences in similar cases, unifies the terminology, and provides for the correlation and possible application of general rules of civil law, i.e. on the subjects of transactions, obligations, contracts, etc., as well as the principles of civil law, which may fill legal gaps in the regulation of civil relations. Finally, it simplifies the search and enforcement of appropriate rules on IP by courts, physical and legal entities.

The codification implies the division of all the rules concerned into general and special parts. In particular, the present Part IV includes 9 chapters with more than 300 articles:

- (1) Chapter 69 'General Provisions';
- (2) Chapter 70 'Copyright Law';
- (3) Chapter 71 'The Rights Allied to Copyright';
- (4) Chapter 72 'The Patent Law';
- (5) Chapter 73 'The Right to a Breeding Achievement';
- (6) Chapter 74 'The Right to Topology of an Integrated Circuit';

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<sup>7</sup> Law of Russia of 23 September 1992 № 3520-I 'On Trademarks, Service Marks and Indications of Origin of Goods' (abolished), 42 *Vedomosti Syezda narodnykh deputatov i Verkhovnogo Soveta RF* [Bulletin of the Congress of People's Deputies and the Supreme Council of the Russian Federation] (1992).

<sup>8</sup> Law of 23 September 1992 № 3526-I 'On Legal Protection of Topologies of Integrated Circuits' (abolished), 42 *Vedomosti Syezda narodnykh deputatov i Verkhovnogo Soveta RF* [Bulletin of the Congress of People's Deputies and the Supreme Council of the Russian Federation] (1992).

- (7) Chapter 75 'The Right to a Production Secret (Know-How)';
- (8) Chapter 76 'Rights to the Means of Individualization of Legal Entities, Goods, Works, Services and Enterprises';
- (9) Chapter 77 'The Right of Using the Results of Intellectual Activity within a Unified Technology'.

There is no doubt that the legal regulation of IP is primarily performed in the sphere of civil law with the participation of authors and other owners of IP rights. Civil law, in this case, defines the legal status of such persons, the grounds and the procedure for exercising the rights to results of intellectual activity and means of individualization, regulates contractual and other obligations, as well as other property and personal non-property relations based on equality, autonomy of will and property independence (Article 2 (1) of the Civil Code of the Russian Federation). That is why the codification of Russian law on IP was done within civil law.

## 2. THE OBJECTS OF INTELLECTUAL PROPERTY PROTECTED IN RUSSIA

According to Article 1225 of the Civil Code of the Russian Federation, all IP objects protected by law are divided into the following two groups:

- 1) The results of intellectual activity: scientific, literary and artistic works, computer programs, databases, performances, phonograms, transmissions of broadcasting or cable organizations, inventions, utility models, industrial designs, breeding achievements, topologies of integrated circuits, know-how; and
- 2) The means of individualization of legal entities, goods, works, services and enterprises, which are equated to the results of intellectual activity: company names, trademarks and service marks, indications of the origin of goods, and commercial names.

Most of them are clearly defined in the Civil Code of the Russian Federation that lays down which results of intellectual activity qualify as particular types of IP. It also stipulates the requirements for legal protection.

For example, Article 1350 (1) of the Civil Code of the Russian Federation provides that, 'a technical solution in any area is protected as an invention if it relates to a product (including a device, substance, strain of microorganisms, plant or animal cell culture) or a method (the process of carrying out actions in respect of a material object by material means), in particular, to the application of a product or method for a particular

purpose. An invention is provided with legal protection if it is novel, has an inventive step and is industrially exploitable’.

The only exception is a scientific, literary or artistic work. In spite of its common understanding, there is no legal definition of a result of intellectual activity in the Civil Code of the Russian Federation as well as in international law. It is possible to find some concepts in Soviet and then Russian civil jurisprudence, but, as can be seen below, they are different and do not reflect a uniform understanding of such an important category of IP law. In particular, a work may be defined as:

- (1) a complex of ideas and images that have objective expression in the finished work (M. Gordon);<sup>9</sup>
- (2) a set of ideas, thoughts and images, which are considered a result of the creative activity of an author and expressed in a particular form easily understood with human feelings and allowing the ability to play (V. Serebrovskii);<sup>10</sup>
- (3) an individual and unique creative reflection of objective reality (O. Ioffe);<sup>11</sup>
- (4) a result of spiritual creativity of an author expressed in a certain form (Y. Gavrilov);<sup>12</sup>
- (5) a set of elements (ideas, images, storylines), which through the form and contents are embodied in a new, independent, alien imitation as a result of creative activity (S. Chernysheva),<sup>13</sup> etc.

It is thought that the notion of a work through ‘a system of scientific, literary and artistic ideal categories (ideas, concepts, thoughts, images, etc.), expressed by language, visual, audio, media and other objective (material) means’ is clear for an understanding of the matter of the work but is too general. Thus, it sometimes becomes difficult in practice to distinguish between a work protected by law from another set of ideal categories (e.g., a slogan, idea, theory, concept, slide, sentence, name of a character, information, etc.).

As the Supreme Court of the Russian Federation has stated, the present list of objects of IP in the Civil Code is

exhaustive.<sup>14</sup> This means that no other results of intellectual activity and means of individualization are protected in Russia.

It is clear that there may be such other objects, for instance, a domain name, which is broadly used in practice and not specifically regulated by a multilateral treaty yet. It should be noted that initially, while preparing the first draft of the law in the State Duma of the Federal Assembly of the Russian Federation, a domain name was determined as a separate object of IP and defined as ‘symbolic name designed to identify the information resources and to address queries in Internet and registered in the register of domain names in accordance with the generally accepted procedures and practices’.<sup>15</sup> Subsequently, these provisions were excluded, as a result of which, the present Civil Code of the Russian Federation does not refer to domain names as the results of intellectual activity and means of individualization and, consequently, they do not receive legal protection.

Presently, a domain name is considered a way to use a particular protected means of individualization (a company name, trademark or service mark, the indication of the origin of goods, commercial name) on the Internet. For example, according to Article 1484 (2) of the Civil Code of the Russian Federation, ‘the exclusive right to a trademark may be exercised to individualize the goods, works or services for which the trademark has been registered, for instance, by placing the trademark ... on the Internet, including in a domain name or in other address methods’.

A similar understanding of the substance of a domain name was earlier confirmed by the Supreme Arbitration Court of the Russian Federation in *Eastman Kodak Company v. A. Grundul* in 2001. It was stated that a domain name on the Internet is deemed to be ‘the only association of computers connected to each other by phone or other means of communication. The primary function of a domain name in this case is to convert IP addresses (Internet protocol), expressed in the form of specific numbers in the domain name in order to facilitate the search and identification of the owner of information resources. Modern commercial practice has shown that when choosing Internet domain names,

<sup>9</sup> Gordon M, *Soviet Copyright Law* (Moscow, 1955) (in Russian), p.59.

<sup>10</sup> Serebrovskii V, *Issues of Soviet Copyright Law* (Moscow, 1956) (in Russian), p.32.

<sup>11</sup> Ioffe O, *The Framework of Copyright Law* (Moscow, 1969) (in Russian), p.15.

<sup>12</sup> Gavrilov Y, *Copyright Law* (Moscow, 1988) (in Russian), p.3.

<sup>13</sup> Chernysheva S, *Copyright Law of Russia: Basic Provisions* (Moscow, 2001) (in Russian), p.21.

<sup>14</sup> See: Paragraph 9 of the Resolution of the Plenum of the Supreme Court of the Russian Federation and the Plenum of the Supreme Arbitration Court of 26 March 2009 № 5/29 <<https://rg.ru/2009/04/22/gk-sud-dok.html>> accessed 18 June 2016.

<sup>15</sup> Draft of Federal Law ‘The Civil Code of the Russian Federation. Part IV’ № 323423-4 <<http://asozd2.duma.gov.ru/main.nsf/%28SpravkaNew%29?OpenAgent&RN=323423-4&02>> accessed 18 June 2016.

owners of information resources select the most simple and logical names (a word, a group of letters, etc.), which are usually associated by consumers directly with a specific participant of economic turnover or its activities. Domain names are actually transformed into a means of performing the function of a trade mark, which allows distinguishing goods and services of one natural or legal person from the goods and services of others'.<sup>16</sup>

In addition, it should be noted that the list of results of intellectual activity and means of individualization stipulated in Article 1225 (1) of the Civil Code does not completely correspond to the objects of IP stated in some rules of international law. In particular, the Convention Establishing WIPO of 14 July 1967,<sup>17</sup> defines the term 'intellectual property' as including 'the rights relating to: literary, artistic and scientific works; performances of performing artists, phonograms, and broadcasts; inventions in all fields of human endeavor; scientific discoveries; industrial designs; trademarks, service marks, and commercial names and designations; protection against unfair competition, and all other rights resulting from intellectual activity in the industrial, scientific, literary or artistic fields'. Article 10bis of the Paris Convention for the Protection of Industrial Property of 20 March 1883 refers to the protection against unfair competition, which is defined as 'any act of competition contrary to honest practices in industrial or commercial matters'.<sup>18</sup> The WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) of 15 April 1994 also contains provisions on the control of anti-competitive practices in contractual licenses, which, nevertheless, are not directly included in IP.

Thus, unlike the Convention Establishing WIPO of 14 July 1967 and other international instruments ratified by the Russian Federation, the present Civil Code does not provide protection against unfair competition as an object of IP. However, this does not mean that Russia violates its international obligations. Indeed, the protection of competition is enforced in Russian law, but under the Russian competition legislation, which is

based on the Constitution of the Russian Federation,<sup>19</sup> the Civil Code of the Russian Federation and consists of, firstly, the Federal Law of 26 July 2006 № 135-FZ 'On Protection of Competition'.<sup>20</sup> It determines the organizational and legal basis for protection of competition including prevention and restriction of both monopolistic activity and unfair competition. The latter is defined as 'any actions of economic entities (groups of persons) aimed at getting benefits while exercising business activity, contradicting with the legislation of the Russian Federation, business traditions, requirements of respectability, rationality and equity and which inflicted or can inflict losses to the other economic entities-competitors or harmed or can harm their business reputation'.

Following the Russian legal tradition, the Federal Law № 135-FZ provides protection against unfair competition with administrative, rather than civil legal tools. The protection against unfair competition can be hardly referred to either as results of intellectual activity or means of individualization of legal entities, goods, works, services and enterprises. This is probably the reason why it is not included in the list of IP objects not only in the Civil Code of the Russian Federation, but also in the TRIPS, as was emphasized above.

### 3. INTELLECTUAL PROPERTY AND INTELLECTUAL RIGHTS

The present international law usually defines IP as 'the rights resulting from intellectual activity in the industrial, scientific, literary or artistic fields'.<sup>21</sup> Such understanding

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<sup>16</sup> Resolution of the Presidium of the Supreme Arbitration Court of the Russian Federation of 16 January 2001 № 1192/00<<http://www.allpravo.ru/jurisprudence/doc2096p/instrum2097>> accessed 18 June 2016.

<sup>17</sup> The Convention Establishing WIPO of 14 July 1967 <[http://www.wipo.int/wipolex/en/treaties/text.jsp?file\\_id=28383](http://www.wipo.int/wipolex/en/treaties/text.jsp?file_id=28383)> accessed 18 June 2016.

<sup>18</sup> See: Article 10bis of Paris Convention for the Protection of Industrial Property of 20 March 1883 <[http://www.wipo.int/treaties/en/text.jsp?file\\_id=288515](http://www.wipo.int/treaties/en/text.jsp?file_id=288515)> accessed 18 June 2016.

<sup>19</sup> The Constitution of the Russian Federation: adopted 12 December 1993, 31 *Sobraniye Zakonodatelstva Rossiyskoy Federatsii* [Collection of Law of the Russian Federation] (2014). English version available at <<http://www.constitution.ru/en/10003000-01.htm>> accessed 18 June 2016.

<sup>20</sup> Federal Law of 26 July 2006 № 135-FZ 'On Protection of Competition', 31 *Sobraniye Zakonodatelstva Rossiyskoy Federatsii* [Collection of Law of the Russian Federation] (2006). English version available at <<http://www.bu.edu/bucflp/files/2012/01/Federal-Law-No.-135-FZ-of-2006-on-the-Protection-of-Competition.pdf>> accessed 18 June 2016.

<sup>21</sup> It should be noted that there are a lot of books in which, unfortunately, intellectual property (IP) and intellectual property rights (IPR) are considered the same. See, for example: Cornish W, Llewelyn D and Aplin T, *Intellectual Property: Patents, Copyright, Trade Marks and Allied Rights* (Sweet and Maxwell, 2013), p.4. However, in some other books intellectual property is thought to be well defined as a set of intangible products of creative activity, rather than any intellectual property rights. See, for example: Abbott F, Cottier Th. Gurry F, *International Intellectual Property in an Integrated World Economy* (Wolters Kluwer, 2015), p. 8.

is provided, for example, in the Convention Establishing WIPO of 14 July 1967. Thus, it considers both objects of IP, e.g. literary, artistic and scientific works, performances of performing artists, phonograms, broadcasts, inventions, etc., and intellectual rights, e.g. copyright and related rights, patent rights, etc., as equivalent, which leaves room for doubt.

Unlike international law, the Civil Code clearly makes a distinction between IP and intellectual rights arising therefrom. Such understanding is based on some strong arguments in Russian civil law, which may refine the definition of IP embodied in the Convention Establishing WIPO of 14 July 1967.

Firstly, literary, artistic and scientific works, performances, inventions and other results of intellectual activity in their nature are a set of ideal categories. They are non-material objects, which can be simultaneously used by an unlimited group of subjects in different places. Therefore, it is obvious that they may just be created, but not granted, divided, restricted, transferred, etc. Rights and obligations upon such objects can be conferred by law, which are called intellectual rights.

Secondly, unlike the objects concerned, intellectual rights are granted by law. They determine the limits of use of the objects of IP and provide simultaneously a number of legal possibilities to an author and other natural and legal persons. That is why they may be divided among different individuals and legal entities and then be transferred to third parties.

Thirdly, various intellectual rights can belong to the same object of IP. For example, according to Article 1226 of the Civil Code, they include 'an exclusive right, as well as personal (moral) rights and other rights, but in cases directly specified by the present Code'. In particular, Article 1255 (2) of the Civil Code stipulates that 'the author of a work has the following rights: the exclusive right to the work; the right of authorship; the right to a name; the right to promulgation, the right to inviolability of the work'.

Of course, among all the intellectual rights, an exclusive right is the most important. It is granted upon any object of IP. It is absolute and provides a monopoly (privilege) for an owner to appropriately use the result of intellectual activity or means of individualization. It is stated in Article 1229 (1) of the Civil Code that 'other persons shall not use the relevant result or means without the right holder's consent, except for the cases envisaged by the present Code. If usage takes place without the right holder's consent, the use of the result of intellectual activity or means of individualization (including the use thereof by the methods envisaged by the present Code) is deemed illegal and it shall trigger the liability established by the present Code and other

laws, except for cases when the use of the result of intellectual activity or means of individualization by persons other than the right holder without his consent is permitted by the present Code'.

Fourthly, since an intellectual right is a legal category, it may contain elements to be determined by law. These are the contents, effective period, territory of action, the order of occurrence, implementation and protection, etc. of the intellectual right. In particular, it is stated that an exclusive right includes the power to:

- (1) use the result of intellectual activity or means of individualization in the owner's sole discretion in any manner not inconsistent with law; and
- (2) dispose of such a right, i.e., to authorize one person and thus prevent others from using the result of intellectual activity or means of individualization. The absence of prohibition is not considered consent (permission). The main legal forms of such disposal are contracts of alienation of the exclusive right and license contracts.

Therefore, objects of IP (literary, artistic and scientific works, performances of performing artists, phonograms, broadcasts, inventions, etc.) and intellectual rights (copyright and related rights, patent rights, etc.) are deemed to fall into different categories. The first one reflects the ideal matter, which cannot be granted, divided, restricted, transferred, etc. The second one refers to legal rights, which by virtue of law provide various legal possibilities and may be divided among different individuals and legal entities, then be transferred to third parties and thus be applied in transactions and other legal actions.

The necessity of distinguishing between IP and intellectual rights was upheld by the Supreme Court and the Supreme Arbitration Court of the Russian Federation. The courts have stated that 'in accordance with the provisions of Part IV of the Civil Code of the Russian Federation the term "intellectual property" covers only the results of intellectual activity and equated means of individualization of legal entities, goods, works, services and businesses, but not right on them (Article 1225 of the Code). ... By virtue of Article 1226 of the Civil Code intellectual property rights upon those objects are recognized and they include the exclusive right, and in the cases provided the Code, also personal non-property rights and other rights'.<sup>22</sup>

<sup>22</sup> See: Paragraph 9 of the Resolution of the Plenum of the Supreme Court of the Russian Federation and the Plenum of the Supreme Arbitration Court of 26 March 2009 № 5/29 <<https://rg.ru/2009/04/22/gk-sud-dok.html>> accessed 18 June 2016.

An analogy can be drawn with property law. As is well known, it distinguishes an object of property (money, securities, buildings, plots of land, etc.) from property rights upon them, which entitle one to possess, use and dispose of appropriate objects. Why should such an approach not be used in IP law as well?

#### 4. INTELLECTUAL PROPERTY IN PRIVATE INTERNATIONAL LAW

Intellectual rights are initially effective within the territory of a particular state, which usually grants such rights to its citizens upon objects made on its territory, except in cases stipulated by international treaties. This means that the exclusive right an object of IP is limited to the territory of the Russian Federation. It also means that intellectual rights arising under applicable foreign law are usually not recognized in the Russian Federation.

For example, according to Article 1256 (1) of the Civil Code, the exclusive right to scientific, literary and artistic works extends to:

- (1) works promulgated in the territory of the Russian Federation or not promulgated but located in any objective form in the territory of the Russian Federation, and recognized to be held by their authors (their successors) irrespective of the citizenship thereof;
- (2) works promulgated outside the territory of the Russian Federation or not promulgated but located in any objective form outside of the territory of the Russian Federation, and recognized to be held by authors being citizens of the Russian Federation (their successors); and
- (3) the works promulgated outside the territory of the Russian Federation or not promulgated but located in any objective form outside the territory of the Russian Federation, and it is recognized in the territory of the Russian Federation to be held by authors (their successors) being citizens of other states or stateless persons in accordance with international treaties of the Russian Federation.

It is clear that the legal regulation of IP with a foreign element is in the sphere of both public and private international law. At present, appropriate rules exist in Section VI 'International Private Law' of Part III of the Civil Code of the Russian Federation. In particular, Article 1186 (1) of the Code provides that, 'the law applicable to civil legal relations involving the participation of foreign citizens or foreign legal entities or civil legal relations complicated by another foreign element, in particular, in cases when an object of civil

rights is located abroad shall be determined on the basis of international treaties of the Russian Federation, the present Code, other laws and usage recognized in the Russian Federation'.

Section VI of the Civil Code includes three chapters:

- (1) Chapter 66 'General Provisions';
- (2) Chapter 67 'The Law Governing Determination of the Legal Status of Persons';
- (3) Chapter 68 'The Law Governing Proprietary and Personal Non-Proprietary Relations'.

However, no appropriate rules in private international law in the sphere IP exist. The only exception is the determination of the law governing a contract, including contracts such as an agreement on alienation of the exclusive right, a license contract, and a commercial concession contract.

During the conclusion of those contracts or later on, the parties thereto may select, by agreement between them, the law that shall govern their rights and duties under the contract.<sup>23</sup> In the absence of an agreement between the parties, the law of the country with which the contract is more closely related shall be applied. Usually it is the law of the country where at the time of conclusion of the contract, the place of residence or principal place of activity of the party which carries out the performance is located, performance that is crucial for the contents of the contract<sup>24</sup>. It shall be:

- (1) the law of the country in which the user of a commercial concession contract is allowed to use the complex of the exclusive rights belonging to the owner, or, if such use is permitted in the territories of several countries at the same time, – the law of the country where the place of residence or principal place of activity of the owner is located;<sup>25</sup>
- (2) the law of the country where the exclusive right, passed to the acquirer according to the contract for the alienation of the exclusive right, is effective, and if it is valid in the territories of several countries at the same time, – the law of the country where the place of residence or principal place of

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<sup>23</sup> See: Article 1210 (1) of the Civil Code of the Russian Federation.

<sup>24</sup> See: Article 1211 (1) of the Civil Code of the Russian Federation.

<sup>25</sup> See: Article 1211 (6) of the Civil Code of the Russian Federation.

- the owner of the exclusive right is located;<sup>26</sup>
- 3) the law of the country where the licensee in a license contract is permitted to use the result of intellectual activity or means of individualization, but if such use is permitted in the territories of several countries at the same time, – the law of the country where the place of residence or principal place of activity of the licensor is located.<sup>27</sup>

It is argued that Part III 'Private International Law' of the Civil Code contains rules defining the law governing not only contractual, but other intellectual relations concerning the non-contractual use of different objects of IP. Such law, national or foreign, may be called an intellectual property statute (similarly to a personal statute, statute *in rem*, contractual statute, the statute of inheritance, etc.). It would be useful to determine the sphere of applicability of such law, which should distinguish it from other kinds of law governing personal, property, contractual and other civil relations with a foreign element. The issues to be dealt with by an IP statute are as follows:

- (1) authorship;
- (2) the definition and kinds of objects of intellectual property;
- (3) requirement for registration;
- (4) the kinds, contents and effective terms of intellectual rights; and
- (5) legal means and order of implementation and protection of intellectual rights, etc.

Among the several rules of private international law, *lex voluntatis*, *lex loci protectionis* and *lex loci actus* are considered the most proper in the sphere of IP. The first should be applied to contractual relations, whereas the second – to non-contractual ones. Similar provisions can be found in current legislation. For example, Article 5(2) of the Berne Convention for the Protection of Literary and Artistic Works of 9 September 1886<sup>28</sup> stipulates that 'the enjoyment and the exercise of these rights shall not be subject to any formality; such enjoyment and such exercise shall be independent of the existence of protection in the country of origin of the work.

<sup>26</sup> See: Article 1211 (7) of the Civil Code of the Russian Federation.

<sup>27</sup> See: Article 1211 (8) of the Civil Code of the Russian Federation.

<sup>28</sup> Berne Convention for the Protection of Literary and Artistic Works of 9 September 1886 <<https://treaties.un.org/doc/Publication/UNTS/Volume%20828/volume-828-I-11850-English.pdf>> accessed 18 June 2016.

Consequently, apart from the provisions of this Convention, the extent of protection, as well as the means of redress afforded to the author to protect his rights, shall be governed exclusively by the laws of the country where protection is claimed'.

*Lex loci actus* is most suitable for the determination of authorship, as is provided, for example, in Article 1256 (3) of the Civil Code: 'When in accordance with international treaties of the Russian Federation protection is provided to a work on the territory of the Russian Federation, the author of the work or another initial right holder shall be determined by the law of the state on whose territory the legal fact serving as grounds for the acquisition of copyright took place'.

## 5. CONCLUSION

The current Part IV of the Civil Code of the Russian Federation is the full version of the codification of IP law in Russia, which provides for the general provisions relating to all forms of IP and excludes further need for specific laws on certain types of intellectual property. It stipulates the exhaustive list of objects (results of intellectual activity and means of individualization) protected by law, which, on the one hand, introduced new kinds of IP unknown to the previous Soviet law and, on the other, excluded some objects included in international law. Unlike some rules of international law, it recognizes the difference between IP and IP rights.

It also does not address all the issues of applying rules of international private law in the sphere of intellectual property. The scope of the IP statute is deemed to include authorship, the definition and kinds of objects of intellectual property, requirement for registration, the kinds, contents and effective terms of intellectual rights, legal means and order of implementation and protection of intellectual rights, which should be defined with the use of *lex voluntatis*, *lex loci actus* and *lex loci protectionis* in the determination of law applicable to transnational intellectual legal relationships.

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## 8. LEGAL PROTECTION OF TRADITIONAL KNOWLEDGE: LESSONS FROM SOUTHERN AFRICA

Gabriel Muzah\*

### ABSTRACT

This paper reviews the efforts made by three countries in Southern Africa – Botswana, South Africa and Zimbabwe, to legally protect traditional knowledge and, learning from their experience, identifies ways of better preserving, safeguarding and advancing traditional knowledge. The study focuses on Botswana, South Africa and Zimbabwe as a typical case sample selected so as to be illustrative of the various ways traditional knowledge is protected in Southern Africa as its contribution in international intellectual property norms is becoming significant. These countries share borders and in some cases the same indigenous people. The paper undertakes an assessment of current practices and identifies the conceptual issues and challenges for policy formulation and implementation of an effective legal protection regime for traditional knowledge. It proposes ways of strengthening the design of instruments, processes and procedures that can expand opportunities for indigenous peoples to better use their traditional knowledge to promote their wellbeing.

**Keywords:** *Traditional Knowledge, policy, legal protection, sui generis protection, Southern Africa*

### 1. INTRODUCTION

Preserving and promoting traditional knowledge are fundamental to the human development of traditional communities across the world. This paper provides an insight on how Botswana, South Africa and Zimbabwe are legally protecting traditional knowledge. The intention is not to generalise findings but to be able to compare the sample with other similar regional samples. The paper attempts to define the scope of traditional knowledge through an illustration of the intrinsic relationship the Southern African people have with

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genetic resources. It further defines traditional knowledge according to its distinct features and justifies the need for its protection.

### 2. THE SCOPE OF TRADITIONAL KNOWLEDGE

Traditional knowledge manifests itself in many different forms – 'knowledge, innovations and practices'. Efforts to conceptualise traditional knowledge protection face complex challenges. On the one hand, the determination of the subject matter and potential right holders is difficult as the definitions of indigenous peoples and criteria for membership vary and also because of the fact that indigenous peoples and communities dispersed all over the world have extremely diverse conceptions, traditions, practices and cultural frameworks. Furthermore, applying western legal concepts to an indigenous knowledge system has often been deemed inappropriate.<sup>1</sup> These concepts and approaches are functional but exclude certain variables and elements, which in the view of indigenous peoples and communities, have to be part of the whole and clearly reflected in whatever framework is devised. As a result of such complexity, most policy and legal frameworks recognise this, but seldom do they effectively reflect this in content and form.<sup>2</sup>

Traditional knowledge in Southern Africa is best illustrated by the intrinsic relationship its indigenous people have with the *Sclerocarya birrea* (A. Rich) Hochst. Subsp. *Caffra* (Sond.) Kokwaro (Marula) tree which forms an important part of their diet, tradition and culture to the extent of referring to it as the 'tree of life' due to its ability to provide food and medicine which are fundamental human needs.<sup>3</sup> The ripe fruits are eaten raw, the kernels are eaten either raw or roasted, and the fruit juice is fermented to produce children's beverage or traditional beer, used to make jam, or added to sorghum or millet porridge. *S. birrea* wood is used for making light weight utensils which include drums, mortars, traditional wooden bowls and decorative curios which are used during cultural events such as marriages and other traditional ceremonies. The bark, leaves and roots are used for medicinal purposes to treat diarrhoea, sore eyes, toothaches, colds and flu.<sup>4</sup> These therapeutic claims are supported by literature with the bark and leaf extracts having anti-diarrhoeal,

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<sup>1</sup> Muller, Ruiz Manuel, 'Protecting shared traditional knowledge: Issues, challenges and options' (2013) Issue Paper No. 39. (International Centre for Trade and Sustainable Development).

<sup>2</sup> Ibid.

<sup>3</sup> RA Street and G Prinsloo, 'Commercially Important Medicinal Plants of South Africa: A Review' (2013) vol. 2013, Article ID 205048, *Journal of Chemistry*.

<sup>4</sup> A. Maroyi, 'Local Knowledge and use of Marula [*Sclerocarya birrea* (A. Rich) Hochst.] In South Central Zimbabwe' (2013) Vol 12(3) *Indian Journal of Traditional Knowledge* 398,403.



anti-diabetic, anti-inflammatory, anti-septic, anti-microbial, anti-plasmodial, anti-hypertensive, anti-convulsant and anti-oxidant properties.<sup>5</sup>

### 3. DEFINING TRADITIONAL KNOWLEDGE

No single definition would do full justice to the diverse forms of knowledge and expression that are held and created by indigenous peoples and local communities throughout the world. Their living nature also means that they are not easy to define. There is not, as yet, any generally accepted, formal definition of these terms.<sup>6</sup> In the text on draft articles for traditional knowledge protection, the World Intellectual Property Organisation (WIPO) Intergovernmental Committee on Intellectual Property and Genetic Resources, Traditional Knowledge and Folklore (IGC)<sup>7</sup> defines traditional knowledge as including ‘...know-how, skills, innovations, practices, teachings and learnings of indigenous [peoples] and [local communities] that are dynamic and evolving, and that are intergenerational/and that are passed on from generation to generation, and which may subsist in codified, oral or other forms’. It further proposes that traditional knowledge ‘[...may be associated, in particular, with fields such as agriculture, the environment, healthcare and indigenous and traditional medical knowledge, biodiversity, traditional lifestyles and natural resources and genetic resources, and know-how of traditional architecture and construction technologies.]’.<sup>8</sup>

There are, however, four distinct features of traditional knowledge:

- (1) Traditional knowledge can mean many things at the same time. It can be quite useful to separate

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<sup>5</sup> John A Ojewole, Tariro Mawoza, Witness D.H. Chiwororo and Peter OM Owira, ‘Sclerocarya birrea (A. Rich) Hochst [Marula] (Anacardiaceae): A review of its phytochemistry, pharmacology and toxicology and its ethnomedicinal uses’ (2010) 24 (5) *Phytotherapy Research* 633,639.

<sup>6</sup> World Intellectual Property Organisation (WIPO), ‘Intellectual Property and Genetic Resources, Traditional Knowledge and Traditional Cultural Expression’ (2015) <[http://www.wipo.int/edocs/pubdocs/en/tk/933/wipo\\_pub\\_933.pdf](http://www.wipo.int/edocs/pubdocs/en/tk/933/wipo_pub_933.pdf)> accessed August 2015.

<sup>7</sup> Established in 2000, the World Intellectual Property Organisation (WIPO) Intergovernmental Committee on Intellectual Property and Genetic Resources, Traditional Knowledge and Folklore (IGC) is a forum where WIPO member states discuss the intellectual property issues that arise in the context of access to genetic resources and benefit-sharing as well as the protection of traditional knowledge and traditional cultural expressions.

<sup>8</sup> World Intellectual Property Organisation (WIPO), ‘The Protection of Traditional Knowledge: Draft Articles’ (2014) <[http://www.wipo.int/edocs/mdocs/tk/en/wipo\\_grtkf\\_ic\\_28/wipo\\_grtkf\\_ic\\_28\\_5.pdf](http://www.wipo.int/edocs/mdocs/tk/en/wipo_grtkf_ic_28/wipo_grtkf_ic_28_5.pdf)> accessed August 2015.

the elements of traditional knowledge into three distinct categories so as to help focus protection efforts on more specific categories rather than rely on the interpretation of broad concepts. The categories are: as an intangible (knowledge); a tangible (physical products or innovations); processes or procedures (techniques or technologies that can be expressed orally, in writing or through representation or exemplification). These categories are interrelated and can of course, overlap, for example the traditional beer from the Marula tree is the tangible form of traditional knowledge but there is also the brewing process and the development of the knowledge thereof.

- (2) Another definitive feature of traditional knowledge relates to how it is developed, and how it responds and adapts to environmental, social, cultural and economic pressures and demands. A WIPO report notes, ‘What makes knowledge “traditional” is not its antiquity: much traditional knowledge is not ancient or inert, but is a vital, dynamic part of the contemporary lives of many communities today. It is a form of knowledge which has a traditional link with a certain community’.<sup>9</sup> For example, the Mysore silk saree of India has had a makeover since obtaining a geographical indication, updating its look with trendy new (but interestingly, natural) colours such as ‘lilac, ecru, coffee-brown and elephant-grey and contemporary designs (...) inspired by traditional Indian architecture and ancient Indian jewellery’.<sup>10</sup>

- (3) The third feature of traditional knowledge relates to the participants in this dynamic process and how they interact. Traditional knowledge is transmitted from one generation to the other either orally, exemplified or written in local languages. It evolves in a communal context where social actors play different roles in the creation, application and adaptation of traditional knowledge over time according to the needs and circumstances of the community. This is done and managed through a social system of customs and rules. Traditional knowledge is accumulated as a collective creation without a

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<sup>9</sup> World Intellectual Property Organisation (WIPO), ‘Intellectual Property and Traditional Knowledge 6’ <[http://www.wipo.org/freepublications/en/tk/920/wipo\\_pub\\_920.pdf](http://www.wipo.org/freepublications/en/tk/920/wipo_pub_920.pdf)> accessed August 2015.

<sup>10</sup> Aruna Chandaraju, ‘Modern Mysuru’ *The Hindu* (5 March 2005) <<http://www.thehindu.com/thehindu/mp/2005/03/05/stories/2005030502400300.htm>> accessed August 2015.

written record, thereby making it difficult to identify the innovators. So, it is generally held in common by the community but in cases where the innovator is known it becomes individually owned.

- (4) The fourth defining feature of traditional knowledge is that it is mostly shared between communities (in many cases across borders), which is not to say that there is no distinct and geographically confined traditional knowledge. In Africa this may be attributed to the artificial borders imposed by the colonial powers. For example, the San people also known as Bushmen of Southern Africa and their traditional knowledge can be found across Angola, Botswana, Namibia, South Africa, Zambia and Zimbabwe. Sometimes it is shared consciously; sometimes it inadvertently passes and flows to neighbouring communities, and in other cases, even foreigners play a role in disseminating it more widely.<sup>11</sup>

#### 4. WHY PROTECT TRADITIONAL KNOWLEDGE?

There are two main ways in which traditional knowledge is important for sustainable human development and social justice. The first one involves the idea of expanding the global knowledge base; the other relates to its contribution to people's wellbeing. Several proposals have been made, within and outside the intellectual property rights (IPRs) system, to 'protect' traditional knowledge. Such proposals, however, often fail to set out clearly the rationale and objectives for doing so. Therefore, before considering how traditional knowledge is protected, it is important to highlight why traditional knowledge should be protected. Some of the reasons for protecting traditional knowledge include:

- **Equity and Livelihood Improvement:** Traditional knowledge is valuable first and foremost to its holders and communities who depend on it for health, livelihood and wellbeing. As great as the potential economic value might be, a traditional knowledge protection regime should aim at conservation and promote the use of traditional knowledge thereby improving the quality of indigenous peoples' lives. According to the World Health Organisation, up to 80 percent of the world's population depends on traditional medicine for its primary health needs.<sup>12</sup> So, the protection of traditional knowledge would also

be necessary for acquiring remuneration for its commercial use outside the community which generated it either by excluding unauthorised use by third parties or by a duty to share equitably the benefits derived from such use.

- **Preservation of Traditional Lifestyles:** The preservation of traditional knowledge is not only a key component of the right to self-identification and a condition for the continuous existence of indigenous peoples, but also a central element of cultural heritage.<sup>13</sup> 'The crisis affecting the world's diverse cultures and languages is, according to some estimates, far greater than the biodiversity crisis. Around 90 percent of the 6000+ currently spoken languages (and the cultures expressed by them) may become extinct or face extinction in the next 100 years'.<sup>14</sup> The Crucible group suggests that by vesting legally recognised ownership of knowledge in communities through IPRs, it will raise the profile of that knowledge and encourage respect for it both inside and outside the knowledge holding communities.<sup>15</sup>
- **Contribution to Biological Diversity and Ecological Integrity:** The prominent ground on which to justify the protection of traditional knowledge relates to its importance in maintaining biological diversity and ecological integrity. The accumulation of knowledge through a series of observations and experiments transmitted from generation to generation has created skills that have enabled indigenous communities to thrive in complex ecological systems. Thus, the protection of traditional knowledge closely relates to the protection of the environment

<sup>11</sup>Sarah A Laird (ed), *Biodiversity and Traditional Knowledge: Equitable Partnerships in Practice* (People and London and New York: Earthscan Publications Ltd 2002).

<sup>12</sup> World Health Organisation, International Union for Conservation of Nature, and World Wide Fund for Nature, 'Guidelines for Conservation of Medicinal Plants' (1993).

<sup>13</sup> United Nations Environment Programme (UNEP), 'Cultural and Spiritual Values of Biodiversity' (Intermediate Technology Publications, London, 1999).

<sup>14</sup> Gonzalo Oviedo; Aimée Gonzales, and Luisa Maffi. 2000. *The importance of and Ways to conserve and Protect Traditional Ecological Knowledge*. Paper presented at the UNCTAD Expert Meeting on Systems and National Experiences for Protecting Traditional Knowledge, Innovations and Practices: 30 October-1 November. Quoted in: Carlos M. Correa. 2001. *Traditional Knowledge and Intellectual Property: A Discussion Paper*. Paper commissioned by the Quaker United Nations Office. Quoted in: Elsa Stamatopoulou. 2007. *Cultural Rights in International Law: Article 27 of the Universal Declaration of Human Rights and Beyond*. Leiden: Koninklijke Brill.

<sup>15</sup> The Crucible II Group, Seeding Solutions, 'Options for national laws governing access to and control over genetic resources' (2001) Vol 2, IDRC-IPGRI, Rome.

and living resources, as the content of traditional knowledge is mostly embedded in the biological resources and ecosystems themselves.<sup>16</sup>

- **Promoting Wider Application:** Traditional knowledge as a knowledge system can expand the global knowledge base through research and development. Its legal protection is required not only for its preservation but for its development. Pharmaceutical and cosmetic companies are interested in traditional knowledge as it helps in the identification of commercially valuable drugs and helps avoid costly searching and screening of a broader group of bio-resources. Research by Gupta<sup>17</sup> lists technological fields in which traditional societies can be highly innovative and contribute substantially to local and national economies. His findings, while focused mainly on India, are certainly relevant in Southern Africa where traditional communities can be found in rural areas and primarily depend on agriculture for their wellbeing.<sup>18</sup> Traditional knowledge is, in fact, an underutilised resource in the development process. Legal protection may help promote traditional knowledge-based innovation as well as 'exploit the opportunities for commercialization of traditional knowledge-based products and services'.<sup>19</sup>
- **Avoiding Misappropriation:** Protection of traditional knowledge is instrumental to avoid its use for commercial purposes without prior

informed consent, approval or involvement of the holders.

## 5. TRADITIONAL KNOWLEDGE AND INTELLECTUAL PROPERTY RIGHTS

Although IPRs are seen as a possible means for protecting traditional knowledge, there are conflicting views on the matter. Advocates of the use of IPRs find that traditional knowledge protection can either be by using existing intellectual property (IP) mechanisms or by modifying certain aspects of the current form of IP protection. A WIPO report notes, 'there are many examples of TK that are or could be protected by the existing IP system. In addition, while many informants believe that the present IP system does not adequately recognize TK holders' rights, they are interested in undertaking further work on how the IP laws and system can be modified to change those aspects of IP laws and systems which allow piracy or seem to condone it. Several informants also suggested certain modifications to IP law to improve its functionality in TK protection, and, others, new IP tools.'<sup>20</sup>

Those who are opposed to the notion of applying IPRs base their arguments on practicality and incompatibility between 'western' IP and practices and the culture of indigenous communities. Participants, particularly indigenous representatives of indigenous communities at the Multi-Stakeholder Dialogue on Trade, Intellectual Property and Biological and Genetic Resources in Latin America, felt that most existing legal frameworks didn't adequately reflect their concerns. They argued that the premise of IP is based on terms and conceptual foundations that remain outside their worldview. An expanded participation of indigenous groups and local communities at the design, development and implementation stage is essential to processes of building socially responsible regimes for the regulation of resources. Furthermore, in a conventional IPR regime, issues such as equitable benefit sharing may be secondary to the more basic issue of defining ownership rights.<sup>21</sup>

Botswana, South Africa and Zimbabwe are part of the African Group of the WIPO Intergovernmental Committee on Intellectual Property and Genetic Resources, Traditional Knowledge and Folklore (IGC). In 2008, the WIPO IGC commissioned the two gap analyses

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<sup>16</sup> Erica Daes, 'Protection of the Heritage of Indigenous Peoples' (1999) cited in David R. Downes & Sarah A. Laird, 'Innovative Mechanisms for Sharing Benefits of Biodiversity and Related Knowledge: Case Studies on Geographical Indications and Trademarks' UNCTAD Biotrade Initiative.

<sup>17</sup> A.K Gupta, 'Making Indian agriculture more knowledge intensive and competitive: the case of intellectual property rights' (1999) 54(3) Indian Journal of Agricultural Economics 342,369.

<sup>18</sup> These fields are as follows: (i) crop protection; (ii) crop production; (iii) animal husbandry; (iv) grain storage; (v) pisciculture; (vi) poultry; (vii) leather industry; (viii) soil and water conservation; (ix) forest conservation; (x) farm implements; (xi) organic farming; (xii) local varieties of seeds; (xiii) informal institutions (common property resources); and (xiv) ecological indicators.

<sup>19</sup> United Nations Conference on Trade and Development (UNCTAD), 'Systems and national experiences for protecting traditional knowledge, innovations and practice' (2000) TD/B/COM.1/EM.13/2, Geneva.

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<sup>20</sup> World Intellectual Property Organisation (WIPO), 'Intellectual property needs and expectations of traditional knowledge holders' (2001) Geneva.

<sup>21</sup> Report of the Multistakeholder Dialogue on Trade, Intellectual Property and Biological and Genetic Resources in Latin America, Cusco, Peru, 22-24, February 2001 <<http://www.ictsd.org/dialogueweb/texts/report2.htm>> accessed August 2015.

on the protection of traditional cultural expressions and traditional knowledge. The position of the African Group was that, 'for IP protection to transpire it should be compatible with and supportive of a wide range of policy objectives related to the protection and conservation of indigenous knowledge, including: the establishment of legal certainty regarding rights in the survival of indigenous cultures - which translates into matter of survival as an indigenous people and as a community, the recognition of customary laws and protocols that govern the creation, transmission, reproduction and utilisation of, the repatriation of cultural heritage, the recording, maintenance, protection and promotion of oral traditions; the recognition of oral exchange of knowledge innovation and practices according to customary rules and principles; and the existence of rules regarding secrecy and sacredness which govern the management of knowledge.'<sup>22</sup> This position makes it necessary to address two key questions while examining the legal options for protecting traditional knowledge.

- (1) Is the IP system sufficient to protect traditional knowledge?
- (2) What other options are available to design a more equitable social arrangement?

## 6. LESSONS FROM SOUTHERN AFRICA

At the international level of protection, traditional knowledge is protected by mechanisms which are beyond the IP domain. These include the UN Convention to Combat Desertification which provides for the protection of traditional knowledge in ecological environments as well as the sharing of benefits arising from any commercial utilization of this traditional knowledge. The World Health Organisation Primary Health Care Declaration of Alma Ata has recognized the relevance of traditional knowledge in the field of medicine as a source of primary health care. The International Treaty on Plant Genetic Resources for Food and Agriculture (ITPGRFA) provides for the recognition of farmers rights and the protection of traditional knowledge relevant to plant genetic resources for food and agriculture. The UNESCO Convention of the Safeguarding of Intangible Cultural heritage also provides for the safeguarding and preservation of traditional knowledge. Additionally, the Convention on Biological Diversity (CBD) provides for protection of knowledge, innovations and practices of indigenous and local communities embodying traditional lifestyles relevant for the conservation and sustainable

use of biological diversity, promotion of their wider application with the approval and involvement of the holders of such knowledge, innovations and practices and encouragement of equitable sharing of the benefits arising from the utilization of such knowledge, innovations and practices.

At the regional level of protection there is an IP mechanism for the protection of traditional knowledge, Genetic resources and Folklore called the Swakopmund Protocol<sup>23</sup> developed by the African Regional Intellectual Property Organisation (ARIPO), a regional IP institution which Botswana and Zimbabwe are members of. As per their respective Constitutions, Botswana, South Africa and Zimbabwe require ratification of conventions at the national level prior to expressing their consent at the international or regional level. Since the primary responsibility of implementation of various provisions of the conventions mentioned above lies with the states, it is important to review the steps that these countries have taken to implement the provisions of conventions that are relevant to protect traditional knowledge, and to see how traditional knowledge is legally protected at the national level.

Part XII of the Industrial Property Act of Botswana provides for IPRs to traditional communities and practitioners without prejudice to its holistic nature. It defines traditional knowledge as, 'an idea, knowledge, practice, use or invention, written or unwritten which, may be associated with biological diversity, is a cultural, traditional or spiritual belief or value of a group of people.' This protection mechanism aims at excluding unauthorised use by third parties through the conferring of economic rights to a local traditional practitioner, a representative of any local community or any individual who may apply to register traditional knowledge. The application for registration can be done at the Office of the Registrar of Companies and Intellectual Property where applicable fees are paid. The owner of the

<sup>22</sup> World Intellectual Property Organisation (WIPO), 'Protection of Traditional Cultural Expressions and Traditional Knowledge – Gap Analyses' <[http://www.wipo.int/export/sites/www/tk/en/igc/gap\\_analyses\\_pdf/tk\\_african\\_group.pdf](http://www.wipo.int/export/sites/www/tk/en/igc/gap_analyses_pdf/tk_african_group.pdf)> accessed February 2016.

<sup>23</sup> The Member States of the African Regional Intellectual Property Organization (ARIPO) adopted the Swakopmund Protocol on the Protection of Traditional Knowledge and Expressions of Folklore on August 9, 2010 at Swakopmund in the Republic of Namibia. The Protocol shall come into force three months after six states have deposited their instruments of ratification or accession with the Government of the Republic of Zimbabwe. The sixth ratification was deposited with the Government of the Republic of Zimbabwe on February 11, 2015. Therefore, the Swakopmund Protocol entered into force on May 11, 2015; See more at: <<http://www.aripo.org/news-events-publications/news/item/54-entry-into-force-of-the-aripo-swakopmund-protocol-on-the-protection-of-traditional-knowledge-and-expressions-of-folklore#sthash.R6mogXar.dpuf>> accessed February 2016.

traditional knowledge is required to disclose and register with a full description of the traditional knowledge in a manner which is sufficiently clear and complete to permit any third party to reproduce or utilize the traditional knowledge to obtain results similar or identical to those obtained by the holder of such traditional knowledge. The traditional knowledge should not have been disclosed to the public in any other manner, or if such disclosure has been made, it should not have been for commercial or industrial purposes in Botswana. This prescribed protection mechanism however, has failed to take into consideration the objectives of protecting traditional knowledge and its nature, which require a system of protection different from the common IP system.<sup>24</sup>

This mechanism focuses mainly on economic rights. In the case of infringement, the act provides for the initiation of court proceedings by the local community or any other owner where a monetary compensation may be prescribed. The protection of traditional knowledge extends to the next generation as it expires only when it has lost its value as an element of cultural identification or as a result of wilful and express abandonment by its owner or owners or as a result of non-use or use in a distorted manner by third parties of which the owner or owners are aware. Botswana's protection mechanism is limited to IP protection and does not extend to the equitable sharing of benefits arising from the utilisation of traditional knowledge as Botswana is yet to implement the provisions of the CBD. It is also yet to ratify the UNESCO Convention of the Safeguarding of Intangible Cultural Heritage which provides for the safeguarding and preservation of traditional knowledge beyond IPRs

South Africa has amended its existing IP law to extend protection to traditional knowledge referred to as indigenous knowledge through the division of the different aspects of its subject matter according to the types of suitable intellectual property rights. The Intellectual Property Laws Amendment Act of 2013 defines indigenous cultural expressions or knowledge as, 'any form, tangible or intangible, or a combination thereof, in which traditional culture and knowledge are embodied, passed on between generations, and tangible or intangible forms of creativity of indigenous communities'.

This protection mechanism aims at providing for prior informed consent and sharing of benefits that accrue from the use of indigenous knowledge. The application

for registration of indigenous knowledge uses the existing system of IP registration after the conclusion of a benefit-sharing agreement with the indigenous community which is deemed to be a juristic person. The Act defines an indigenous community as 'any recognisable community of people originated in or historically settled in a geographic area or areas located within the borders of the republic, as such borders existed at the date of commencement of this Act, characterised by social, cultural and economic conditions that distinguish them from other sections of the national community, and who identify themselves and are recognised by other groups as a distinct collective.' The Act provides for the establishment of the National Trust for Indigenous Knowledge that shall establish a National Trust Fund for Indigenous Knowledge. The trust is responsible for the promotion and preservation of indigenous cultural expressions and knowledge including awareness and training thereof, as well as commercialisation and exploitation. It also provides for The Minister of Trade and Industry to establish a National Council for Indigenous Knowledge, to, inter alia, advise him or her on any matter concerning indigenous cultural expressions or knowledge, and to advise the Registrars of Patents, Copyright, Trade Marks and Designs on any related matter.

In case of any disputes arising from the enforcement of the Act, the Companies and Intellectual Property Commission accredits institutions to adjudicate, and such adjudications take into account existing customary dispute resolution mechanisms. An appeal to the High Court is possible in respect of a decision arising from such adjudication. The protection period remains the same as that of existing IP mechanisms where a patent expires after 20 years and copyright generally after 50 years after the death of the right holder. South Africa has fully implemented the provisions of CBD and its protection mechanism extends to traditional knowledge relevant to the sustainable use and conservation of biological diversity. This mechanism reveals that traditional knowledge cannot be compatible with existing IP mechanisms; for instance, where the requirement of novelty or originality has to be fulfilled or where the introduction of a benefit sharing agreement makes the process cumbersome. Academics, traditional leaders, indigenous community representatives and students have raised issues which include the bulkiness of the act as it covers too many areas of IP. Others propose the separation of the act for patents, trademarks, copyright, designs, geographic indications and traditional knowledge. Some academics prefer a law that is more Africa oriented, with less Western style IP protection. Some communities feel that they need and should be afforded other methods of

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<sup>24</sup>Tshimanga Kongolo, *African Contribution in Shaping the Worldwide Intellectual Property System* (England: Ashgate Publishing Company 2013).

protection.<sup>25</sup> The country is considering a second attempt, the option of sui generis protection mechanisms and has drafted a Traditional Knowledge Protection Bill. The Bill is, however, silent on the impact it has on, or whether it recalls, the Intellectual Property Laws Amendment Act, 2013 (the 'IPLA Act') aimed at protecting traditional knowledge under existing IP laws.

The burden of legally protecting traditional knowledge in Zimbabwe lies with the State. The Constitution of 2013 provides for the preservation of traditional knowledge. 'The State must take measures to preserve, protect and promote indigenous knowledge systems, including knowledge of the medicinal and other properties of animal and plant life possessed by local communities and people.' The State also extends protection to traditional knowledge relevant to the sustainable use and conservation of biological diversity and the equitable sharing of the benefits arising from the utilization of such knowledge through the implementation of the CBD, reflected in its Environmental Management Act, Chapter 20:27. It is however, yet to ratify the UNESCO Convention on the Safeguarding of Intangible Cultural heritage which provides for the safeguarding and preservation of traditional knowledge beyond intellectual property rights.

## 7. CONCLUSION

Three policy lessons emerge from the experience of the three countries in extending legal protection to traditional knowledge.

**Firstly**, IP mechanisms are not sufficient for the protection of traditional knowledge as they lack the input of traditional communities in terms of their laws and protocols. Policy should recognise traditional communities' customary laws and practices of handling their knowledge, thereby affirming traditional people's values in the face of globalisation. This can be done by including indigenous people and their communities in the development and implementation stage of the policy through the use of indigenous languages which best express their perspectives. A protection regime based on local protocols requires the existence of effective local governance structures and respect for these structures from outsiders.

**Secondly**, policy should promote the development of traditional knowledge registers outside of the IP domain for preserving, safeguarding and developing the

knowledge. Registers are official documents or databases that reflect information of traditional knowledge, its systems and details of the holders of the knowledge. Traditional knowledge registers should cover all aspects of traditional knowledge and can be used for the promotion of wider application of the knowledge by allowing access to researchers and also act as an interface with other knowledge systems. A non-juristic institution can be established to manage the registration, documentation, accreditation and certification of traditional knowledge systems. It can go further and raise awareness that stimulates indigenous communities to restore the recognition and value of their traditional knowledge. In this way, traditional knowledge can expand the global knowledge base.

**Thirdly**, practical measures should be designed for the development of products and services provided by traditional knowledge holders and practitioners. Policy can organise indigenous communities either through the provision of institutional support that formulates standards of practice for traditional practitioners or allow for the establishment of grassroots traditional trade associations. This enables the creation of consistent and quality products and services that can match their counterparts in the global market. This mechanism also permits tradition based creativity and innovation including commercialisation thereof, thereby expanding the traditional knowledge base through access to regional and international markets.

Traditional knowledge holders stand to benefit from sufficient protection of their knowledge. This could be a solution to poverty, ill-health and unemployment, as the impact of protection on human development is clearly outlined by this study.

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## 9. PREFERENTIAL TRADE AGREEMENTS, IPR CONSTRAINTS AND FAIR SOLUTIONS: CASE OF THE EUROPEAN UNION-TUNISIA TRADE AGREEMENTS

Sami Rezgui\*

### ABSTRACT

The interests of inventors and ensuring favourable access to technology are key issues in the IPR debate. Considering conflicting positions revealed in this debate, recent reflections agree on the need for better trade-offs in terms of IPR regulation. While returning to the debate and its evolution, this paper proposes to go beyond them. Indeed, the issue will be to place IPR regulations in the paradigm of Preferential Trade Agreements (PTAs). Two reasons underlie this choice: the increasing number of PTAs and, most importantly, provisions included in these agreements regarding IPR.

Through this choice, the objective is twofold: assessing the contribution of IPR regulations in PTAs to achieving development goals. As an illustration, the European Union (EU)-Tunisia Free Trade Agreement (FTA) will be examined. Issues raised by the ongoing EU- Tunisia Deep and Comprehensive Free Trade Agreement (DCFTA) on IPR extension will also be discussed. The second objective of this paper is to highlight possibilities for better use of IPR regulation particularly with regard to the Tunisian agricultural sector.

**Keywords:** *Intellectual Property Rights, Preferential Trade Agreements, Trade Related Aspects of Intellectual Property Rights, EU -Tunisia Free Trade Agreement, EU-Tunisia Deep and Comprehensive Free Trade Agreement*

### 1. INTRODUCTION

Before being recorded in explicit agreements, the legitimacy of Intellectual Property Rights (IPR) was recognized in economic theory in the early 60s. The pioneering work of K. Arrow (1962) explains why these rights deserve a singular treatment given that they carry a good as specific as information. Information is a basic element of any invention. Moreover, as information acquires the status of a public good, its allocation would

be inefficient. In fact, incentives to produce information are reduced because of free riding. Indeed, when it is possible to use an invention with unconstrained access to the information underlying it, there is no more motivation to produce this invention. This is explained by the fact that its production cost becomes more important than the resulting income. In addition, as free riding deters information disclosure, information would become rare and its scarcity reduces and impedes the path of technical progress, which thrives in a cumulative information-sharing framework. This conclusion has a direct consequence: producing inventions requires inventors' protection through exclusive IPRs.

We should note, however, that this point of view remains questionable in both theory and practice. In practice, multiple creations available on open access are perfect counter examples: use of free software, unconstrained access to certain databases and the free downloading of educational content. The theory of innovation also values inventions based on information sharing that prove to be just as desirable and socially beneficial. These alternatives definitely have some merit. They provide evidence that solutions, which improve welfare, are possible. They also defy the misconception that intellectual production systematically requires protection. They finally suggest considering less restrictive and more inclusive forms of IPR protection (Dreyfuss, 2010).

It is worth noting that IPR regulation remains a second-best solution that is theoretically conceived as an inevitable solution. However, such a solution could create 'anti-commons' effects whose negative impact would overflow into the evolution of basic scientific knowledge (Murray and Stern, 2007). That is why a more consensual path is needed and solutions increasing collective welfare are recommended. Finding the right balance between the inventors' right of protection and favourable access to useful technologies (health, environment, climate change, etc.) would be the ultimate goal of such solutions. Broadly, it is proposed that these solutions fall under better-optimized trade-offs when it comes to greater economic openness. In this case, IPR regulation is expected to be in line with the legitimacy of economic development recognized by multilateral trade negotiations (Chon, 2006).

Before explaining the nature of desirable trade-offs, it is important to clarify issues raised by IPR enforcement. These issues will be addressed from various angles: theoretical argumentation, specific constraints for developing countries, particularity of the technology market and conditions of IPR regulation in PTAs (Section 2). The review of the EU- Tunisia FTA will serve as an illustration and will establish a technology assessment. Following this assessment, the ability of PTAs to

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enhance innovative capacity and trade performance of a developing partner in a manner that strengthens IPR will be discussed. Issues raised by the extension of IPR to the agricultural sector within the EU-Tunisia DCFTA will also be considered (Section 3). Section 4 will conclude.

## 2. STRENGTHENING IPR IN DEVELOPING COUNTRIES: AN INESCAPABLE CHOICE WITH MULTIPLE CONSTRAINTS

Since the very beginning, WTO agreements have been particularly sensitive to IPR. This sensitivity can be explained by the increase of trade in goods with a high information content. More importantly, the empirical correlation between trade in such goods and the requirement of IPR strengthening is becoming undeniable (Yuang and Kuo, 2008). Therefore, there is a risk of restricting international trade in these goods to developed countries. Consequently, developing countries are deprived of any opportunity to reduce the technology gap.

Technologically dominant nations' interests and concerted pressure aside, it is necessary, even in the interest of countries without technological assets, to comply with IPR standards laid down by the TRIPS Agreement.

The TRIPS agreement tries to find the right balance between the legitimate interests of inventors on the one hand and ensuring developing countries have access to technology and development on the other. This is what articles 7, 8, 31 and 40 of the TRIPS agreement reflect in particular.

However, if IPR enforcement is necessary to protect inventors located in the North, its acceptance by Southern countries is not going to be automatic. This finding has been theoretically validated. Chin and Grossman (1988), for example, show that Southern countries have no interest in enforcing IPR when their social surplus decreases as a result. Grossman and Lai (2004) state that strengthening IPR in the North is justifiable. Their assertion is based on differences between the North and South in terms of demand for innovative products, investments in R&D and the quality of human factor. However, the authors add that any attempt at harmonizing IPR regulations would be detrimental to developing countries.

In practical terms, IPR strengthening means complying with minimum standards provided under the TRIPS agreement. In the case of patents, these standards can be summarized in the form of three major conditions: the guarantee of protection for a twenty-year period from the filing date of the patent,<sup>1</sup> the grant of exclusive

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<sup>1</sup> The protection period is a maximum of 17 years from the date of acceptance of the patent.

and non-discriminatory rights to the patent holder and the extension of IPR to international trade.

However, implementing these standards requires an appropriate legal framework, therefore the mere enactment of legislation is not enough to protect against IP violations. The texts relating thereto would become 'paper tigers' that consumers ignore and governments hardly apply.

In addition, IPR strengthening by merely creating dedicated courts and training judges and qualified experts, may not be enough. Beyond the high costs of setting up an effective institutional framework, IPR strengthening calls, *inter alia*, for effective coordination between the authorities involved in IPR regulation. This coordination should fairly guarantee the interests of inventors by maintaining their incentive to innovate while promoting competition to the benefit of the consumers.

Moreover, local firms in developing countries should request IPR strengthening in order to promote innovation and technology cooperation (Smith, 1999). The case of Singapore is quite illustrative in this regard. The success of the new industrial revolution initiated in 1981 was made possible by establishing joint ventures with US companies. Thus, IPR protection became obligatory not only for Singaporean firms but also for the Singaporean Government. In addition, proactive policies in favour of IPR strengthening have been a key element of Singapore's technological development strategy in view of the industrial and commercial interests at stake.<sup>2</sup>

Finally, IPR strengthening in developing countries requires greater involvement in technological efforts. As highlighted by Park and Lippoldt (2008), there is a proven empirical relationship between the demand for IPR protection and commitment to R&D. The more residents undertake R&D efforts and patent filings, the more demand there will be for IPR strengthening. In this regard, the use of utility models<sup>3</sup> may be an appropriate incentive mechanism to boost R&D activity in developing countries. Thereby, IPR strengthening in these countries would become a necessity especially as they evolve into knowledge-based economies.

It should be noted, however, that IPR strengthening cannot be discussed outside the functioning of the

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<sup>2</sup> Note that the case of Singapore is not unique because other countries have adopted policies in favour of IPR strengthening, notably Malaysia as part of its development program of a local software industry and computers.

<sup>3</sup> Utility models, also called 'petty patents' are a form of protection adapted to incremental innovations. The term of protection for this type of patents is often short (a maximum of 7 to 10 years).

technology market. It is often assumed that IPR strengthening would help to reduce the technological gap through technology transfers.<sup>4</sup> Nevertheless, occupying a position of a 'dominated agent' reduces the bargaining power of a country in the technology market. This is confirmed by most studies focussing on the strategies of multinational firms including deployment modalities of their intangible assets (Martin and Solomon, 2003).

In fact, transfer of such assets is often constrained by both the technological capacity of developing countries and the tacit knowledge embodied in these assets. Any potential transfer of technology becomes dependent on the terms of provision of technology (cooperation in R&D, licensing) best judged by multinational firms. However, beyond these strategic considerations, difficulties faced by developing countries in enforcing IPR confine them further to their dominated agent position. These difficulties also weaken their attractiveness and reduce their ability to negotiate technology based foreign investments (Maskus, 1998; 2000).

To this low technological bargaining power, we should add deviations observed in the technology market. In its current configuration of 'one-size fits all', the international IP system is experiencing obvious flaws affecting the technology market particularly. These flaws are reflected in the three major observations made by the European Patent Organisation:<sup>5</sup> firstly, the growing evidence of so-called blocking patents. The technology market is also characterized by a proliferation of 'patent trolls'. The desire to obtain these patents is solely motivated by speculative considerations. They are based neither on real industrial application nor on serious evidence regarding inventiveness. Finally, one should also consider patent settlement cases and licensing contracts that amount to an abuse of IP rights.

However, notwithstanding these deviations that drain development imperatives, those characterizing IPR regulation in PTAs are even more problematic (Kransdorf 1987; Shadlen 2005, 2009; Fink, 2007; Biadgleg and Maur, 2011).

Kransdorf (1987) recalls conditions under which the IPR regulation was negotiated between the US and Mexico before the NAFTA agreement. Initially, the 1976

Mexican law on IP was highly restrictive.<sup>6</sup> Ten years later, in an attempt to satisfy American investors' grievances, the Mexican government introduced amendments in the original legislation. However, this has had no impact both on trade and on technology transfer. In fact, attempts by the Mexican government to reconcile national interests and the attraction of foreign investors proved unsuccessful.

In 1994, Mexico ended up acceding to the NAFTA agreement which was the first preferential trade agreement to include specific provisions on IPR. This accession entailed alignment of its legislation with higher standards of intellectual property rights.

The Mexican authorities' choice to join the NAFTA agreement is certainly justified by the substantial gains expected in terms of attraction of US investors in the manufacturing sector and preferential access to the US market. However, the question is whether these gains could offset the welfare losses associated with the Mexican government's withdrawal from its previous IPR management options geared to specific development objectives, particularly in the areas of health and agriculture.

To answer this question, one should refer to the NAFTA agreement assessment. Some studies tend to prove that after 15 years, this assessment is far from conclusive as regards the provisions on IPR. Indeed, IPR policy management imposed by the agreement or deliberately adopted by Mexico 10 years later did not achieve the expected objectives in the sectors of health and agriculture (Shadlen, 2009). The price of medicines remains high because of the extended rights granted to patentees and the inadequate regulation of compulsory licences. As for the agricultural sector, provisions on patent protection of living organisms and plant varieties imposed by the IPR chapter proved to be highly restrictive. However, more than that, the commitment of the Mexican authorities to NAFTA's IPR standards has accentuated the gap in Mexico's own technological capabilities and made it costlier to access technological expertise.

The question that arises in the context of the analysis of the Mexican experience is the following: is the Mexican scenario reproducible in other preferential trade agreements involving other developing countries?

In relation to the objective of this work, answers to this question must be seen in the particular context of the

<sup>4</sup> The issue of technology transfer remains a sensitive one. Moreover, as the resolutions of the code of conduct on technology transfer fall into disuse, any attempt to institutionalize technology transfer appears to be highly compromised.

<sup>5</sup> See Compendium of the European Patent Office (2007) entitled "*Scenarios for the Future: How might IP regimes Evolve by 2025? What Global Legitimacy might such Regimes have?*".

<sup>6</sup> This highly controversial law guaranteed a ten-year protection period for patents and the provision of technical assistance on compulsory licensing was imposed. Trademarks protection was also reduced and sectors such as pharmacy, chemistry and biology were excluded from patent protection [Ibid, p278. 286-290].

consequences in terms of IPR management exclusively advocating the strengthening of these rights within the PTA framework. More precisely, it will be a matter of seeing how IPR strengthening in PTAs may be a threat to development.

On the basis of concrete examples, Shadlen (2005) and Fink (2007) explain how IPR strengthening provided for in PTAs would be a threat to development. Two main reasons are mentioned by the authors: firstly, even if they offer preferential market access, PTAs impose standards that go beyond the minimum required by the TRIPS agreement.<sup>7</sup> Then, IPR strengthening in developing countries, as provided in PTAs, imposes limits on IPR management oriented towards development goals.<sup>8</sup>

Regarding standards imposed in PTAs, they derogate from those provided for multinational firms under the TRIPS agreement. At least two facts could illustrate this statement: patent extension and the requirement for plant varieties patents and/or UPOV standards.

Patent extension, which is based on the principle of 'pipeline protection', extends an artificial monopoly to the patent holder. However, more importantly, IP rights will be imposed on goods that are no longer new. In the case of pharmaceutical products, a practice that PTAs invariably require, has negative consequences for consumers of medicines and, more broadly, on the achievement of health objectives.

In fact, patent extension is even more penalizing as the extension of the term of protection covers drugs that are no more new with regard to the initial term of protection they already enjoyed. Consequently, consumers are forced to pay more for a product that is not new, in addition to the fact that such a practice prevents local development of generic medicines that are less expensive. It is worth noting that within the TRIPS agreement, there is no possibility of retroactive protection for patents whose terms expire.

Moreover, problems related to the extension of IP rights go beyond the question of novelty. Even if developing countries can tolerate the possibility of compulsory licensing, the same can be rendered completely inoperative. This is, for two reasons: firstly, the commercialization of generic medicines remains suspended due to the prior agreement with the patent holder of the original drug (problem of patent-

registration linkage); secondly, access to clinical trial data may sometimes be exclusive to the patentee of the original drug. In this case, producers of generic drugs are deprived of the ability to market these drugs.

Finally, all these procedures can only delay the access of developing countries to medicines at reasonable prices, especially since the possibility of parallel imports of these same drugs may be prohibited by the agreement (Fink, 2007).

As regards the requirement of patent protection of plant varieties, as well as the obligation to refer to the amended UPOV convention in some PTA cases (US-Chile PTA, US-MENA countries PTAs), these conditions are both unnecessary and go beyond what is provided for in the TRIPS Agreement. Some countries may have their own regulations for effective protection of plant varieties (for instance, India) and they are not obliged to be UPOV members or follow UPOV standards. Moreover, the TRIPS agreement does not require countries to refer to the UPOV for plant variety protection and does not systematically impose patent protection for genetic resources provided that these resources are protected through effective protection systems.

Indeed, other aspects that are even more problematic must be underlined. These aspects are closely linked to basic criteria for patents: novelty and non-obviousness.

Taking into account these criteria is necessary as they are at the heart of balanced IPR management within PTAs. In this regard, some questions need to be asked: to what extent is an invention clearly new? Are developing country offices well equipped to appreciate novelty at its true value before validating patents? What about invention non-obviousness with regard to the effectiveness of new goods incorporating it? Is patent information disclosure sufficient to allow for the judgement of non-obviousness?

All these questions are important both for the economics of IPR in a broader sense and for balanced IPR regulations in particular. In a way, these questions highlight a major problem: broad patents and their consequences in terms of social welfare. Therefore, these questions are crucial for developing countries, which are signatories to PTAs. They are also critical for national IPR regulatory policy. It is worth noting that the TRIPS agreement contains no provisions that prevent broad patent temptations. It should be remembered that PTAs, in practice, adopt a broad interpretation of novelty. Such agreements also advocate a minimum information disclosure requirement for patents.<sup>9</sup> In

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<sup>7</sup> IPR in PTAs are often of a 'TRIPS plus' type. Indeed, measures included in these agreements are more extensive compared to those in the TRIPS agreement.

<sup>8</sup> Shadlen considers that "whereas TRIPS leaves space for countries to tailor their IP regimes to national development objectives, the space under PTA is dramatically reduced" [ibid., p11].

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<sup>9</sup> Such IPR management goes beyond the conventional methods of protection against the threat of imitation triggered

doing so, they make it difficult to assess the marginal efficiency of inventions protected by broad patents. Faced with such provisions, firms in developing countries incur a significant risk of IP conflict.

### 3. EU - TUNISIA PTA: ASSESSMENT AND PERSPECTIVES ON STRENGTHENING IPR

In 1995, Tunisia signed a free trade agreement (FTA) with the European Union (EU), its largest trading partner. The preferential nature of this agreement primarily concerned the gradual removal of tariff barriers.<sup>10</sup> International trade between the two partners should therefore take place in the context of a free trade area, already operational since 2008. The EU-Tunisia FTA does not include specific provisions on IPR. However, Tunisia is already a signatory to the major international conventions in this field (Table 1.a).

**Table 1.a : IP regulation in Tunisia: International law**

Year / Month	Field	Type of Legislation
1884/ July	Industrial Property	Paris Convention
1930 / October	Industrial designs	La Haye Arrangement
1967/ May	Trademarks	Nice Arrangement
1973/ October	Geographic Indication	Lisbonne Arrangement
1983/ May	Industrial Property	Madrid Arrangement
1985 / August	trademarks	Madrid Arrangement
2001 / December	Patents	Vienne Arrangement
2003/ August	Patents	PCT
2014/ July	Patents	Budapest Treaty Patent Validation Agreement*

Source: National Institute of Standardization and Intellectual Property (INNORPI). \* Agreement signed but not in force.

However, as shown in Table 1.b, the beginning of the 2000s was marked by a strengthening of IPR in national regulations. This strengthening is attributable to two major factors: the need for Tunisia to comply with the TRIPS agreement and the country's commitment to an industrial modernization effort as part of a dedicated program financially supported by EU.

by a full information disclosure in a patent [Anton and Yao, 2000].

<sup>10</sup> The FTA provides for elimination over a period of 12 years (1996-2008) of tariffs related to four lists of manufactured goods.

**Table 1.b : IP regulation in Tunisia : National law**

Year / Month	Field	Type of Legislation
2015 / June	Trademarks	Decree 2015-303
2007 / July	Trademarks	Law 2007-50
2001/ April	Trademarks	Law 2001-36
2001/ August	Trademarks	Decree 2001-1934
2001/ July	Trademarks	Decree 2001-1603
2001/ February	Integrated Circuits	Law 2001- 20
2001/ August	Integrated Circuits	Decree 2001-1984
2001/ July	Integrated Circuits	Decree 2001-1602
2001/ February	Integrated Circuits	Law 2001- 21
2001/ August	Integrated Circuits	Decree 2001-1985
2001/ July	Industrial Designs	Decree 2001-1604
2000/ August	Industrial Designs	Law 2000-84
2001/ April	Industrial Designs	Decree 2001-836
2001/ January	Industrial Designs	Decree 2001-328
	Patents	
	Patents	
	Patents	

Source: National Institute of Standardization and Intellectual Property (INNORPI).

In November 2012, a further stage had been reached through the initiation of negotiations for a new PTA. The agreement, titled '*Complete and Comprehensive Free Trade Agreement*' (DCFTA) was intended to be a privileged partnership agreement between Tunisia and the EU. The DCFTA is expected to extend trade liberalization to the agricultural and service sector. This extension is coupled with the elimination of tariff and non-tariff barriers in these sectors and the convergence of Tunisian regulation with that of EU. Of the 13 chapters that define the regulatory convergence terms, there is an entire chapter dealing with IPR regulations.<sup>11</sup>

As a first step, the contributions made by increased IPR regulations in the EU-Tunisia FTA is assessed. This Assessment will help identify the agreement's impact on

<sup>11</sup> In this work, reference is made to EU proposals on IPR in Chapter 9. These proposals were presented during the first round of negotiations in April 2016 (see [www.trade.ec.europa.eu](http://www.trade.ec.europa.eu)).

Tunisia's technological capabilities and trade performance (2.A). Problems raised by increasing IPR regulatory convergence will be highlighted after (2.B).

#### A. IPR REGULATION IMPACT ON TECHNOLOGICAL CAPABILITIES AND TRADE PERFORMANCE

Two criteria will be employed to assess the contributions of the FTA provisions: the first one relates to R&D efforts and innovation capabilities and the second concerns the improvement of international trade performance.

As shown in *Table 2*, IPR regulation has had no significant effect on the commitment of Tunisian firms in terms of both R&D investment and patenting. Only the acquisition of technology licenses have been confirmed over the past 20 years, while the level of payments involved is limited (not exceeding 20 million U.S. dollars).

**Table 2: Technology and IP in Tunisia after FTA**

	2005	2010	2014
<b>Patents, non residents</b>	282	508	400
<b>Patents, residents</b>	56	113	142
<b>R&amp;D (% GDP)</b>	0,71	0,68	na
<b>IP, payments (Millions of US \$)</b>	7,7	15,2	19,4

Source: WDI (2016)

Based on these empirical findings, it is reasonable to say that the impact of IPR regulation on local innovative efforts and capabilities does not seem to be evident, at least in the short run. However, it should be noticed that IPR regulation could not be the unique factor triggering a greater involvement in innovative activity. Other key factors such as the economic and institutional environment should be taken into account.

Uncertainty associated with technological activities may outweigh opportunities offered by the regulatory component of the IP system. This is the case in Tunisia as uncertainties reduce the incentives for local firms to invest in innovation, especially in the absence of suitable financial support such as venture capital. In addition, local firms need a credible IPR framework and a concrete perception of IPR enforcement on the ground. This should be the role played by institutions involved in the regulation and implementation of IPR.

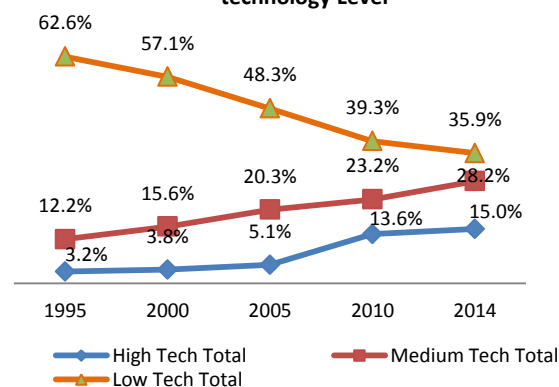
Hence, more than the regulatory framework itself, it is by investing in good IP governance systems that the Tunisian economy will enjoy the long-term benefits of IPR strengthening.

Now, what about the impact of IPR regulation on Tunisia's development objectives? In the following

pages, this issue will be empirically assessed. The aim is to see if strengthening IPR creates an environment conducive to the improvement of local technological capacity. Failing to come from local innovation efforts, this improvement can be attributed to imports of capital goods or to potential technology transfer via Foreign Direct Investment. If this is the case, then this should be reflected in the technological content of goods exported by Tunisia to the EU market.

For the purpose of empirical validation, Lall's (2000) classification of Tunisian manufacturing exports is being adopted. This classification is used to list goods exported according to their technological content (UNCTAD, 2015).<sup>12</sup> Based on international trade data of the *Standard International Trade Classification* (SITC, Revision 3), three categories of exported goods are created: high, medium and low-tech goods.

**Graph 1: Tunisia - EU 15 Exports Share by technology Level**

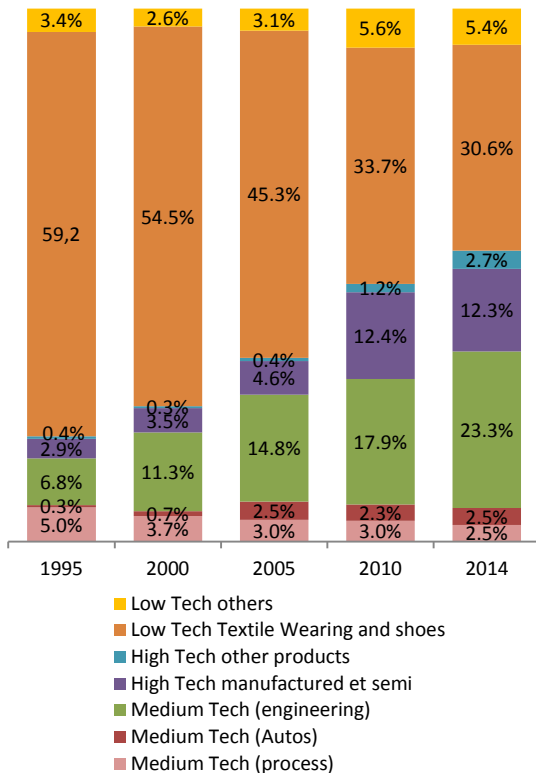


According to *Graph 1*, the share of high and medium technology goods in exports to the EU was increasing during the period of 1995-2014. The share of high-technology goods increased from 3.2% in 1995 to 15% in 2014, while the share of medium-technology jumped from 12.2% to 28.2%. These results should, however, be relativized given the observed trends in the various subcategories.

As shown in *Graph 2*, significant improvements occurred in exports of goods requiring engineering capabilities classified as medium-technology goods. Their share in Tunisian exports increased from 6.8% in 1995 to 23.3% in 2014. Progress in export share of high tech manufactured and semi-manufactured goods is also to be underlined (2.9% in 1995 against 12.3% in 2014). Nonetheless, exports of medium technology goods such as auto spare parts remained very modest despite growing foreign direct investments in this sector.

<sup>12</sup> Note that other classifications exist like the OECD classification (Hatzichronoglou, 1997). The choice of the Lall classification is explained by its greater simplicity.

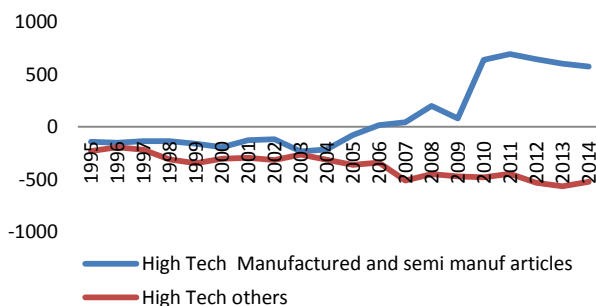
**Graph 2: Tunisia -EU 15 Export shares by technology level (details)**



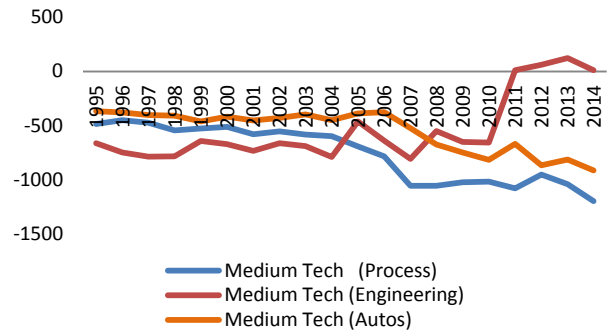
However, relying on the ‘share of exports’ criterion remains insufficient. Given the expected rise in imports under the FTA, trade balance evolution would be a more relevant criterion.

Based on this criterion, the following graphs show that trade surpluses are observed in only two categories of goods. Hence, a trade surplus is recorded for high-tech manufactured goods and semi-manufactured goods since 2006. In 2011, this surplus reached a peak of over 600 Million U.S. dollars (Graph 3). Regarding medium-technology goods, the trade surplus recorded is recent and of limited importance (Graph 4).

**Graph 3: Tunisia - EU15 Trade Balance in High Tech Products (Millions of U.S \$)**



**Graph 4: Tunisia - EU (15) Trade Balance in Medium Tech Products (Millions of U.S \$)**



It is of course difficult to quantify precisely the practical contribution of enhanced IPR regulation in Tunisia. However, IPR strengthening should be seen as a positive signal for local and foreign investors, and sectors that have seen gradual improvement in their export performance may have benefited from this positive signal. Further investigations at the sectoral level would confirm such an assumption.

Finally, and as mentioned earlier, IPR strengthening is only a necessary condition but not sufficient of its own to reduce technological asymmetries between Tunisia and its European trading partners. The reduction of such asymmetries is more broadly dependent on improving the governance of the Tunisian national IP system along with its legal, institutional and technological components.

**B. FROM FTA TO DCFTA: ISSUES OF GREATER REGULATORY CONVERGENCE IN IPR**

The purpose of the EU-Tunisia DCFTA is to expand trade liberalization beyond the manufacturing sector. Concomitant changes in IPR regulation were therefore expected. A reading of the draft text of the IPR chapter shows specific provisions on manufacturing; some of which are already being implemented. However, other provisions concerning the agricultural sector and, to a lesser extent, services, are new and not present in the existing regulatory framework.

Why would extended IPR regulation under the DCFTA be problematic? The answer to this question is on two levels:

- (i) The first concerns the spirit of the proposed IPR regulation. While it is claimed that the measures are inspired from the TRIPS agreement, the IPR chapter incorporates provisions that are far from expressing the privileged partnership status desired by the DCFTA.
- (ii) The second concerns provisions for extension of IPR regulation to the agricultural sector. While most of these provisions deal with geographical

indications (GIs), which are not binding, the mention of trade facilitation for agricultural goods under this chapter remains evasive on the constraints imposed by the European SPS standards.

Before going into the discussion of the two arguments, it is useful to point out that, as a form of intellectual property, GIs are not necessarily disconnected from quality requirements, regardless of the territorial origin of the product. Article 21 (1) of the TRIPS Agreement also explicitly refers to the notion of quality without giving it a precise content. However, there is a risk that, under the quality requirement, mandatory provisions on food safety and health risks are included (Wirth, 2015).

(i) IPR IN DCFTA: A 'TRIPS PLUS'?

Article 1 of the IPR chapter reveals a narrow vision of IP. The objectives announced in this article reflect such a vision:

*'1. The objectives of this Chapter are:*

*a) promote the production and marketing of innovative and creative products in the territory of both Parties;*

*b) achieve an adequate and effective levels of protection and enforcement of intellectual property rights.*

*2. The Parties shall improve the protection of intellectual property rights in order to provide a level of protection similar to the highest international standards, including on effective means of enforcing such rights. '*

(Article 1, IPR chapter of DCFTA, 26<sup>th</sup> of April 2016)

Thus, apart from promoting production and marketing of innovative goods, insistence on high standards of protection and means for strengthening IPR seem to be the major objectives. This is far from the spirit of the TRIPS agreement and in particular article 7 that explicitly directs IPR regulation towards development goals.

Moreover, paragraph 1 of article 2 clearly states that the IPR chapter specifies rights and obligations between parties under both the TRIPS agreement and other international treaties. These terms can only mean one thing: that the IPR chapter intends to go beyond the TRIPS agreement.

Of course, the amendment of certain provisions of this chapter is conceivable, which in itself, is reassuring. However, other provisions leave little room for negotiation. These include those relating to IPR infringement, which provide severely repressive measures (articles 16-20). Naturally, these measures are necessary insofar as they give more credibility to IPR regulation provided for in the negotiated agreement. However, in order to make the IPR chapter more balanced, it would have been desirable to place greater emphasis on the modalities of more technical

cooperation, particularly in terms of improving the governance of the Tunisian IP system.

In addition, while article 26, which deals with IPR cooperation, is supposed to give a more explicit and concrete orientation to the achievement of development objectives, all the provisions thereof can only be viewed as increasing cooperation on IPR strengthening. As such, the IPR chapter tends to favour European holders of IP rights, especially when it does not specify the corrective measures to be taken when they abuse their rights.

(ii) THE EXTENSION OF IPR TO THE TUNISIAN AGRICULTURAL SECTOR: REAL AND FALSE PROBLEMS

The extension of IPR to the Tunisian agricultural sector is mostly on GIs.<sup>13</sup> The IPR chapter devotes a series of provisions summarized in section 7. A reading of this section immediately raises questions about the priority of GI related measures. Indeed, there is no record of violation of GIs from both sides. One wonders if the European side is not going to push open doors through the evocation of GIs in the IPR chapter. For this reason, the issue appears as a false problem.

On the other hand, one can understand that from the European point of view, GIs are far from being a false problem. The interests at stake for the European agriculture and incidentally the food industry are huge. However, what is the interest of Tunisian agriculture? For this purpose, let us consider article 7.1 which states in paragraph 1 that:

*'The Contracting Parties agree to enhance production quality, to promote the harmonious development of geographical indications as defined in Article 22, paragraph 1, of the Agreement on Aspects of Intellectual Property Rights (TRIPS), and to promote and facilitate trade in agricultural products and foodstuffs originating in the territories of the Contracting Parties.'*

This paragraph emphasizes the promotion of harmonious development of GIs as stipulated in TRIPS and also the promotion and facilitation of trade in agricultural products and foodstuffs. However, while efforts made by the Tunisian side to promote GIs are real, the effort in facilitating agricultural trade remains limited on the European side.

Consider, for instance, the effort made by the Tunisian side in terms of GI promotion. First, it is worth recalling that Tunisia is a signatory to the Treaty of Lisbon since 1973, the International Convention on the Harmonized System of Description and Coding System (1983) and the

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<sup>13</sup> Aspects relating to plant varieties protection is the subject of the single article 9 in the IPR chapter. The only obligation involves the provisions of the UPOV Convention already signed by Tunisia.

TRIPS Agreement. Furthermore, with regard to established GIs, Article 7.2 of the IPR chapter highlights the mutual recognition of EU and Tunisian parts of the compliance of their current legislation with the elements required for registration and control of GIs.<sup>14</sup> For the Tunisian side, the extra effort required reduces to an alignment with the highest standards in terms of capacity and control.

Now, what about the efforts of the European partner in facilitating agricultural trade? Emphasizing trade facilitation is necessary given the expected effects of agricultural liberalization and the relative position of Tunisian agriculture compared to the EU.

Based on a general equilibrium model, ECORYS' study (2013) shows that with the exception of export of vegetable oils that could increase up to 222.6%, the DCFTA will have a negative impact on the export of other agricultural products (cereal products, -14%, animal production, -4.3%, other grain products, -10%). Note, however, that simulations assume the continuation of various benefits enjoyed by European agriculture within the framework of the Common Agricultural Policy. In addition, simulations are based on the scenario of a tariff reduction of 80% combined with a reduction of non-tariff barriers of just 2% regarding trade facilitation measures.<sup>15</sup>

Moreover and notwithstanding these scenarios, it is undeniable that the European and Tunisian agricultural sectors are asymmetric. Asymmetries exist at several levels: the relative importance of agriculture, productivity differentials and the strategic dimension of the sector. Indeed, while Tunisian agriculture represents nearly 8% of GDP, the European agricultural represents about 1.25% of GDP. In addition, FAO statistics (2012) show that agricultural productivity in the Euro-zone is seven times greater than that of Tunisia. Finally, from the viewpoint of the strategic dimension of the sector, it is necessary to place it in a global perspective. EU and Tunisia wish to preserve their agriculture. However, while the EU can compensate for the risks of further opening up of its agriculture through a competitive industrial sector, this is not the case for Tunisia. Based on the assessment made earlier, Tunisia is far from having reached the required maturity for its industry. Thus, the socio-economic impact would be even greater if the Tunisian agricultural sector is subject to strong competitive pressures.

As such, the DCFTA as a whole cannot be considered as a balanced agreement since it does not propose solutions to reduce these structural asymmetries.

Moreover, despite the technical assistance provided, Tunisian export of agricultural products to the EU continues to face recurring barriers imposed by European SPS standards. These barriers are even more constraining since European SPS standards are set at a higher level compared to those provided for in the WTO standards on SPS provisions. In this sense, the agreement should be classified in the 'WTO plus's category (Hartwell, 2015).<sup>16</sup>

However, apart from this classification, compliance with European SPS standards often generates significant additional costs and in some cases, requires complex technological knowledge that is not within the reach of the Tunisian agricultural capabilities.

This problem is certainly not specific to the Tunisian agricultural sector. Indeed, several developing countries which have entered into preferential trade agreements with the European Union (Morocco, Chile, South Africa) are experiencing, to varying degrees, the same difficulties in complying with European SPS standards despite assistance in capacity building in the field of standardization (Stoler, 2011). Moreover, to the extent that compliance with these standards proves to be so costly and technologically complex, it may jeopardize the sustainability of PTAs.

Consequently, given the ineffectiveness of the assistance in the field of SPS standardization and the costs of compliance with European SPS standards, a better solution would be to consider more effective forms of cooperation that allow for resolution of the SPS standards issue. This cooperation could be achieved through scientific and technical collaborations involving public scientific research laboratories and technical expert groups. The main purpose of these collaborations should be a rational assessment of sanitary and phytosanitary risks and the definition of sound regulatory procedures that guarantee consumers quality

<sup>14</sup> These provisions are set out in Annex II.

<sup>15</sup> In such a scenario, the gains of Tunisia in terms of additional agricultural exports fall to 2.8% against an increase of nearly 42% in imports of the same products (ECORYS, 2013).

<sup>16</sup> On technical barriers to trade (TBTs) Hartwell states that: "The difficulties with TBTs in a PTA framework come from their subjective nature. Unlike SPS regulations, which tend to be (but not always are) based on risk-assessment technologies and scientific evidence, TBTs such as administrative burdens, quality or technical standards, or other compliance issues are often based on governmental preferences or other policy goals. In that sense, and ironically (given that they may concern standards), TBTs can vary widely from country to country and may be used explicitly to stifle trade, in a manner that has been termed "regulatory protectionism" (Baldwin 2000)" (Hartwell, 2015, p 16).



agricultural goods and foodstuffs without jeopardising bilateral trade in these goods. Such propositions should constitute a basis for balanced negotiations on SPS standards between countries, which are signatories to North-South PTAs.

#### 4. CONCLUSION

Trade-offs in the regulation of IP rights are both useful and necessary. Useful because a more balanced IPR regulation could be appropriated by developing countries as it could increase their well-being. Moreover, these trade-offs are necessary because they allow one to go beyond regulation that focuses only on the imperative of IPR strengthening without taking into account inherent constraints.

While stressing the interest of developing countries in complying with minimum standards recommended by the TRIPS agreement, some arguments in this paper provide insights into the specific reality of these countries. However, IPR strengthening is crucial and inevitably requires the involvement of these countries in innovative efforts. The focus on imperfections in the technology market has for its part emphasized the limits of IP system harmonization according to the logic of 'one size fits all'.

However, the increasing involvement of developing countries in PTAs is a central issue of this work. IPR strengthening is clearly a goal of these agreements. In this way, PTAs raise questions about the choice of IPR regulations and IPR management policies that should be adopted by developing countries. While referring to studies that highlight the difficulties that these countries may encounter in directing these policies towards development objectives, it was also necessary to evaluate the concrete contribution of IPR strengthening as recommended in PTAs.

Based on the FTA between the EU and Tunisia, empirical evidence leads to the conclusion that this agreement has made a limited contribution improving local technological capabilities and the export of goods with high technological content. However, this finding does not call into question the decision to strengthen IPR as planned under the EU-Tunisia FTA. This choice is a positive signal. However, it may prove insufficient if the Tunisian IP system governance does not evolve.

However, with regard to the DCFTA, the extension into strengthening IPR raises some problematic issues. First, it must be emphasized that the vision of the IPR chapter under negotiation is narrow whose architecture seems closer to a 'TRIPS plus' agreement. Moreover, while demonstrating that SPS barriers disadvantage Tunisian agricultural exports, this paper considers that IPR regulation in the proposed DCFTA could be more balanced if it favoured some forms of collaboration that enhance the governance of the Tunisian IP system,

which could be essential to the development of the Tunisian agricultural sector.

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## 10. PLANT VARIETY PROTECTION IN UGANDA: A LEGAL ANALYSIS OF EMERGING TRENDS

Anthony C.K. Kakooza\*

### ABSTRACT

This article looks at the most recent intellectual property protection legislation in Uganda, the Plant Variety Protection Act passed in 2014. The article particularly addresses the protective mechanisms stipulated for in the legislation. It goes on to highlight the imbalance that exists in the legislation between the interests of plant breeders who are the ultimate beneficiaries of Plant Variety protection and the rights of indigenous farmers, who are the unsuspecting losers. This is based on restrictions that the legislation places on access to Food Security that has hitherto not been a problem for such communities. In this analysis, the article looks at the government's justification for the enactment of the legislation and critiques this justification using the provisions in the Act. The central argument presented is that Agro-Based communities, such as those in Uganda, would be hard-pressed to satisfy the interests of protection communities like plant breeders. The latter are in the minority as opposed to local farming communities that are major feeders to the nation's economy. Comparisons are thus made with similar – both existing and old – legislations in India and Tanzania respectively, with a view to draw out best practices. This then forms the basis for the argument that Plant Variety protection, though possible and warranted, needs to enable continued easy access by farming communities to food, which may be hindered by such protection.

**Key words:** *Benefit sharing, Food, Plant variety, Farmers' rights, Plant Breeders.*

### 1. INTRODUCTION

Uganda, as a founding member of the World Trade Organization (WTO) in 1994, is obligated to implement

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legislations that are modeled along the principles of the Trade Related Aspects of Intellectual Property Rights (TRIPS) Agreement. Article 27 (3)(b) states that:

"Members may also exclude from patentability:

(b) plants and animals other than micro-organisms, and essentially biological processes for the production of plants or animals other than non-biological and microbiological processes. However, Members shall provide for the protection of plant varieties either by patents or by an effective sui generis system or by any combination thereof. The provisions of this subparagraph shall be reviewed four years after the date of entry into force of the WTO Agreement."

The aforementioned provision gives lee-way to Member organizations to 'provide for the protection of plant varieties either by patents or by an effective sui generis system' or a combination of both. The government of Uganda opted to give separate protection to patents and plant varieties. According to section 13 (a) of the Industrial Property Act, 2014 (IPA),<sup>1</sup> plant varieties are not patentable, which is provided for in the law on protection of plant varieties. As such, Uganda has a sui generis system for protecting plant varieties in the form of the Plant Variety Protection Act, 2014(hereinafter 'PVPA'). It states in its preamble that it is –

"An Act to provide for the promotion of development of new plant varieties and their protection as a means of enhancing breeders' innovations and rewards through granting of plant breeders rights and for other related matters."

Although the PVPA was assented to by the President of Uganda on 21 June 2014, it is not yet operational. Section 48 (1) of the Act stipulates that regulations shall be put in place to bring into full effect the provisions of the law. This, as of June 2017, has not been done. Nonetheless, for all intents and purposes, this is the current law on Plant Variety protection in Uganda.

Interestingly, the PVPA is not the first piece of legislation on plant breeding in the country. In 1994, the Ugandan government enacted the Agricultural Seeds and Plant Act (Cap. 28, Vol. 3) (hereinafter '1994 Act'). There is no definite indication in the 1994 Act to conclude that it was enacted to fulfill the objectives of Article 27 of the TRIPS Agreement. It would therefore be safe to assume that this earlier legislation had no agenda directed towards the protection of intellectual property. The Preamble of that Act provides that it is –

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<sup>1</sup>Industrial Property Act No. 3 of 2014, Laws of Uganda.

"An Act to provide for the promotion, regulation and control of plant breeding and variety release, multiplication, conditioning, marketing, importing and quality assurance of seeds and other planting materials and for other matters connected therewith."

However, a quick perusal of the 1994 Act shows that it has some essential stipulations that are similar, in principle, to the provisions in the PVPA. For instance, section 3 of the 1994 Act enumerates the functions of the National Seed Industry Authority. This includes advising the government on the national seed policy. This is similar to section 5 of the PVPA which enumerates the functions of the Plant Variety Protection Committee, one of which is advising the Minister of Agriculture on policies relating to plant varieties. Section 5 of the 1994 Act also lists the functions of the Variety Release Committee, which includes the approval of new seed varieties. Similarly, Section 5 of the PVPA requires for the Committee's approval for plant varieties to be registered.

Although there are obvious differences between plants and seeds, the two are intertwined and go hand in hand in the regulation of Plant Varieties. It is therefore important to note that no reference whatsoever is made to the 1994 Act by the PVPA, to create a harmonious relationship between the two legislations. It can be opined, however, that the PVPA places more emphasis on the exploitation and protection of the Plant Breeder's Intellectual property.

Legislation for plant variety protection was birthed by the Uganda Law Reform Commission. This is the government body that carries the mandate for improving, developing, modernizing and reforming laws in Uganda.<sup>2</sup> A report prepared by the Law Reform Commission presented<sup>3</sup> two basic principles as justifications for the protection of plant varieties. These were:

- (a) 'That it is beneficial to society to encourage the disclosure of new development, and
- (b) That it is beneficial to society to ensure honest dealing.'

This article therefore focuses on looking at the extent to which the stipulations in the new Act meet the aforementioned justifications, in particular, what is beneficial to society. The article looks at how effective the Act is in meeting the private rights of plant breeders *viz a viz* the public rights of farmers or local community breeders. In this respect, it addresses two core areas:

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<sup>2</sup>Uganda Law Reform Commission Act Cap. 25 sec. 10, Laws of Uganda.

<sup>3</sup>Uganda Law Reform Commission, *A Study and reform on Plant Variety Protection Law* (ULRC Publication No. 18 of 2004).

The first is the general perspective of attention given to farmers' rights in the Act, and the second is the attention given to sharing benefits from plant varieties between the holders and farming communities.

In its analysis, the article reflects on the Ugandan Act's position as compared to International treaties, particularly the International Union for the Protection of New Varieties of Plants (UPOV) and the International Treaty on Plant Genetic Resources for Food and Agriculture (popularly known as the International Seed Treaty). Uganda is a signatory to the International Seed Treaty but not a member of UPOV. However, it is important to note, that although the UPOV was tailor-made for European interests in 1961, since it touches on farmers' rights generally, its implications have a global reach.<sup>4</sup>

By choosing to focus more on the interests of plant breeders at the expense of indigenous farming communities, the Ugandan legislation has been hit by a lot of criticism including an on-going Constitutional Petition. Further, local farmer's associations were not consulted before the enactment of the law. According to the report of the Parliamentary Committee on Agriculture, Animal Industry and Fisheries on the Plant Variety Protection Bill 2010, the stakeholders consulted included the following: the Ministry of Agriculture, Animal Industries and Fisheries, National Agriculture Research Organization (NARO), African Forum for Agricultural Services (AFAAS), Uganda Forum for Agricultural Advisory Services (UFAAS), Science foundation for Livelihoods and Development (SCIFODE) and the Plant Variety Protection Bill Stakeholders' Working Group.<sup>5</sup> This therefore contravenes the right to participation under article 38 of the Ugandan Constitution.

The article also carries out a comparative analysis with the *Protection of Plant Variety and Farmers Rights Act, 2001* of India and the *Protection of New Plant Varieties (Plant Breeders' Rights) Act, 2002* of Tanzania (which was replaced by the *Plant Breeders' Rights Act, 2012*). By doing so, it highlights the inadequacy in the provisions under the Ugandan Act, specifically in terms of practicality and efficiency.

It is an uncontested fact that humankind cannot live without food. As such, obstacles and limitations emanating from legislations on the food industry have

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<sup>4</sup>International Convention for the Protection of New Varieties of Plants<[www.upov.int/upovlex/en/upov\\_convention.html](http://www.upov.int/upovlex/en/upov_convention.html)> (accessed 2 April 2016).

<sup>5</sup> Parliament of Uganda, *Report of the Committee on Agriculture, Animal Industry and Fisheries on the Plant Variety Protection Bill 2010*, Office of the Clerk to Parliament, Parliament Buildings, Kampala-Uganda, December 2013.

both direct and indirect impacts on everyone. This article tries to provoke the question, who actually benefits from plant variety protection?

## 2. PROTECTION OF PLANT VARIETIES UNDER THE ACT

The Plant Variety Protection Act (PVPA) entered into force in June 2014. Generally, The PVPA gives due recognition to the public rights of local community breeders, particularly those associated with traditional breeding methods. It does not specifically affect traditional community-based practices, however, it extends its applicability to plant varieties, their derivatives, breeding and export.<sup>6</sup>

Under Section 33(1)(b) of the PVPA, an application for Plant Breeding rights is granted where the plant variety is new<sup>7</sup>, distinct<sup>8</sup>, uniform<sup>9</sup> and stable<sup>10</sup> distinct,<sup>11</sup> uniform<sup>12</sup> and stable.<sup>13</sup> This is in harmony with Article 5(1) of UPOV.

### A. FARMERS' RIGHTS AS COMMUNITY BREEDERS VERSUS PRIVATE RIGHTS OF PLANT BREEDERS

Indigenous farmers in the traditional Ugandan setting, which consists of communal farming and ownership of land, are reliant on cheap and convenient farming habits. These include saving and communal sharing of seeds for replanting. It is on this premise that one of the clashes with the interests of plant breeders is likely to occur. In the case of *Vernon Hugh Bowman v. Monsanto Co.* 569 U.S. 133 S.Ct. 1761, the Supreme Court of the United States opined that patent exhaustion does not permit farmers to reproduce a patented seed through planting and harvesting without the patent holder's permission. With this interpretation of the law, indigenous farmers in Uganda, the majority of whom are illiterate or semi-literate, would not be in a position to appreciate the legal restrictions imposed on them. They would be trapped on the wrong side of the law. Litigation involving indigenous farmers surrounding their alleged infringement of plant breeder's rights can deprive them of access to food. This ultimately means that there is no benefit to all members of society as was envisaged by the Uganda Law Reform Commission in drafting the Act.

It is therefore important to understand the essential differences between farmers' rights<sup>14</sup> and plant breeders' rights as summarised below:

**Table 1: Differences between farmers and plant breeders' rights<sup>15</sup>**

	Plant breeders' rights	Farmers' rights
<b>Type of rights</b>	They are a form of IP rights that are exclusive in nature	They are collective rights
<b>Ownership of rights</b>	Rights awarded to individuals	Vested in communities to be held in trust for present and future generations
<b>Extent of the rights</b>	Rights limited to a particular plant variety	A bundle of rights that extend to plant genetic resources for subsistence and commercial agriculture
<b>Scope of the rights</b>	Rights recognize a single inventive step as long as the variety is "new" and clearly distinguishable from any other variety whose existence is a matter of common knowledge	Rights recognize the cumulative intellectual contributions of many preceding generations of farmers
<b>Duration</b>	Limited	Unlimited

The Act currently has no express provision for farmers' rights although it creates exceptions to the rights of plant breeders.<sup>16</sup>

To a limited extent, the Act reflects a harmonious relationship with Article 15 of the UPOV which provides for 'Exceptions to the Breeder's Right'. From a perusal of the Uganda Law Reform Commission's Study report on the reform of Plant Variety Protection law,<sup>17</sup> it is highly unlikely that the provisions in Article 15 of the UPOV were the basis for Section 15 of the PVPA. The provisions in Article 15 stipulate compulsory and optional exceptions. For the former, these are private

<sup>6</sup> PVPA 2014, s 1.

<sup>7</sup> PVPA 2014, s 23.

<sup>8</sup> PVPA 2014, s 24.

<sup>9</sup> PVPA 2014, s 25.

<sup>10</sup> PVPA 2014, s26.

<sup>11</sup> PVPA 2014, s 24.

<sup>12</sup> PVPA 2014, s 25.

<sup>13</sup> PVPA 2014, s26.

<sup>14</sup> Farmers' rights have been interpreted as the rights arising from the past, present and future contributions of farmers in conserving, improving and making available plant genetic resources, particularly those in the centres of origin/diversity. See: Food and Agriculture (FAO) conference resolution 4/89: <<ftp://ftp.fao.org/ag/agp/planttreaty/gb2/gb2i6e.pdf>> accessed 4 January 2016.

<sup>15</sup> Ronald Naluwairo, 'From Concept to Action: The Protection and Promotion of Farmers' Rights in East Africa' [2006] 15 ACODE Policy Research Series 8.

<sup>16</sup> PVPA 2014, s 15

<sup>17</sup> ULRC (n 3).

and non-commercial acts, for experimental purposes, and acts done for breeding other varieties. The optional exceptions to the breeder's rights are restricted to permitting farmers to use the plant variety for fulfilling purposes on their own holdings.

In line with the same framework, Section 15 of the PVPA provides for exceptions to the rights of breeders. The exceptions in Section 15 emphasize on the use being non-commercial. The provision authorizes a 'person' (which can be interpreted to include a 'farmer') to propagate, grow and use parts of the variety for non-commercial purposes. However, it would not allow commercial applications like selling plants, seeds or propagating materials of plants as food. It would therefore only allow farmers to engage in the exchange of seeds, plants or propagating materials of plants for consumption, research and education.

It is therefore clear that Section 15 of the PVPA is friendlier to farmers as compared to Article 15 of UPOV – which is more restrictive. Section 15 of the Act, by having different provisions on non-commercial use, enables local farming communities to continue their community farming initiatives, which is in line with the premise for drafting the PVPA. One could therefore argue that farmers' rights are catered to under Section 15 of the PVPA but this is not adequate, as is explained herein below.

The deficiencies in the Act, which also plague UPOV, is clearly noticeable in Section 18 of the PVPA which employs exactly the same wording as Article 16 of UPOV. These provisions stipulate the exhaustion of breeder's rights. The basic understanding is that once a person has properly utilized the breeder's plant variety, the breeder's rights are exhausted and he cannot exercise any authority as to how, for instance, a farmer may want to re-use or market a seed derived from the earlier plant variety. However, this conflicts with the emphasis on non-commercial use under Section 15. A combined reading of Section 15 and 18 thus allows the conclusion that the Ugandan Act takes away what it gives. The most affected category of persons due to this conflict in the law is the indigenous farming community.

The farming communities not only enjoy the sharing of seeds as a social activity, but also rely on combining their farm produce as a means of commercial productivity and economic survival. This article, therefore, contends that farmers' rights should be given exceptional consideration given that Uganda is an agriculture centric economy. There has to be a clear balance between the private rights of plant breeders and the public rights of farmers as community breeders, specifically the inconsistency in section 15 of the PVPA occasioned by section 18 emulating UPOV.

The Ugandan indigenous people, the majority of whom are based in rural areas, rely on agricultural production mainly for subsistence. It is therefore argued that the Act would have done well to provide exclusive rights to indigenous farmers in this respect. These exclusive rights, as a proviso to Section 15 of the PVPA, would bring in clarity as to how the farming community in Uganda can exploit plant varieties without being perceived as infringing the rights of plant breeders. UPOV too, unfortunately, does not give adequate recognition to farmers' rights. It provides a recommendation relating to Article 15(2) by cautioning that the exceptions '*should not be read so as to be intended to open the possibility of extending the practice commonly called "farmer's privilege" to sectors of agricultural or horticultural production in which such a privilege is not a common practice on the territory of the Contracting Party concerned.*'

On the contrary, farmer's privilege within agricultural production is one of the most common practices in Uganda and matters involving plant breeders are likely to attract a lot of attention. Given that Uganda's economic output is heavily reliant on agricultural production, the farmer's privilege exception should apply.

Farmer's privilege in this respect emphasizes the need to give significance to the interests of farmers through legal recognition of their right to practice their farming activities without any constraints being imposed as a result of protections for plant breeders. Such activities, in the Ugandan context, include the sharing of seedlings as well as small scale commercial exploitation of their produce – for the purpose of economic survival rather than commercial gain.

The apparent disproportionality highlighted in the various provisions of the PVPA and UPOV, shows that the legal framework is more inclined towards protecting the rights of plant breeders and how their products are utilized. The local farmer – a key beneficiary of such products – cannot enjoy the products sufficiently in line with the centuries old communal practices that he has been accustomed to. As a result, the plant breeder gets to derive more economic gain from the protection of his plant varieties while the local farmer does not get to enjoy the same personal or economic benefit. What must be continually emphasized is that there are more indigenous farmers in Uganda than there are plant breeders. This disproportionality is highlighted again from the perspective of benefit sharing in the next part of this article.

In support of the argument for farmers' rights, in the case of *Association Kokopelli versus Graines Baumaux*

SAS,<sup>18</sup> Advocate General Kokott analyzed the idea of proportionality between the interests of the plant breeder and the farming community. In this context, he stated that:

'[108]. According to Article 52 of the Charter of Fundamental Rights, any limitation on the exercise of the rights and freedoms recognized by that charter must be provided for by law and respect the essence of those rights and freedoms. Subject to the principle of proportionality, limitations may be made only if they are necessary and genuinely meet the objectives of general interest recognized by the European Union or the need to protect the rights and freedoms of others [Sic].

[109.] Consequently, justification for interference with the freedom to conduct a business must satisfy the requirements of the principle of proportionality. As it has already been established that the sales prohibition is disproportionate, in principle, it also infringes the fundamental right to pursue an economic activity.'(Sic)

The Honorable Advocate General's opinion in the aforementioned case can be placed in the Ugandan context in this form: Although it can be argued that the limitation of farmer's rights to use the plant varieties for non-commercial purposes are provided for in Section 15 of the PVPA, these limitations have to be proportional to the interests of the plant breeder and should genuinely meet the stated objectives of the law. Furthermore, the justification of the Act in interfering with the farmers' freedom to engage in commerce related to the plant varieties, must satisfy the principle of proportionality. The claim thus made in this study is that Ugandan farmers, who are the core of the nation's economy, are considerably disadvantaged by the provision's restriction on their freedom of commerce. Essentially, there is no proportionality between the protection of interests of the plant breeders and the indigenous farmer's right to pursue economic activities.

Uganda would do well to borrow a thing or two from other common law jurisdictions which have made exceptional provisions for indigenous farmers. Ujwal Nandekar,<sup>19</sup> in his study of the Indian legislation on the protection of plant varieties, outlines specific rights of

farmers, for which exclusive provisions have been devoted:<sup>20</sup>

1. The Right to Sell Seeds: He opines that this right is crucial for the maintenance of the livelihood of the farming community and the nation's self-reliance on agriculture. This right is provided for under Section 15 (b) of the PVPA but does not make exclusive provisions for farmers.
2. Grant of Exclusive Permission: The provision for the grant of exclusive permission by farmers for breeders who would like to use farmers' varieties for creating Essentially Derived Varieties (EDVs). This is not provided for in the Ugandan Act.
3. Exemptions from the payment of inspection fees: Exempting farmers from having to pay fees, given that most farmers are from low-income household, would act as an incentive for more farmers to try out new plant varieties in agricultural production. Allowing them to access documents, rules and decisions related to the use of plant varieties, will lower barriers for them to adopt these technologies and their legitimate use. This would ultimately boost agricultural production in the economy.
4. Revocation of rules allowing non-disclosure of plant variety parentage: Farmers are entitled to know the parentage of a particular plant variety. Although the Ugandan Act provides for revocation of this protection under Section 41, barring 'public interest',<sup>21</sup> there are no provisions for revocation based due to non-disclosure.
5. Express prohibitions on Terminator Technology: Under *The Protection of Plant Variety and Farmers Rights Act, 2001* of India, plant breeders have to submit a sworn affidavit that their variety does not contain Gene Use Restricting Technology (GURT) or terminator technology. Such technologies act as bars to further research or experimental trials on plant varieties, especially by farmers.<sup>22</sup>
6. Protection for innocent infringement: The Indian law has an express provision for the protection of farmers from prosecution for

<sup>18</sup> See: <[www.bailii.org/eu/cases/EUECJ/2012/C5911\\_O.html](http://www.bailii.org/eu/cases/EUECJ/2012/C5911_O.html)> accessed 5 April 2016.

<sup>19</sup>Ujwal Nandekar, *The Protection of Plant Variety and Farmers Rights Act, 2001*, <<http://ssrn.com/abstract=2208399>> (accessed 3 April 2015).

<sup>20</sup> Ibid 6.

<sup>21</sup> PVPA 2014 s 41(c).

<sup>22</sup> Nandekar (n 10) 6.



innocent infringement. This is based on the assumption that farmers may unknowingly infringe breeders' rights.<sup>23</sup> The Ugandan law, on the other hand, provides for infringement of rights under Section 20 but has no exception for innocent infringement.

7. Compensation to farmers: The Indian law has an express provision for the compensation of a farmer or farmer's organization where a plant variety fails to perform as expected. The compensation is paid by the breeder, on the directions of the authority.<sup>24</sup> The importance of such a provision is that it incentivizes breeders to carry out diligent research into a plant variety before having it registered.

Although the Ugandan legislation does not explicitly impose such an obligation, it does have general stipulations about the rights of farmers and farming communities. Section 17 of the Act provides for restrictions on plant breeders' rights by the Minister. This includes instances where the requirements of the farming community for propagating materials of a particular variety are not met.<sup>25</sup> It also allows awarding compensation to the 'holder of the right'.<sup>26</sup> However, the provision is not specific as to the rights of farmers in the same manner as the provisions in the Indian legislation. Section 34(g) of the PVPA stipulates that –

'When the office grants plant breeders' rights in respect of a plant variety, the Registrar shall enter in the register –

(g) description of the communities or localities in the country entitled to farmers' rights where applicable . . .' [Sic]

Section 34 also appears ambiguous in terms of its practicality. How should communities entitled to farmers' rights be defined? On the basis of what criteria should they be selected? The absence of satisfactory answers to these questions renders the provision inadequate.

It therefore goes to show that given the large indigenous farming community in Uganda, the activities of these communities are bound to be affected one way or another by the PVPA. As such, there is a need for an explicit recognition of the rights of these communities to carry out their activities. This will offer significant guidance on how their interests can be protected – similar to the position in India.

## B. BENEFIT SHARING

This section of the article investigates the extent to which the legislation achieves general societal benefit, the justification for its enactment.

Plant breeders' rights are personal property like any other intellectual property.<sup>27</sup> Section 43 goes on to provide for how royalty from plant varieties can be calculated. This follows the principle of exclusivity which is an important premise of intellectual property. Fundamentally opposed to this, indigenous farming communities thrive on benefit sharing and community engagement. The inclusion of benefit sharing in the PVPA would be justified because of the numerous instances where research and development into plant varieties has been undertaken with the assistance of local farming communities. Currently, provisions for this collaborative process are left to the institution of private contracts. However, the practical elements of such benefit sharing transactions are difficult to define and as such, provisions for the same would be better placed in the Act.

The Indian legislation, for instance, provides for benefit sharing whereby the commercial breeder has to share the benefits that accrue from registration of the plant variety with the farmers or local communities that have contributed towards the development of the variety. The Ugandan Act does come close to recognizing benefit sharing in Section 17(3) which provides that –

'... the relevant Government authority shall have the right to convert the exclusive plant breeders' rights granted under this Act to non-exclusive plant breeders' rights.'

It can therefore be argued that where it is shown that the plant breeder engaged local farming communities in developing the plant variety, the rights accruing therefrom will not be exclusively granted to one person. As such, participatory rights of local farming communities should not be overlooked in the context of plant variety development. In the absence of an express provision on benefit sharing, multiple rounds of litigation are likely to ensue, along with objections to the grant of rights from those aggrieved by the perceived lack of any benefit sharing. Section 32 (1)(a) of the PVPA, for instance, provides that any person who considers that their commercial or public interests would be affected by the grant of plant breeders' rights in respect of a plant variety to a particular applicant, can lodge, with the Office of the Registrar, a written objection to the grant of those rights.

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<sup>23</sup> Ibid, 7.

<sup>24</sup> Ibid.

<sup>25</sup> PVPA 2014 s 17(1)(d).

<sup>26</sup> PVPA 2014 s 17 (2)(c).

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<sup>27</sup> PVPA 2014 s 37.

The case of *Association Kokopelli versus Graines Baumaux SAS*<sup>28</sup> mentioned above, supports this argument. This is a case decided by the European Court of Justice, in which Advocate General Kokott spoke of the importance of benefit sharing between plant breeders and local farming communities. He cited the International Treaty on Plant Genetic Resources for Food and Agriculture (PGRFA). Article 9 of the Treaty addresses the rights of farmers and in particular, Article 9.2, establishes specific measures for recognizing them:

'The Contracting Parties agree that the responsibility for realizing farmers' rights, as they relate to plant genetic resources for food and agriculture, rests with national governments. In accordance with their needs and priorities, each Contracting Party should, as appropriate, and subject to its national legislation, take measures to protect and promote farmers' rights, including:

(a) protection of traditional knowledge relevant to plant genetic resources for food and agriculture;

(b) the right to equitably participate in sharing benefits arising from the utilisation of plant genetic resources for food and agriculture; and

(c) the right to participate in making decisions, at national level, on matters related to the conservation and sustainable use of plant genetic resources for food and agriculture.'

(Emphasis added)

The PGRFA was adopted by the Food and Agriculture Organization in 2001 and entered into force in 2004. It was established to facilitate the conservation and exchange of crop and forage plant genetic materials and sharing of the derived benefits.<sup>29</sup> It is in harmony with the Convention on Biological Diversity, whose objectives, inter alia, are equitable sharing of benefits arising from the utilization of genetic resources.<sup>30</sup>

It follows from the above provision, that recognition of farmers' rights is not only integral in legislations for Plant Varieties and therefore must be expressly provided for under the Ugandan Act, but there should also be an express provision for benefit sharing as highlighted in Article 9.2(b) above.

<sup>28</sup> *Association* (n 8).

<sup>29</sup> Charles Lawson, Patents and Plant Breeder's Rights over Plant Genetic Resources for Food and Agriculture <[www.austlii.edu.au/au/journals/FedLawRw/2004/5.html](http://www.austlii.edu.au/au/journals/FedLawRw/2004/5.html)> accessed 12 April 2016.

<sup>30</sup> Article 1 of the Convention of Biological Diversity 1992.

Just next to Uganda, Tanzania's previous legislation – 'The Protection of New Plant Varieties (Plant Breeders' Rights) Act, 2002 – did exactly what this paper is advocating for.<sup>31</sup> Section 57 of the Tanzanian legislation stipulated as follows:

(1) 'The Minister shall ensure that the implementation of this Act shall not affect the fulfillment of the Government obligations pertaining to the protection of farmers' rights to equitably share and access to traditional cultivars and germplasm; national and international commitments towards sustainable use of biological diversity taking into account the human health.

(2) The Minister shall, after consultation with the Minister responsible for finance, direct that, a certain percent of the fee paid to the Registrar under this Act, be set aside for the benefits of traditional farmers and the preservation of traditional cultivars of agricultural products.'

Local farmers have always been regarded as the 'largest and most prolific group of seed breeders in Africa'.<sup>32</sup> It is therefore quite unfortunate that Tanzania opted to do away with an arguably good law when it replaced its 2002 legislation on Plant Varieties with the Plant Breeders' Rights Act No. 1 of 2012. In the 2012 legislation, section 57 of the 2002 legislation was removed. As such, the new legislation in Tanzania is more in line with the current situation in Uganda as highlighted in this article.

The 2002 Tanzanian legislation on Plant Varieties stood out on two fronts: firstly, it clearly gave special recognition to indigenous farmers in the context of protection of plant varieties; secondly, it also assured that the law grants indigenous farmers benefit sharing. In 2010, the Tanzanian government embarked on the process of gaining membership of UPOV and as a part of this process adopted legislation on plant varieties that was aligned with UPOV 1991.<sup>33</sup> It is on this basis that the focus shifted from striking a balance between the interests of plant breeders and small-scale farmers, to focusing more on the interests of plant breeders. The 2012 Act is now criticized for curtailing the free

<sup>31</sup> See: <[www.wipo.int/edocs/lexdocs/laws/en/tz/tz007en.pdf](http://www.wipo.int/edocs/lexdocs/laws/en/tz/tz007en.pdf)> accessed 20 May 2016.

<sup>32</sup> African Centre for Biodiversity, *Changing Seed and Plant Variety Protection Laws in Tanzania – Implications for Farmer-managed Seed systems and Smallholder Farmers*, 18, April 2016 <<http://acbio.org.za/wp-content/uploads/2016/05/Tanzania-Seed-Law-2016.pdf>> accessed 3 June 2017.

<sup>33</sup> *Ibid*, 17.

preservation and exchange of seeds among small-scale farmers in Tanzania.<sup>34</sup>

Nonetheless, the provisions in Tanzania's 2002 Plant Variety legislation are still worth emulating if countries like Uganda are to focus on distributing the benefits from plant variety protection proportionately between the breeders and the local farmers. A number of recommendations are offered on how to put this into effect.

### 3. RECOMMENDATIONS

The Ugandan law focuses on the protection of the few - plant breeders – and marginalizes the majority – indigenous farmers. It is the latter that form the bread-basket of the economy and by marginalizing them, there is a negative impact on the country's food security. As such, in addition to the arguments advanced throughout this article, a number of other recommendations which place obligations upon the government, can be explored:<sup>35</sup>

- a) The government should ensure that its legislation on plant variety protection has measures that provide a balance between the interests of plant breeders and indigenous farmers. This can be achieved through greater engagement with plant breeders and small-scale farmers with a view towards establishing and capitalizing on the mutual interests of all stakeholders. Hopefully, in doing so, traditional farming practices like saving seeds, will not face the risk of interference by legislations focusing solely on plant breeders' interests.
- b) Government measures should also be put in place to facilitate and encourage the participation of farmers in the conservation and improvement of plant genetic resources for food and agriculture.
- c) There should also be national systems in place to promote and protect traditional systems of food and agriculture that would otherwise be threatened by new forms of plant variety protection. In any event, such systems should strive for a harmonious existence of both practices supported by legislation to guarantee their sustainability.

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<sup>34</sup> Ibid.

<sup>35</sup> Also see: Herman Tuhairwe, *Agriculture as the backbone of Uganda's economy: Towards balanced legislative protection of Plant Breeders' and Farmers' rights*; a dissertation submitted at the Faculty of Law, Uganda Christian University in partial fulfilment of the requirements of the award of the degree of Master of Laws in International Business law, April 2016.

### 4. CONCLUSION

On the 6<sup>th</sup> of July 2015, Uganda witnessed the signing of the Arusha Protocol for the Protection of New Varieties of Plants in Arusha, Tanzania.<sup>36</sup> This was under the auspices of the African Regional Intellectual Property Organization (ARIPO) of which Uganda is a member. This Protocol is modeled along the principles of UPOV 1991 and thus does not give due recognition to the interests of indigenous farming communities, particularly the traditional rights of farmers to save, exchange or sell farm-saved seeds. It is thus also in conflict with Article 9 of PGRFA which advocates the promotion of farmers' rights at the national and international level.

The Ugandan government's efforts in coming up with legislation on plant breeding as well as pushing for its regional interests through ARIPO are highly commendable. This is particularly directed at ensuring the development of the intellectual property legal framework of the country. However, the government has failed to take cognizance of the fact that the local indigenous farming community have a right to share in the benefits that arise from it. Legislation of this nature should thus be to the benefit of the country by empowering the economy in the process of developing intellectual property. Agricultural production is currently the leading source of economic empowerment in Uganda. It accordingly needs to be encouraged and accounted for as we make improvements to our intellectual property regime.

As such, addressing these and other shortfalls in the Plant Variety Protection Act of 2014 would be one way of supporting our agricultural sector.

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## 11. WELL-KNOWN TRADEMARK PROTECTION IN VIETNAM

Phan Ngoc Tam\*

### ABSTRACT

International law first incorporated the law on well-known trademarks in the Paris Convention of 1925. An understanding of this doctrine is especially important in a world of increased global marketing and advertising. Creating a global brand has become much easier with the advent of new, cheaper and more accessible long-distance communications. While political boundaries and demarcation lines may hinder the movement of our physical bodies around the globe, they provide no barriers to the free flow of information.<sup>1</sup> Thus, a trademark can be delivered everywhere at once to consumers as well as to the public in increasingly faster and more effective channels. In this manner, a trademark can become widely known in many markets all over the world, unrestricted by restrictions on physical movement.

In the meantime, the protection and enforcement of intellectual property rights in general and trademarks in particular is still a dimly lit picture in Vietnam.

In the past, the government has made great efforts in building a legal system for intellectual property rights in general and well-known trademarks in particular. However, such efforts are still at the macro level and do

not add any actual value to the practical problems of society, especially in protecting well-known trademarks. Furthermore, the mechanism of legal enforcement in Vietnam is still weak and ineffective. This paper focuses mainly on the current situation of the legal system of well-known trademark protection in Vietnam, analyzes criteria for determination of a well-known trademark and discusses further solutions to enhance and improve the legal system of Vietnam in well-known trademark protection in light of this globalizing tendency.

**Keywords:** *Trademark, well-known trademark, protection, criteria for determination, enforcement, Vietnam, legal system, improvement, globalization*

### 1. INTRODUCTION

In 1986, the Resolution of the Sixth National Deputy Congress of the Communist Party of Vietnam<sup>2</sup> identified the necessity of changing the national economy in order to bring the benefits of the global economy' to Vietnam. Vietnam proposed, and is implementing, its 'DOI MOI' (renovation) policy in all fields,<sup>3</sup> especially in the national economy. In recent years, the Vietnamese economic and legal systems have headed in a new direction, reflecting the government's efforts towards establishing effective economic relationships between Vietnam and the global community. However, the processes of liberalization and globalization also influence protection for industrial property and trademarks. The protections that were limited to Vietnam's national territory under principles of 'territorial limitation' now no longer correspond to the commercial needs of the industry. The principle of 'territorial limitation', the focal point of national laws for trademark protection has come under pressure due to these globalizing trends.<sup>4</sup> Therefore, international cooperation on trademarks has become a necessary component of trade. Even though the international legal order on trademarks retains its vitality, it is seriously threatened by recent political and economic conditions like trade globalization, the information revolution and the development of electronic commerce. Globalization has also increased the need for protection of well-known trademarks because certain goods or services may not have appeared in a market while information relating to them may have. The reputation of such goods

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<sup>1</sup> Frederick Mostert, *Famous and Well-known Marks – An international Analysis*, (Toronto Butterworth's 1997), page v.

<sup>2</sup> See Document of the Sixth National Deputy Congress of the Communist Party of Vietnam in 1986, National Political Publisher House, Ha Noi, 1986.

<sup>3</sup> In many academic works, the term 'DOI MOI' has not been translated because it seems that there are no specific English words that mean exactly what the term 'DOI MOI' expresses. However, the writer feels that 'DOI MOI' may best be understood as 'renovation'.

<sup>4</sup> 'The tendency and development of trade mark in international level', The Workshop of 'International Protection of Trademarks' held in HCMC from 23 to 25 October 2001.

or services becomes attractive for other companies to infringe upon. Such infringement cases occur everywhere and with increasing frequency and complexity. Therefore, the legitimate rights and benefits of owners of well-known trademarks have come under increasing threat. In Vietnamese markets, infringements of intellectual property (IP) rights and trademarks have become extensive especially those of internationally well-known and popular trademarks. Even though the government has attempted to promulgate laws and regulations to control the situation, infringement and violations of IP rights in general and trademarks in particular present continue to challenge national authorities and IP right holders.

## 2. THE HISTORY OF TRADEMARK LAW IN VIETNAM

Prior to 2005, Vietnam had established a system of domestic regulations governing IP. These were incorporated into a number of important sources of law.<sup>5</sup> The Law on Intellectual Property was enacted in 2005 (2005 Law on IP) to improve and complete the national legal system.<sup>6</sup> This was a significant development for IP law in Vietnam, creating a new national regime for IP rights protection. In 2009, the law

was modified and amended<sup>7</sup> to add some significant new provisions. However, the 2009 amendments did not make many changes to provisions concerning trademark and well-known trademark protection, except for amending Article 87<sup>8</sup> on the right to register marks and Article 90<sup>9</sup> on the 'first to file' principle as applied to the registration of industrial property. Further legislations were enacted to interpret the 2005 Law on IP and guide its application.<sup>10</sup> Among these, Circular 01/2007 is significant because of its detailed guidelines, especially with respect to legal issues concerning well-known trademark protection.<sup>11</sup>

Vietnam has created a multifaceted and diversified legal system for the protection of IP rights. Vietnamese law has, for the most part, been consistent with international conventions and treaties applicable to Vietnam. The Vietnamese legal system for IP protection has been the subject of rapid advances implemented over a remarkably short period. It addressed many gaps in the existing legal system. However, there are very few provisions specifically on well-known trademark registration or recognition procedures for their protection.

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<sup>5</sup> See e.g.

The Civil Code of Vietnam enacted on 28 October 1995, especially Part 6 providing general guidelines for various categories of the intellectual property rights, such as: Copyright (in Chapter I), Industrial property (in Chapter II) and Technology transfer (in Chapter III),

Decree No. 63/CP dated 24 October 1996 of the Government providing specifically on industrial property,

Circular No. 3055/TT – SHCN dated 31 December 1996 of the Ministry of Science, Technique and Environment of Vietnam on guidance for implementing provisions of proceeding for registration of industrial property and other procedures set forth in Decree No. 63/CP,

Circular No. 1254/1999/TT dated 12 July 1999 of the Ministry of Science, Technique and Environment of Vietnam guidance for implementing Decree No. 63/CP of the Government,

Decree No. 06/2001/ND – CP dated 1 February 2001 of the Government to revise and modify some provisions of Decree No. 63/CP on industrial property rights protection,

Circular No. 825/TT – BKHCNMT dated 3 May 2000 of the Ministry of Science, Technique and Environment of Vietnam guidance for implementing Decree No. 12/1999/CP of the Government,

Circular No. 49/2001/TT – BKHCNMT revising and modifying some provisions of Circular No. 825/2000/TT – BKHCNMT,

Circular No. 30/2003/TT – BKHCN guidance for procedures for registration of industrial property relating to patents and utility solutions.

<sup>6</sup> Law No. 50/2005 adopted by the National Assembly of Vietnam, Legislature XI, 8<sup>th</sup> session, dated November 29, 2005.

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<sup>7</sup> Law No. 36/2009 (The Law on Amendments to the Law on Intellectual Property) adopted by the National Assembly of Vietnam, Legislature XII, 5<sup>th</sup> session, dated June 19, 2009.

<sup>8</sup> Section 13 of Law No. 36/2009.

<sup>9</sup> Section 14 of Law No. 36/2009.

<sup>10</sup> The Law on Intellectual Property 2005 was instructed and interpreted by number of legal documents such as:

- Decree No. 103/2006-ND-CP dated 22 September 2006 providing guidelines for implementation of a number of articles of law on intellectual property with respect to industrial property.
- Decree No. 105/2006-ND-CP dated 22 September 2006 providing guidelines for implementation of a number of articles of law on intellectual property with respect to protection of intellectual property rights and state administration of intellectual property rights;
- Decree No. 106/2006-ND-CP dated 22 September 2006 providing fines for administrative offences with respect to protection of industrial property rights (replaced by Decree 97/2010/ND-CP);
- Circular No. 01/2007-TT-BKHCN dated 14 February 2007 providing guidelines for implementation of Decree No. 103/2006-ND-CP dated 22 September 2006 implementing the law on intellectual property with respect to industrial property rights;

<sup>11</sup> Circular No. 01/2007-TT-BKHCN dated 14 February 2007, Section 42 providing guidelines for implementation of Decree No. 103/2006-ND-CP dated 22 September 2006 implementing the law on intellectual property with respect to industrial property rights.

## A. TRADEMARK REGISTRATION SYSTEM

The Vietnamese trademark registration system is based on the principle of 'first to file'. At present, the 2005 Law on IP (as amended in 2009) and its guidance documents regulate trademark registration. Under this statute, a trademark is defined as any distinctive sign used to distinguish goods or services<sup>12</sup> of different organizations or individuals.<sup>13</sup> This excludes certain signs listed in Article 73<sup>14</sup> and Article 74.2 of the statute.

Unfortunately, the law does not set forth any requirements for well-known trademarks. Instead of applying for registration, owners of well-known trademarks may seek recognition of well-known status from the authorities, normally through a court or a decision of the National Office of Intellectual Property (NOIP). However, the law also contains no prohibitions on the registration of well-known marks under procedures applicable to ordinary marks. Therefore, many owners of well-known trademarks seek protection through formal registration procedures.

Article 120 of the 2005 Law on IP also permits applicants to apply for international trademark registration in accordance with the provisions of international conventions and treaties to which Vietnam is a party.<sup>15</sup> Vietnam is a member of the Madrid Agreement 1891 and the Madrid Protocol.<sup>16</sup> Consequently, applicants are entitled to register their trademarks under the procedures provided by the Madrid Agreement. The details required for such registration are set forth in Circular 01/2007.<sup>17</sup>

<sup>12</sup> According to Article 105.3 of the 2005 Law on Intellectual Property (revised 2009), the goods or services listed in an application for registration of a trademark must be classified into appropriate groups in accordance with the Classification List under the Nice Agreement on International Classification of Goods and Services for the purpose of mark registration, and published by the State administrative body for industrial property rights.

<sup>13</sup> Article 4.16 of the 2005 Law on Intellectual Property (as amended in 2009).

<sup>14</sup> As specified in the Section 39.2 of Circular 01/2007, the following signs shall not be protected as trademarks: (i) The sign is only a colour not assimilated with letters or images; (ii) The sign is ineligible to be protected as a mark as stipulated in Article 73 of the Law on Intellectual Property; (iii) The sign is incompatible with national defence and security.

<sup>15</sup> Article 120 – The 2005 Law on Intellectual Property (as amended in 2009).

<sup>16</sup> Vietnam has been a member of the Madrid Protocol since July 11, 2006.

<sup>17</sup> Section 41 – Circular 01/2007.

## 3. LEGAL REGIME ON WELL-KNOWN TRADEMARK PROTECTION

Many internationally recognized trademarks have recently appeared in Vietnam such as Coca-Cola-, McDonald's, Ford, IBM, INTEL, and NOKIA. Many of these marks have suffered differing degrees of infringement. The legal protection provided under the law has proven to be ineffective. Many issues have arisen in the course of disputes without any satisfactory resolution. As observed by Heath and Liu regarding well-known trademark protection in Vietnam:

One of the biggest obstacles, in the author's opinion, is the lack of a comprehensive legal system with explicit regulations that are strong enough to guarantee industrial property rights enforcement.<sup>18</sup>

This statement, made in 2000, is not only true about the past but also the present, despite the enactment of 2005 Law on IP. However, the issue requires a deeper analysis of the current situation in Vietnam for protection of well-known and famous trademarks.

### A. PRINCIPLES OF PROTECTION

#### (i) PROTECTION UNDER INTERNATIONAL CONVENTIONS

The 1995 Civil Code of Vietnam was considered as the most important source of Vietnamese law for the protection of IP rights. The Code provided basic principles relating to the field, which other provisions in lower order legal instruments are required to observe. According to the provisions of Article 837 of the Civil Code, the industrial property rights of foreign persons and foreign companies must be ensured and protected under Vietnamese law as well as those international conventions that Vietnam has signed or participated in.<sup>19</sup> The 2005 Civil Code and the Law on IP and other legal instruments continue to affirm this principle. The principle of most favoured nation treatment (MFN)<sup>20</sup> and the principle of national treatment (NT) have been

<sup>18</sup> Christopher Heath, Kung-Chung Liu, The protection of well-known marks in Asia, Max Planck Series on Asian Intellectual Property Law, 2000, pages 146, 147.

<sup>19</sup> See Article 837 – Vietnam Civil Code of 1995.

<sup>20</sup> Most favoured nation (MFN), also called Normal Trade Relations in the United States is the status accorded by one nation to another in international trade. It means that nationals of the parties will be granted all trade advantages — such as low tariffs — that parties from any other nation also receive. In effect, a nation with MFN status will not be treated worse than any other nation with MFN status. This principle is stated in the Article 3 of the Paris Convention, Article 4 of TRIPs Agreement as well as in many other conventions.



incorporated into the domestic system.<sup>21</sup> In addition to provisions found in multilateral conventions, issues concerning the protection of industrial property and trademarks are also governed by bilateral agreements entered into between Vietnam and other countries for collaboration in the field of commercial relations. These bilateral agreements also refer to basic principles for the protection of IP rights,<sup>22</sup> which may contain variations and modifications due to their particular conditions and purposes.

#### (ii) PROTECTION UNDER THE PRINCIPLE OF RECIPROCITY

Similar to the principles provided by international conventions, protection at the international level for trademarks in Vietnam is influenced strongly by the 'reciprocity principle.'<sup>23</sup> This is an important and integral principle, frequently applied to private law disputes arising in international trade. The reciprocity principle as applied to protecting trademarks is understood as the acceptance or recognition by a country of applications for trademark protection by foreign entities when, and only when, the foreign entities' country provides similar rights to foreign entities in that country. In Vietnamese law, this principle is one of the basic principles governing all international civil relations as set forth in the Vietnam Civil Code of 2005 and related laws. In addition, a number of international conventions and bilateral agreements that Vietnam is a party to, adopt this principle.<sup>24</sup>

#### (iii) 'PROTECTION WITHOUT REGISTRATION' PRINCIPLE

In Vietnam, a well-known trademark will be fully protected as long as the owners succeed in proving the reputation of their trademark before the concerned authorities. This means well-known trademarks will be protected even if that trademark has not been registered in Vietnam. The principle of protection

without registration is set forth in Article 6(3) (a) of the 2005 Law on IP:

In the case of a well-known trademark, industrial property rights shall be established on the basis of use and shall not be dependent on registration procedures.<sup>25</sup>

The principle is confirmed in the corresponding provision of Circular No. 01/2007 as follows:

Rights towards the well-known trademark shall be protected and belongs to the owner of that trademark without registration by the owner.<sup>26</sup>

Thus, under Vietnamese law, the protection of well-known trademarks also extends to unregistered trademarks.

#### (iv) DEFINITION OF A WELL-KNOWN TRADEMARK

The term 'well-known trademark' is quite a new concept in the Vietnamese legal system. It was officially mentioned for the first time in Article 6 of Decree No. 63/CP<sup>27</sup> which states that a trademark may not be registered if it is identical with, or confusingly similar to another trademark which has been recognized as well-known in accordance with Article 6*bis* of the Paris Convention. Unfortunately, the Decree provided no precise guidance for defining a well-known trademark. That meant that the authority (NOIP)<sup>28</sup> had to refer to the concept of well-known trademark used by the Paris Convention (although there is no specific definition given in the Convention) and to consult precedents from other countries.

In 2001, Decree No. 06/2001/ND – CP of the Government to revise and modify some provisions of Decree No. 63/CP on industrial property rights protection added a new clause to Article 2 of Decree No. 06/CP, which defines the concept of well-known trademark as follows:

Well-known trademark means a trademark which has been continuously used for

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<sup>21</sup> National treatment is a principle in customary international law vital to many treaty regimes. It essentially means treating foreigners and locals equally. See Article 2 of Paris Convention and Article 3 of TRIPs Agreement.

<sup>22</sup> See the Chapter II – Bilateral Trade Agreement between Vietnam and United States signed on July 13, 2001.

<sup>23</sup> The principle of reciprocity in treatment can be understood as the way that one country will give the same treatment to other countries as the treatment they receive from such other countries in the same or a similar field. This principle can be affirmatively stated in conventions or international agreements. However, it may also be applied as a default principle.

<sup>24</sup> In the Agreements for Judicial Assistance between Vietnam and other countries such as Poland, Russia, Mongolia the principle of reciprocity is always set forth as a fundamental principle, which all other provisions are to be based upon.

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<sup>25</sup> See article 6 (1) (a) of the Law on Intellectual Property of 2005.

<sup>26</sup> Section 5 – Paragraph 42.2 – Circular No. 01/2007-TT-BKHCN dated 14 February 2007 providing guidelines for implementation of Decree No. 103/2006-ND-CP dated 22 September 2006 implementing the law on intellectual property with respect to industrial property rights.

<sup>27</sup> Decree No. 63/CP dated 24 October 1996 of the Government providing specifically on industrial property.

<sup>28</sup> NOIP – National office of Industrial Property of Vietnam existed from May 22, 1993 to May 19, 2003. It used to be known as the National Office of Inventions (NOI) being established on July 29, 1982.

prestigious goods and services whereby such trademark has become widely known. [Sic]<sup>29</sup>

This was the first time a definition for well-known trademarks had been codified directly in Vietnamese law. This provision demonstrates the advances in legal protection for well-known trademarks in Vietnam through the internalization of international conventions. However, the definition did not appear productive enough for the authorities to resolve disputes for several reasons:

Firstly, the term ‘prestigious goods and services’ used in the provision is not sufficiently precise. If a trademark is well-known or famous nationwide or worldwide, the goods or services bearing the trademark will be considered to be prestigious. However, the opposite is not always true. The prestige of goods or services will not always correspond to the reputation of the trademark.

Secondly, the requirement of continuous use of the trademark is understood as an important element for defining the trademark’s fame. However, for practical purposes, it is quite difficult to prove continuous use in a case where the trademark has been used in other countries but not in Vietnam. The Decree has no further provisions specifying the duration of such use required to establish that fact.

Finally, the geographical scope of the term is undefined. The Decree does not state whether evidence of the fame of the trademark is to be restricted to the territory of Vietnam.

Thus, despite the good intentions of the legislature, the provisions of Article 2 of the Decree No. 06/2001 are good in theory but not feasible to implement.

The adoption of the Law on Intellectual Property may be seen as further progress. The 2005 Law on IP refers to the concept of a well-known trademark in several articles such as Article 4(20) on the interpretation of terms, Article 6(1) (a) on the principle of protection without registration, Article 74(2) (i) on the distinctiveness of trademarks, Article 75 on the criteria used for evaluation of a trademark’s fame and Article 129 (1) on the acts of infringement of trademark rights. According to Article 4(20), a well-known trademark is to be understood as ‘a mark widely known by consumers throughout the territory of Vietnam.’<sup>30</sup> The definition can be interpreted to mean that a trademark that is well

known in Vietnam need not be widely known on an international scale, but the converse may not be true. In other words, an internationally well-known trademark may not be considered well known if it has not acquired a sufficient reputation in Vietnam.

The definition at first sight appears simple yet comprehensive. However, it may raise difficulties for the authorities in practice because there has been no specific guidance in any other legal document regarding the definition of a well-known trademark. The definition of a well-known trademark may be inferred from an interpretation of Article 75. Nevertheless, such an interpretation is subjective and depends a great deal on the points of view held by the authorities themselves. It appears difficult to attain a common understanding applicable in all cases.

In summary, from the legislative side, no law with a workable definition of a well-known trademark has been enacted in Vietnam. Further, the term ‘famous trademark’ is rarely used. There has been no definition of ‘famous trademark’ or ‘famous mark’ in national legal instruments. It appears that presently there is no distinction between the concept of a ‘well-known’ trademark and a ‘famous’ trademark. However, a distinction between the two has been made. Under that distinction, a famous trademark is considered to be of a higher order than the well-known one. It means that the term ‘famous’ can be understood as ‘very well-known’. However, this term has been rarely mentioned in case law. In addition, in Vietnam, the concept of ‘widely used and recognized trademarks’ has also been used in cases which indicate that trademarks that are reputed or widely known are not well-known enough to be considered very well-known or famous ones.

#### (v) THE CRITERIA FOR THE DETERMINATION OF WELL-KNOWN TRADEMARKS

As in many other countries, it is quite difficult to make a determination on the fame of a trademark in Vietnam. Normally, a determination regarding well-known trademarks is based on the provisions of international conventions even though these provisions are not specific or clear enough to be applied in practice. Therefore, reference is made to various national laws despite the fact that the laws of one country are often very different from those of the others.

According to Vietnamese law, in order to make a decision recognizing a well-known trademark the competent authorities must use evidence and documents submitted by the trademark’s owner as well as other information collected by authority itself concerning the fame of the trademark. Accordingly, in order to prove that a trademark is well-known and ought to be protected by a special legal regime,

<sup>29</sup> Clause 8b – Article 2 – Decree No. 06/2001/ND – CP dated 1 February 2001 of the Government to revise and modify some provisions of Decree No. 63/CP on industrial property rights protection.

<sup>30</sup> Article 4(20) – 2005 Law on Intellectual Property (as amended in 2009).

competent authorities must carefully and comprehensively consider the following criteria:<sup>31</sup>

- The number of relevant consumers who were aware of the mark by purchase or use of goods or services bearing the mark, or through advertising;
- The territorial area in which goods or services bearing the mark are circulated;
- Turnover of the sale of goods or provision of services bearing the mark or the quantity of goods sold or services provided;
- Duration of continuous use of the mark;
- Wide reputation of goods or services bearing the mark;
- Number of countries protecting the mark;
- Number of countries recognizing the mark as a well-known mark;
- Assignment price, licensing price, or investment capital contribution value of the mark.

Although the law does not state it explicitly, these legal criteria should be non-exhaustive. It can be seen that the criteria provided are too vague, general and qualitative that they cannot be applied effectively in practice. They obviously need more specific supplements in order to at least quantify each of them. Therefore, courts and competent authorities should use these criteria flexibly according to the facts of each case. In some special cases, authorities may apply other criteria based on evidence and arguments submitted by the applicants. In order to implement Article 75 of the 2005 Law on IP, Circular No. 01/2007<sup>32</sup> contains further detailed provisions regarding the manner in which proprietors of well-known trademarks who attempt to prove the fame of their trademarks, must provide evidence of these criteria under Article 75, including:

- The scope, scale, level and continuity of the use of the mark, including an explanation of origin, history and time of continuous use of the mark;
- Number of nations in which the mark has been registered or recognized as a well-known mark; list of goods and services bearing the mark;

- The territorial area in which the mark is circulated, turnover from products sold or services provided;
- Quantity of goods and services bearing the mark manufactured or sold;
- Property value of the mark, price of assignment or licensing of the mark and value of investment capital contributed in the form of the mark;
- Investment in and expenses for advertising and marketing of the mark, including those for participation in national and international exhibitions;
- Infringements, disputes and decisions or rulings of a court or competent agencies;
- Surveyed number of consumers knowing the mark through sale, purchase, use, advertisement and marketing; rating and evaluation of reputation of the mark by national or international organizations or the mass media;
- Prizes and medals awarded to the mark;
- Results of examinations held by intellectual property examination organizations.<sup>33</sup>

Even if Vietnam goes further than any other country did with such provisions, questions remain if these criteria are sufficiently suitable and practical to be implemented. The answer is not self-evident because these provisions are legal transplants made in an attempt to conform to the trend towards global harmonization without consideration of any negative consequences. The criteria have had little practical significance. Indeed, during the period after enactment of the 2005 Law on IP, few cases were resolved by the authorities concerning well-known trademarks. None of these cases has resulted in a better definition of the well-known trademark concept. Further, each criterion contains notions that require further precision and clarification.

For example, the first standard concerns the consumer's awareness of the mark. By the very term, it appears that a well-known or famous trademark must be one widely known in a community or at least by a certain group of people. Many people should be able to distinguish such a mark among many different ones in the market. However, there are some practical issues that need to be clarified, such as (i) how consumer awareness should be defined? (ii) how do we determine the benchmark

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<sup>31</sup> Article 75.2 – The 2005 Law on Intellectual Property (as amended in 2009).

<sup>32</sup> Circular No. 01/2007-TT-BKHCN dated 14 February 2007 providing guidelines for implementation of Decree No. 103/2006-ND-CP dated 22 September 2006 implementing the law on intellectual property with respect to industrial property rights.

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<sup>33</sup> Section 5 – Paragraph 42.3 – Circular No. 01/2007-TT-BKHCN dated 14 February 2007 providing guidelines for implementation of Decree No. 103/2006-ND-CP dated 22 September 2006 implementing the law on intellectual property with respect to industrial property rights.

percentage of people with knowledge for it to be well-known? These are at present the greatest challenges to the legal system in Vietnam regarding well-known trademark protection. In principle, a trademark will normally be considered well-known when it is used widely in Vietnam. This is provided for under the law. However, in some cases, a trademark may also be considered well-known even if it has not been registered or used in Vietnam. The result depends upon a subjective consideration by the authorities. The vagueness of the law gives more flexibility to an authority to make decisions concerning well-known trademark protection, but it also creates ambiguity that sometimes damages the interests of the parties.

(vi) THE BASIC GROUNDS FOR THE PROTECTION OF WELL-KNOWN TRADEMARKS

Vietnam, as a member of the Paris Convention must apply its provisions concerning the protection of well-known trademarks. In compliance with that obligation, Article 6 (1) (e) of Decree No. 63/CP of the Government of Vietnam dated 24 October 1996 was enacted to implement the provisions of Chapter 2, Part VI of the Vietnam Civil Code. Chapter 2 deals with the protection of industrial property rights implements the principle of protection of trademarks.

The Decree states that registration applications for trademark protection in Vietnam must satisfy the following criteria: (i) that the sign is not identical with, or similar to the extent that it would lead to, or might create a likelihood of confusion with others' well-known trademarks (pursuant to Article 6*bis* of the Paris Convention, amendment of 1967), or (ii) create confusion with trademarks which are used and recognized popularly and widely.<sup>34</sup>

Article 8(3) of the Decree also provides that industrial property rights vis-à-vis a well-known trademark must be based upon the decision of a competent authority recognizing the trademark.<sup>35</sup> This means that there is a difference between the protection of a well-known trademark and an ordinary trademark. The former will be protected as long as the competent authority recognizes it, without a registration procedure as required for other trademarks. This provision is designed to ensure effective trademark protection for well-known marks.

The 2005 Law also refers to well-known trademark protection. Accordingly, a new trademark will not be registered if it is identical with or confusingly similar to a well-known trademark in respect of the goods or services identical with, or similar to, those bearing the well-known trademark. The same applies in respect of

dissimilar goods or services, if the use of such mark prejudices the distinctiveness of the well-known trademark, or the registration of such sign is aimed at taking advantage of the goodwill of the well-known trademark.<sup>36</sup>

Assuming that the signs registered as trademarks are identical with or similar to an earlier well-known trademark, such similarity will create confusion among the public with respect to the well-known trademark. According to Vietnamese law, a likelihood of confusion will be established if the structure, contents, pronunciation, meaning and form of expression of the sign in the mark under consideration and the sign in the confronting mark are so closely similar that consumers would believe they have the same origin or the sign in the mark under consideration is only a translation of the well-known mark.<sup>37</sup> A new trademark also cannot dilute a well-known trademark. The doctrine of dilution is referred to in Article 74(2)(i) of the 2005 Law on IP: 'the use of such trademark may affect the distinctiveness of the well-known trademark'.<sup>38</sup> This provision was clarified in Circular No. 01/2007:

The sign which is identical or similar to the confronting mark is well-known and goods and services bearing such sign are not identical or similar to those with the well-known trademark but the use of such the sign could cause consumers to believe there is a relationship between them, or likely dilute the distinctiveness of the well-known trademark or cause detriment to its prestige.<sup>39</sup>

<sup>36</sup> Article 74.2 (i) – The Law on Intellectual Property in Vietnam 2005, Law No. 50/2005, adopted by the National Assembly of Vietnam, Legislature XI, session 8, dated November 29<sup>th</sup>, 2005 states that:

Signs identical with or confusingly similar to another person's trade mark recognized as a well-known trade mark which has been registered for goods or services which are identical with or similar to those bearing such well-known trade mark, or for dissimilar goods or services if the use of such trade mark may affect the distinctiveness of the well-known trade mark or the trade mark registration was aimed at taking advantage of the reputation of the well-known trade mark.

<sup>37</sup> Section 5 – Paragraph 39.8 (c) – Circular No. 01/2007-TT-BKHCHN dated 14 February 2007 providing guidelines for implementation of Decree No. 103/2006-ND-CP dated 22 September 2006 implementing the law on intellectual property with respect to industrial property rights.

<sup>38</sup> Article 75.2 (i) – The Law on Intellectual Property in Vietnam 2005, Law No. 50/2005, adopted by the National Assembly of Vietnam, Legislature XI, session 8, dated November 29<sup>th</sup>, 2005.

<sup>39</sup> Section 5 – Paragraph 39.11 (iv) – Circular No. 01/2007-TT-BKHCHN dated 14 February 2007 providing guidelines for

<sup>34</sup> See article 6(1) (e) of Decree No. 63/CP.

<sup>35</sup> See article 8(3) of Decree No. 63/CP.

Thus, if the distinctiveness of the earlier well-known trademark is diluted or there is a risk that it will be diluted or if the mark is detrimental to its identity, or there is too much similarity between the trademarks, the application for trademark will not be registered.

In sum, the competent authority is required to refuse applications for the registration of trademarks that are identical with, or similar to a well-known trademark to the extent that it will lead to confusion with that well-known mark. The authorities must likewise invalidate, cancel or revoke registered trademarks that are identical with, or similar to, well-known trademarks at the request of the owner of the well-known trademark.

#### (vii) THE TERM OF PROTECTION FOR WELL-KNOWN TRADEMARKS

The term of protection for trademarks can be understood as the term of validity of the certificate of registration. Therefore, in principle, the term of protection of a trademark is ten years from the filing date, which is renewable for an unlimited number of consecutive ten-year terms.<sup>40</sup> Industrial property rights protection for trademarks arising from an international registration are protected in Vietnam from the day when the international registration is published in the International Report of Trademarks of the WIPO.<sup>41</sup>

Article 10 (1) of Decree No. 63/CP allows 'unlimited time' protection for well-known trademarks.<sup>42</sup> Well-known trademarks are protected in Vietnam under this principle from the day the well-known trademark is recognized by the competent authorities. In general, the provisions of Vietnamese law in this field are in conformity with international conventions and are similar to statutory provisions in other countries.

The new law on IP does not refer to the duration of protection accorded to well-known trademarks. There are also no guidelines or instructions in other

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implementation of Decree No. 103/2006-ND-CP dated 22 September 2006 implementing the law on intellectual property with respect to industrial property rights.

<sup>40</sup> See Article 93(6) – The 2005 Law on Intellectual Property (as amended in 2009).

<sup>41</sup> See Article 10 (1), paragraph 2, of Decree No. 63/CP of the Government dated 24 October 1996 for implementation of the provisions of Chapter 2, Part VI of the Civil Code of Vietnam of 1995 on the protection of industrial property rights.

<sup>42</sup> Section 10.1 – Decree No. 63/CP of 24 October 1996 of the government On Detailed Regulations Concerning Industrial Property:

Industrial property rights on a well-known mark are protected throughout the time period when the mark is recognized as a well-known one as stated in the Decision on the recognition of a well-known mark.

regulations. The principle of 'unlimited time' protection is unconfirmed, which may create uncertainty. Then the main question arising on this point is whether the duration of protection for well-known trademarks should be permanent or be defined in the same manner as ordinary trademarks (ten years with a possible renewal every ten years). There is still no definitive response to this. Therefore, in such cases, the answer depends on the applicability of Decree No. 63/CP to the trademark at issue and independent decisions by the authorities in disputed cases.

#### (viii) THE ENFORCEMENT OF WELL-KNOWN TRADEMARKS

##### - Legal Provisions

In Vietnam, the enforcement system for IP law and trademark law is not sufficiently effective or predictable. Previous provisions on enforcement of IP rights were scattered in many different statutory provisions. The 2005 Law on IP for the first time gathered and amended these scattered provisions and harmonised them into a single part (Part V). Although the protection is similar to other laws, including administrative, civil, criminal and border control measures, it now focuses on general enforcement measures applicable only to IP rights.<sup>43</sup> Enforcement powers have been granted to different bodies including Courts, State inspectorates, market management agencies, custom offices, police agencies and People's Committees at all levels.<sup>44</sup>

##### - Self Defence

For trademark holders as well as other IP rights holders, the first measure of protection is always self-defence. Before taking legal measures, trademark holders must consider the best methods for protecting their rights themselves. The law ensures that IP holders may protect their interests by using technological measures to prevent infringement of IP rights. These include requesting that the infringer terminates the infringing acts, apologizes, publicly rectifies and pays damages or by initiating a lawsuit in a competent court or commence arbitration with an arbitrator to protect their legitimate rights and interests.<sup>45</sup> Alternatively, trademark holders may bring the case to the authorities

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<sup>43</sup> According to the provisions of Article 199 (1) – Law on Intellectual Property in 2005 'Organizations and individuals that have committed acts of infringement of other's intellectual property rights are liable to civil, administrative or criminal remedies, depending on nature and extent of such infringement'.

<sup>44</sup> Article 200 (1) – 2005 Law on Intellectual Property (as amended in 2009).

<sup>45</sup> Article 198 (1) – 2005 Law on Intellectual Property (as amended in 2009).

through (i) administrative action,<sup>46</sup> (ii) civil action<sup>47</sup> and (iii) through criminal proceedings.<sup>48</sup>

#### - Administrative Action

Administrative action is considered the primary means for enforcing IP rights in Vietnam. Most cases concerning the protection of IP rights are settled by administrative authorities while only one per cent of all cases are dealt with in the courts.<sup>49</sup> Administrative proceedings appear to be more productive than other means of enforcement. However, this is not always true, as administrative authorities are often not specialized in IP cases, especially cases relating to well-known trademarks, because of the factual and legal complexities concerning whether or not a trademark is well-known or famous. This lack of knowledge and experience has a significant effect on decisional outcomes concerning the rights and benefits of the parties. In addition, administrative procedures are more complicated than other procedures with a number of alternative routes.<sup>50</sup> A further negative aspect is that sanctions or penalties, which may be applied in administrative actions, do not correspond to the losses or damage caused by infringement.<sup>51</sup> Especially, in the case of well-known trademarks, the value of losses may be great.

#### - Civil Action

Civil actions for trademark rights holders, in theory, should be more widely available in Vietnam, especially after adoption of the Code of Civil Procedures in 2004.<sup>52</sup> However, despite the abovementioned restrictions, resorting to administrative procedures and remedies to

redress infringements of IP rights and trademarks specifically is still regarded as more effective than filing a suit in court. While a few cases are brought before the courts, administrative enforcement authorities handle the greater number of cases. This results from a number of reasons, but the most likely stems from concerns regarding judicial ability. Indeed, apart from the inadequacies of civil procedures and remedies, the limited qualifications and experience of judges in dealing with IP rights and trademark matters reduces incentives for enforcement using civil procedures. Another reason may arise from the long-established custom of IP rights holders taking their infringement cases to administrative authorities rather than the courts.

There have been very few cases on well-known trademarks before the courts at any level. Most decisions regarding such cases have been made administratively by the NOIP, generally through procedures for revocation, opposition, cancellation or invalidation of certificates.

## 4. ASSESSMENT AND SUGGESTIONS FOR IMPROVING THE VIETNAMESE LEGAL SYSTEM ON WELL-KNOWN TRADEMARK PROTECTION

### A. ASSESSMENT

Within the scope of this paper, the writer only refers to some specifically identified shortcomings relating to the protection of well-known trademarks in Vietnam.

### B. LACK OF CONCERN BY THE GOVERNMENT

The extent of the government's concern in the matter would normally be the first factor determining the effectiveness of the entire legal system and particular legal fields. The government should play an important role in the entire system of protection for trademarks and well-known trademarks in particular. It is the body responsible for interpreting and applying the law and, equipping and ensuring the necessary conditions for the operation of the trademark system. The efforts of the Vietnamese government in reforming and improving the legal system for the protection of IP rights have been remarkable. The results achieved both in legislation and in the enforcement of the trademark system in Vietnam have been significant. However, such efforts and results seem to be more focused upon formalities rather than substance. In order to achieve greater practical results, the mechanisms for the protection of well-known trademarks in Vietnam need more attention from the government. It should have clear and specific strategies for enhancing the system for trademark protection and improving the legal regime for well-known trademark protection.

### C. THE LACK OF DETAILED PROVISIONS

From the legislative perspective, the provisions that were used for protecting trademarks and well-known

<sup>46</sup> Articles 199, 211, 214 and 215 – 2005 Law on Intellectual Property (as amended in 2009).

<sup>47</sup> Article 202 to Article 210 – 2005 Law on Intellectual Property (as amended in 2009).

<sup>48</sup> Article 212 – 2005 Law on Intellectual Property (as amended in 2009).

<sup>49</sup> Christopher Heath, Kung-Chung Liu, The protection of well-known marks in Asia, Max Planck Series on Asian Intellectual Property Law, 2000, page 147.

<sup>50</sup> According to Article 200(3) – 2005 Law on Intellectual Property (as amended in 2009) and Article 17 – Decree No. 106/2006, the following agencies are competent to deal with cases concerning intellectual property: Inspectorates, Police offices, Market management offices, Customs offices, and People's committees at all levels.

<sup>51</sup> According to Articles 14 and 15 of Decree No. 106/2006, the maximum sum of money that an infringer may be fined shall not exceed three hundred million Vietnamese dong (300.000.000 VND).

<sup>52</sup> Code No. 24/2004/QH11 of Civil Procedures of Vietnam, enacted by the National Assembly Legislature XI on June 24, 2004, coming into force as of January 1, 2005.

trademarks, in particular, those in the 2005 Law on IP and other related legal instruments have not completely addressed the needs of commerce. There are only three articles<sup>53</sup> in the Law concerning well-known trademarks. These provisions are vague and thus, generally difficult to apply effectively. Meanwhile, there are limited helpful explanations found in other legal documents. Although there is a definition of well-known trademarks in Article 4(20), this provision is not effective in practice because of its ambiguity and lack of specificity. The criteria for defining well-known trademarks stated in Article 75 are very helpful in supporting the interpretation of Article 4(20). However, this is complicated by the fact that Article 75 also lacks specificity. Rather, it reads as if it has been directly copied from the provisions found in international documents<sup>54</sup> or the laws of other countries rather than ensuring compatibility with the Vietnamese legal and economic context. Circular No. 01/2007 has made some important modifications in the correlative provisions of Section 5. Unfortunately, such provisions have not yet answered the need to make clear the criteria contained in Article 75. The current provisions on well-known trademark protection, especially the criteria for the determination of a well-known trademark are quite subjective and qualitative. The application of such provisions in practice may easily depend on inconsistent interpretations by the authorities.

#### D. THE WEAKNESS OF THE ENFORCEMENT SYSTEM

It may be said that the authorities in Vietnam are now somewhat apprehensive of becoming involved in cases concerning well-known trademarks. This can be easily explained by the following:

Firstly, because there are many inconsistencies and overlaps among different procedural laws, such as the administrative procedural law, the civil procedural law, the criminal procedural law and others, it becomes very difficult to define the correct jurisdiction in particular cases involving well-known trademark protection as well as IP rights in general. The statutes identify many competent authorities that can be responsible in trademark cases such as inspectorates, police offices, market management offices, customs offices and people's committees at all levels.<sup>55</sup> Unfortunately, the borders of competence of such authorities are vaguely defined.

Secondly, the role of the courts in the enforcement system is not very robust. Most cases involving trademark infringement have been dealt with solely by administrative agencies, especially the NOIP. Few cases have been brought to the courts. This demonstrates that, in some sense, other authorities have performed important functions of the courts. This should not be the case when we are trying to build a legal system in which the rule of law is to be adequately respected. Actually, there are some cases where the courts have been involved in the last stage of the dispute resolution procedure.<sup>56</sup> However, it should be noted that in these cases, the court has played the role of a body reviewing administrative decisions rather than dealing with disputes between parties (trademark owners versus infringers). Meanwhile people often desire more active and effective participation of the court in dispute resolution. Therefore, the limited participation of the court in the entire enforcement system needs to be addressed in order to build a strong and holistic legal regime for well-known trademark protection in Vietnam.

Thirdly, the implementation of the law in practice may not be effective due to the lack of specific provisions and instructions in the law. In practice, Article 75 of the 2005 Law on IP and various other sub-provisions rarely help achieve the expected results. In actual disputes, the authorities face challenges in applying the laws, especially concerning the definition of a well-known trademark, as well as the determination of criteria to be applied to each case. Experience shows that there is no single standard that can be used to distinguish between the term 'well-known trademark' under Article 75 of the Law and the concept of 'widely used and recognized trademark' as stated in Article 74(2).

Fourthly, because the protection of well-known trademarks is a new subject matter in Vietnam, authorities have had little experience in the field. The application of legislation in practice has not been as effective as was expected. Moreover, there are still not enough experts on IP in Vietnam. Presently, experts are associated with the NOIP and the Ministry of Science and Technology, but are noticeably absent from the courts and other authorities. The professional knowledge of most officials is not sufficient to solve complicated cases concerning well-known trademarks.

Fifthly, collaboration among the various authorities and, between the authorities and their support systems is not always effective. Despite the variety of enforcement

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<sup>53</sup> Article 4 – the 2005 Law on Intellectual Property (as amended in 2009). Article 74 – the 2005 Law on Intellectual Property (as amended in 2009). Article 75 – the 2005 Law on Intellectual Property (as amended in 2009).

<sup>54</sup> WIPO Joint Recommendation concerning Provisions on the protection of well-known trademarks.

<sup>55</sup> See Article 200(3) – 2005 Law on Intellectual Property (as amended in 2009) and Article 17 – Decree No. 106/2006.

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<sup>56</sup> For example, the "X-MEN" case has now been dealt with by the Ha Noi People's Court. In the past, the Binh Duong People's Court dealt with the 'RED CUP' case between the Gold Roast VN Co. Ltd, v. the Chairman of the Binh Duong People's Committee concerning decision No. 156/QĐ-UBND dated January 18, 2008.

systems for well-known trademark protection, the efficiency should be determined based on the results of assessments made by neutral bodies or the enforcement bodies themselves. Hence, even though the applicable laws of Vietnam say mostly nothing about these bodies, their role in the system is very necessary and important.

The lack of specific provisions for evidentiary assessments in the IP field and trademark law in particular will cause difficulties for the authorities when dealing with well-known trademark cases. In some instances, the authorities may face dilemmas when requesting proof of whether or not there is a similarity between conflicting trademarks, whether there is a likelihood of confusion occurring within a relevant section of the public or if a trademark should be considered as well-known. The situation becomes more complicated if the answer of the administrative bodies is that they have no competence to perform such assessments or they are not able to perform such an assessment. In those cases, the authorities should make their own judgment, but that may not be sufficiently objective or accurate. Even in a case where an assessment has been completed, the authorities for various reasons may reject the results.

## 5. SUGGESTIONS FOR IMPROVING THE LEGAL SYSTEM ON WELL-KNOWN TRADEMARK PROTECTION IN VIETNAM

### A. ENHANCING THE ROLE OF THE GOVERNMENT

The government should first concentrate on popularizing the value and role of well-known trademarks in a healthy economy as well as the importance of trademark protection for promoting commercial activities and developing the economy. The government needs to publicize protection for well-known trademarks as an important policy for enhancing Vietnam's competitive capacity in the world market. Indeed, an effective and reliable mechanism for well-known trademark protection will help make foreign investors more secure and safe when operating in the Vietnamese market. It should consider creating and publicizing a list of international well-known or famous trademarks, which have been widely known or used in Vietnam through channels of trade or at least through advertising activities or trade promotion. Such a list may be created using cases where well-known trademarks have been recognized by court's decisions or judgments or by other competent authorities, or upon a consideration based upon popularly available information, announced through different means of international communication (for example, the yearly Best Global Brands Ranking may be a good reference for countries in making their own lists of well-known trademarks). Such a list may also be based upon the existing ones published by other countries or international organizations. That list should be updated

and adjusted periodically. Actually, this is not a novel suggestion because Vietnamese law already requires the NOIP to create such a list.<sup>57</sup> The ideal of making a list of well-known trademarks, has thus, existed for some years. However, for a variety of reasons, nothing was done about it.

Furthermore, the government should consider increasing the importance of the judiciary in the trademark enforcement system. The 'rule of law' requires an accurate and unified application of the laws in practice. However, there are many different reasons why these decisions or judgments are inaccessible. Due to the special conditions in Vietnam, case-law development must occur gradually. Judgments by courts and decisions by authorities should be well motivated and transparent and subject to scrutiny by lawmakers and academicians, thereby playing a key role in improving the trademark law system in Vietnam.

### B. MODIFYING AND IMPROVING APPLICABLE PROVISIONS ON WELL-KNOWN TRADEMARK PROTECTION

The legal regime for well-known trademark protection in Vietnam still has gaps that need to be filled to make it more effective:

**Firstly**, as regards the definition of well-known trademarks, it can be seen that Vietnamese law has been working towards refining the definition of a well-known trademark.<sup>58</sup> However, such a definitional process is not very reliable because it is too subjective and general. Further, Vietnamese law merely sets forth a definition of a well-known trademark, but does not mention related terms that are ambiguous such as 'famous trademark' and 'widely used and recognized trademark'. Therefore, the law should clarify the borders and relationships between these terms.

**Secondly**, the law should make clear the legal point concerning whether or not a well-known trademark will be protected in Vietnam even when it has not been used or known in Vietnam. The 2005 Law on IP states that a well-known trademark should be 'widely known by consumers throughout the territory of Vietnam'.<sup>59</sup> The case law has used the same approach. Thus, it may be concluded that according to Vietnamese law, a foreign trademark will not be considered as a well-known

<sup>57</sup> Section 5 – paragraph 42.4 of Circular No.01/2007 states: If a well-known mark is recognized pursuant to civil proceedings or by a decision of the National Office of Industrial Property, it shall be recorded in the relevant list of well-known marks and archived at the National Office of Industrial Property.

<sup>58</sup> See Article 4(20) of the 2005 Law on Intellectual Property (as amended in 2009).

<sup>59</sup> See Article 4(20) – the 2005 Law on Intellectual Property (as amended in 2009).



trademark if it has not been known in Vietnam. However, this does not seem to be appropriate to the real situation because there are many products of limited use within a certain sector of consumers such as pharmacies, office stationeries or special technologies and industries that do not meet this standard but should still qualify for protection.

**Thirdly**, concerning the criteria for the determination of well-known trademarks, it appears that Vietnamese law has succeeded in building a list of criteria as provided in Article 75 of the 2005 Law and Section 5 – paragraph 42.3 of Circular No. 01/2007. However, as previously stated, the provisions of these laws are informative and quantitative but not qualitative. Accordingly, they cannot be effectively implemented. The definitions contained in these laws are merely suggestive and consultative for the authorities rather than specific and precise standards to be directly applied. Therefore, there should be more specific guidance on how the laws are should be applied. Concerning the ‘number of relevant consumers who were aware of the mark’,<sup>60</sup> the law should explain the percentages of relevant consumers that may be accepted as the threshold for determining the difference between a well-known trademark and, a widely used and recognized trademark.

**Fourthly**, with respect to the legal grounds for the protection of well-known trademarks, there should be an amendment to the law to improve current provisions requiring proof of a likelihood of confusion in trademark cases. The law should be modified and more provisions should be added on the specific factors to be used in defining the similarity between signs and it should be made the responsibility of the authorities to perform their own surveys or assessments. Likewise, the similarity between products bearing conflicting signs should also be proven and defined in that manner. With regard to the likelihood of confusion occurring within a relevant section of consumers, the law needs to clearly state that (i) the likelihood of confusion should be considered as including actual confusion and not associated confusion, and (ii) such confusion should be assessed through actual surveys conducted by the authorities within a relevant consumer section and not dependent only on information supplied by the trademark owners.

### **C. ENHANCING THE ROLE AND THE EFFICIENCY OF AUTHORITIES IN PROTECTING TRADEMARKS**

The efficiency, control and management of the competent authorities are the most important factors that affect the success of a legal system for protecting

trademarks. However, the competent authorities in Vietnam have not been successful in protecting well-known trademarks and, the legitimate rights and interests of owners. Therefore, in order to improve the legal system in this field, we must enhance the role and the efficiency of competent authorities. There should be a delineation of responsibilities for the authorities in dealing with applications for registration of trademarks, especially in the case of refusals of registrations and cancellations of existing certificates, which are identical to, or similar to well-known trademarks. The NOIP’s state policy role as well as its implementation of the legal regime should be strengthened. It should be in charge of assessing, considering and determining whether a trademark is well known. As the professional representative of the government, it should be tasked with gathering information, evaluating the statistics and creating official list(s) of well-known trademarks.

It is especially important to affirm and enhance the role of courts in well-known trademarks disputes. Under the Vietnam Civil Procedures Code 2004, courts have jurisdiction over disputes concerning industrial property rights. Despite this, the role of the Vietnamese judiciary in solving trademark cases has generally been small. Very few cases have been taken up by the courts despite it being clear that the efficiency of the legal system for trademark protection is to be primarily ensured by them. Therefore, improving the court system is one of the most important tasks for improving the legal system on IP. In particular, Vietnam should consider establishing a separate court with competence over IP cases within the structure of the provincial court system. Such a court would be a significant assurance of the implementation of the law on IP rights, specifically trademark law.

### **6. CONCLUSION**

In summary, efforts to create an international framework for the protection of well-known trademarks have resulted in significant achievements through international conventions and treaties. Even though they do not all provide specific definitions for well-known trademarks or direct provisions for their protection, they have built the foundations and established minimum standards for such protection. They have been utilized as a basis for advancing national systems for well-known trademark protection.

In Vietnam, the first point to bear in mind is that Vietnam has a suitable trademark policy and is proceeding to improve its trademark system. Despite the fact that the concept of a well-known trademark is novel and has only been in effect for a short time, the Vietnamese legal system concerning well-known trademark protection has achieved some significant results. The 2005 Law on IP and its guidance documents have created a relatively complete regime for the

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<sup>60</sup> See Article 75(1) – the 2005 Law on Intellectual Property (as amended in 2009).

protection of well-known trademarks and deals with many important legal issues concerning well-known trademarks such as their definition, the principles concerning their protection, and the scope of such protection. However, the effect of the legislation on trademark practice has not matched expectations, even though there is now a growing body of cases indicating a change of direction. Therefore, it is obvious that Vietnam needs to improve its legal system on well-known trademark protection in order to comply with international standards and with the demands of its people.

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