

Global Intellectual Property

Asset Management Report

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Technology Transfers In and Out of China

CHRISTOPHER V. CARANI AND YUFENG MA
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There is great opportunity and great risk inherent in effecting technology transfers with entities located within the Peoples Republic of China. As the Chinese government establishes aggressive and challenging goals for development, especially in high-value-added industries such as communications, electronics, and pharmaceuticals, the relationships between United States and Chinese companies combine strong elements of both cooperation and competition. Technology transfer has become a key element both to China's development goals and to the business goals of many U.S. companies seeking to do business in China.

The legal aspect of transferring technology from U.S. to China involves, among other things, the laws and regulations of the United States regarding the exports of American technology to foreign countries, including those promulgated under the Trading with the Enemy Act and under certain federal executive regulations relating to trade with potentially hostile countries, such as Cuba and Iran, which may also be applicable to trade with China. It also involves the Chinese regulatory regime for the "import" and "export" of technology. This article will focus on some of the uniquely Chinese aspects of their current technology transfer laws, regulations and policies in relation to

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EU Directive on IP Enforcement

BY CORINNE ATTON, FLORIAN VON BAUM
(WILMER CUTLER PICKERING HALE AND DORR LLP)

The New Directive

This spring, the new European Union Directive on the Enforcement of Intellectual Property Rights (IPR) (2004/48/EC) was published. The Directive imposes a general obligation to set minimum enforcement standards (measures, procedures and remedies) for all IPR infringements across the EU, and accordingly should facilitate IP litigation.

All Member States of the newly expanded EU must comply with its provisions by April 30, 2006.

Objective

The Directive acknowledges that the protection of IP is "an essential element for the success of the Internal Market" and is "important... for promoting innovation and creativity" and "for developing employment and improving competitiveness." It notes that the present disparities between the enforcement systems of different Member States "are prejudicial to the proper functioning of the... [EU] Market" and make equivalent IPR protection throughout the European Community "impossible."

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the transfers of patents, trade secrets or know-how into China and to the protection of the transferor's rights to the transferred technology and the "acquired-after" technology or technology improvements.

At the outset, U.S. companies should understand that there is an intense interest amongst Chinese companies to acquire U.S. technologies. Similarly, there is an intense interest among American businesses to seize the relatively untapped markets in China. With all of this excitement surrounding the prospect of profitable business relationships, however, many business deals have fallen apart due to a failure to comply with the regulations governing import/export of technology. While it is not meant to be exhaustive, the aim of this article is to highlight the agencies and the regulations that are implicated when technology is transferred between the U.S. and China.

Post-WTO Rules for Technology Transfer in China

China's amended technology transfer rules became effective on January 1, 2002. The changes

embodied in these amendments were largely as a result of China's accession to the World Trade Organization (WTO).¹ In order to meet the international standards set up by the WTO agreements on Trade Related Aspects of Intellectual Property Rights (TRIPs) and Trade Related Investment Measures (TRIMs), China considerably liberalized and somewhat simplified its rules on technology transfers. In addition, an improved policy and administrative environment has been established, which provides for increased licensor control, better protection of technology, and more standard economic benefits and administrative involvement.

The new regime of technology transfer rules include the following bodies of law:

- Regulations on Administration of Technology Imports and Exports, promulgated by the State Council (the "State Council Regulations");
- Administrative Measures on Registration of Technology Import and Export Contracts, promulgated by Ministry of Commerce ("MOFCOM")² (the "Registration Measures");
- Administrative Measures on Import of Prohibited or Restricted Technology,

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News Round-Up

Issues from Around the Globe

BY THOMAS J. SMEDINGHOFF (BAKER & MCKENZIE)

E-BUSINESS

CHINA – STANDARDS FOR SELF-REGULATION OF ONLINE TRADING PLATFORMS. A second draft of the Standards for Online Trading Platform Services was circulated by the China Electronic Commerce Association. The standards aim to provide a form of self-regulation for online transactions. The second draft drops the provision that when the time is ripe the standards will be upgraded to governmental agency rules or legislation. Online identity registration requirements have been relaxed. The second draft also provides that platform providers “may” take reasonable measures to conduct a *pro forma* examination of the information registered by users. The first draft required platform providers to take reasonable and reliable measures to ensure the authenticity of information registered by users. Numerous other changes have been made. See second draft at <http://www.chinaeclaw.com/readArticle.asp?id=2191>.

GERMANY – LIABILITY ARISING FROM LINKS IN A SEARCH RESULT. The Higher Regional Court of Hamburg denied that there was a business name infringement arising from links created by a search engine. The applicant had entered his company’s name into the search window and received the results page, which included a link to the respondent’s domain. The Court held that there was no disturbance liability (“*Stoererhaftung*”) on behalf of the respondent as the information sourced from the domain by the search engine was legal. See OLG Hamburg, Decision of September 2, 2004 at <http://www.jurpc.de/rechtspr/20040257.htm>.

INFORMATION SECURITY

US – CALIFORNIA SECURITY LAW. California AB 1950, approved by the governor on September 29, 2004, requires businesses that owns or licenses personal information about a California resident to implement and maintain reasonable security procedures and practices to protect personal information from unauthorized access, destruction, use, modification, or disclosure. The

bill also requires businesses that disclose such personal information to a nonaffiliated third party to require such third party, by contract, to maintain reasonable security procedures. See California AB 1950 at <http://www.leginfo.ca.gov/cgi-bin/postquery>.

British Columbia’s legislature approved amendments to the province’s privacy law, which restrict foreign access to personal information held by the government and third parties.

US – PAPER ON CO-EXISTENCE OF SECURITY AND PRIVACY. A paper to be published in the Yale Journal of Law & Technology suggests that security and privacy could co-exist. The paper asserts that civil liberties can best be protected by employing value sensitive technology development strategies in conjunction with policy implementations, not by opposing technological developments or by seeking to control the use of particular technologies. See paper at <http://www.taipale.org/drafts/taipale-YJoLT.pdf>.

INTELLECTUAL PROPERTY

CANADA – COURT UPHOLDS FREELANCER COPYRIGHT ONLINE. An Ontario appellate court ruled that a newspaper infringed a freelance writer’s copyright when it published her articles online and in an electronic database without permission. A majority of the court found that a newspaper and a database were sufficiently different that authorization for reproduction in one medium did not automatically extend to the other. The newspaper is reportedly considering an appeal to Canada’s Supreme Court. See Robertson v. Thompson at <http://www.ontariocourts.on.ca/decisions/2004/october/C38148.htm>, Bloomberg at <http://quote.bloomberg.com/apps/news?pid=10000082&sid=aoy1mmujOTcc>, and CBC at <http://www.cbc.ca/story/arts/national/2004/10/07/Arts/globe041007html>.

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US – DOJ REPORT ON INTELLECTUAL PROPERTY PIRACY. A recent report by the DOJ's Task Force on Intellectual Property asked Congress to introduce legislation that would permit wiretaps to be used in investigating serious intellectual-property offenses and that would create a new crime of the "importation" of pirated products. The task force also stated its support of the Piracy Deterrence and Education Act (HR 4077) and the INDUCE Act (S. 2560). It also opposes legislative efforts to amend the anti-circumvention provisions of the DMCA. See Piracy Deterrence and Education Act at <http://www.publicknowledge.org/content/legislation/hr4077>, Induce Act at <http://www.publicknowledge.org/issues/induce-act/>; report at <http://www.cybercrime.gov/IPTaskForceReport.pdf>, and news article at http://news.com.com/2100-1028_3-5406654.html.

VIETNAM IMPLEMENTS COPYRIGHTS CONVENTION. The Ministry of Culture and Information issued guidelines for the implementation of the Berne Convention on copyright protection. Radio or television agencies and publishers must seek permission from owners of copyrighted music and published works. See Voice of Viet Nam at <http://www.vov.org.vn>.

PRIVACY

EU – ECJ RULES IN FAVOR OF CONSUMERS. In a European Court of Justice judgment given on September 14, EU data privacy rules need not prevent telephone operators from providing telephone bills that list individual calls, and there need not be any extra charge for this service. See press release. See European Court of Justice at <http://curia.eu.int/en/transitpage.htm>.

CANADA – PROVINCE PASSES PRIVACY REFORMS. British Columbia's legislature approved amendments to the province's privacy law, which restrict foreign access to personal information held by the government and third parties. As reported in the October 11 Alert, these amendments are widely viewed as a response to the US Patriot Act. The legislature passed the amendments less than two weeks after introduction, prompting criticism from opposition parties over the government's failure to wait for the provincial privacy commissioner's report on the issue. See amendments at http://www.legis.gov.bc.ca/37th5th/3rd_read/gov73-3.htm; privacy law at http://www.qp.gov.bc.ca/statreg/stat/F/96165_01.htm; U.S. Patriot Act at <http://www.epic.org/privacy/terrorism/hr3162.html>; and Canoe at <http://cnews.canoe.ca/CNEWS/Canada/2004/10/19/676774-cp.html>.

US – FTC FILES FIRST SPYWARE CASE. The Federal Trade Commission filed with a U.S. District Court a complaint to shut down the spyware operations of Seismic Entertainment Productions, Inc., Smartbot.Net, and Sanford Wallace. The defendants allegedly hijacked computers, secretly changed their settings, barraged them with pop-up ads, and installed adware and other software programs that spy on consumers' Web surfing, in violation of the FTC Act. See complaint at <http://www.ftc.gov/os/caselist/0423142/041012comp0423142.pdf>; FTC Act at <http://www.fda.gov/opacom/laws/ftca.htm>; and press release at <http://www.ftc.gov/opa/2004/10/spyware.htm>.

US – GAO REPORT ON IMPLEMENTATION OF HIPAA. The GAO released a report assessing the first year experiences implementing the Privacy Rule under HIPAA. Organizations reported to the GAO that implementation of the Privacy Rule went more smoothly than expected during the first year after most entities were required to be compliant. However, some provisions continue to be problematic, such as the requirement to account for certain information disclosures and the requirement to develop agreements with business associates that extend privacy protections "downstream." Also, the report concluded that the general public is not well informed about their rights under the Privacy Rule. See privacy rule at <http://www.hhs.gov/ocr/hipaa/privrulepd.pdf>; summary at <http://www.gao.gov/highlights/d04965high.pdf>; and report at <http://www.gao.gov/new.items/d04965.pdf>.

US – SUPREME COURT DENIES CERT IN ISP SUBPOENA CASE. The Supreme Court denied a petition for cert in *RIAA v. Verizon*, letting stand an appeals court decision that ruled that Verizon did not have to disclose the names of its subscribers to the RIAA under the subpoena provision of the DMCA. The appeals court ruling overturned an earlier lower-court decision that had sided with the RIAA. See *RIAA v. Verizon* at http://www.eff.org/legal/cases/RIAA_v_Verizon_DMCA at <http://cyber.law.harvard.edu/openlaw/DVD/dmca/pl105-304.txt>; and news article at <http://www.wired.com/news/digiwood/0,1412,65321,00.html>. □

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Planning Advisory

Licensing Your Intellectual Property: The Benefits and Risks of Granting Exclusivity

BY KELLY M. SLAVITT (THELEN REID & PRIEST LLP)

The licensing of technology and other intellectual property, such as trademarks, copyrights and software, can provide a valuable revenue stream to licensors. This is a lesson well learned by Marvel Comics, which has always depended on licensing and merchandising to increase its brand awareness. Today, by virtue of this successful exploitation of its cartoon characters (most recently, *Spider-Man* and *The Incredible Hulk*) in films, DVDs and video games, Marvel not only increased its licensing royalties from \$19 million in 2000 to \$200 million in 2003,¹ but it has become a powerful player in the Hollywood filmmaking community. In 2003, these increased royalties translated to per active domestic contract revenue of \$318,940!

Depending upon the nature of the license, licensors frequently grant licensees some level of exclusivity based on subject matter, territory, field of use and/or time period. Any grant of exclusivity by a licensor should be carefully considered and the risks weighed; once a licensor grants exclusivity, the licensee has a monopoly on the licensor's intellectual property and can prevent both competitors and the licensor from using the licensed intellectual property.

Toys 'R Us / Amazon.com

The difficulties in granting exclusivity to a licensee is highlighted in the Toys 'R Us/Amazon.com dispute.² In 2000, traditional "brick and mortar" retailers were looking for ways to tap into the Internet as a medium for selling their products. To this end, Toys 'R Us and Amazon.com entered into a license agreement for the exclusive sale of certain merchandise by Toys 'R Us on the Amazon.com Web site. Toys 'R Us paid \$200 million for this right of exclusivity for a 10-year period.

In May of this year, Toys 'R Us filed suit against Amazon.com, claiming Amazon.com was allowing third parties to sell products in

the "Toys and Games" and "Baby Products" categories in violation of the exclusivity granted to Toys 'R Us to sell on and through the Amazon.com Web site. Toys 'R Us also claimed there were numerous other competing products resulting from Amazon.com's "Sponsored Links" that directly connect customers to third-party Web sites offering items exclusive to Toys 'R Us, and for which Amazon.com receives a per click fee.

Once a licensor grants exclusivity, the licensee has a monopoly on the licensor's intellectual property and can prevent both competitors and the licensor from using the licensed intellectual property.

Amazon.com's response was that the exclusivity granted gave Toys 'R Us the right to select certain products for sale in the "Toys and Games" and "Baby Products" categories, and that neither Amazon.com nor third parties could offer these same select products unless an exception applied. Amazon.com claims third-party sales in these categories through selling initiatives are exempt from exclusivity. Amazon.com further claims its efforts to compete with Wal-Mart, the nation's top toy seller, have been hampered by Toys 'R Us neither offering a comprehensive selection of top-selling products in the "Toys and Games" and "Baby Products" categories, nor keeping enough products in stock (particularly during the peak holiday buying weeks).

The Toys 'R Us/Amazon.com dispute is currently in mediation, as required by the license agreement, and proceeding through the New Jersey state courts. In July, the court denied an attempt by Toys 'R Us to block Amazon.com from launching a new technology (1 to 1 Graphical User Interface) that al-

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lows new merchants to offer additional products for sale on the Amazon.com Web site. However, the court did grant the request of Toys 'R Us that Amazon.com be prohibited from using such technology for toys, games or baby products, because such use would render the right of Toys 'R Us to exclusivity meaningless by allowing the largest competitors of Toys 'R Us to use the program to compete with Toys 'R Us without first having to pay the annual base fees Toys 'R Us pays for its exclusivity. In August 2004, Toys 'R Us claimed Amazon.com violated this order by allowing competing products to be posted on the Amazon.com Web site – a claim the court is now requiring the parties to work out together so that Amazon.com can comply. Failure by Amazon.com to comply will result in a fine by the court of \$1,000 per product to which Toys 'R Us claims exclusive rights to sell.

Many companies have not tapped into the valuable revenue stream their intellectual property can provide.

To be sure, each party has not received what it expected when entering into an exclusive license. The intent of Amazon.com in entering into an exclusive license with Toys 'R Us was to offer exclusivity to Toys 'R Us in certain categories of products in order to increase its ability to compete with Wal-Mart; the intent of Toys 'R Us in accepting exclusivity from Amazon.com was to save money by discontinuing its own online retailing efforts in favor of the Amazon.com Web site and distribution network.

Exclusivity Considerations

Licensors must consider not only whether to grant exclusivity, but how broadly or narrowly

such exclusivity needs to be defined. Licensors must also ensure that, in return for granting a licensee an exclusivity monopoly to the licensor's product, the fee paid by the licensee is sufficiently high.

Both the licensor and the licensee must require minimum performance standards to ensure the protection of intellectual property rights, and remedies for failure to achieve such performance standards must also be included in the license agreement.

For example, in the case of technology, a licensor should be aware that an exclusive licensee is under no obligation to commercialize the technology absent a provision requiring the licensee's "best efforts" to meet minimum performance standards that include commercialization. The reasons licensees may want to "bury" the technology include its own efforts to develop similar technology and market it, and/or because the licensed technology has become obsolete or noncompetitive in the market after a few years.

Conclusion

Many companies have not tapped into the valuable revenue stream their intellectual property can provide. Licensees generally seek some level of exclusivity and licensors must be mindful of the risks this presents and require an appropriate rate of return for granting licensees a monopoly. □

1. <http://www.marvel.com>, visited 6/30/04.
2. Toysrus.com, LLC v. Amazon.com Kids, Inc., Superior Court of NJ, Chancery Division, Passaic County, Docket No. PAS-C-96-04.

Kelly M. Slavitt is an intellectual property attorney in the New York office of the law firm Thelen Reid & Priest LLP. This article was previously published in the firm's Fall 2004 Intellectual Property and Trade Regulation Journal.

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Famous or Well-Known Trademarks in Argentina

BY FLORENCIA ROSATII AND EMILIO BECCAR VARELA (ESTUDIO BECCAR VARELA)

Famous or well-known trademarks are a special category of trademarks which have the following two requisites: (i) they are known by the general public, no matter whether they consume or not the goods or services covered by these trademarks, and (ii) once mentioned, they produce an immediate association with the good or service they cover.

Although some have not been expressly included in the Argentine Trademark Law No. 22,362, famous or well-known trademarks are contemplated in the Paris Convention and the TRIPS (Trade Related Aspects of Intellectual Property Rights) Agreement, both of which have been approved by Argentina granting them legal status. Likewise, section 9 of the Protocol for the Harmonization of Intellectual Property Rules within the Mercosur entered into in 1995, grants protection to famous or well-known trademarks dividing them in two sub-categories: (i) those that are known in the segment of the market of the products identified by the trademark, and (ii) those that are known by the general public, no matter which are the products identified by the trademark. Although Argentina has not yet approved the Protocol according to the mechanism provided for in the Argentine National Constitution, once approved Argentina shall have to harmonize its internal rules with the rules of the Protocol.

Moreover, Argentine courts have been very receptive to this special category of trademarks and have recognized for them a larger scope of protection than for other trademarks. In this connection, it is worth mentioning that Argentine Trademark Law is based on two principles. The first one states that the ownership of a trademark is obtained by means of its registration, and the second one states that the ownership of a trademark is obtained only in connection with the goods and services that are distinguished by same. This notwithstanding, Argentine court precedents have granted protection to famous or well-known trademarks even when unregistered in Argentina and against identical or similar trademarks which cover different goods or services.

Hereunder follow the most important rules that have been elaborated by Argentine case law which, although not mandatory for court judgments, must be regarded as a very important guide vis-à-vis cases that may arise in the future in this connection:

- The character of “famous or well-known” has to be recognized with a restrictive criterion.
- The character of “famous or well-known” does not need to be evidenced at court, but the holder of the famous or well-known trademark who chooses not to provide evidence runs with the risk.
- The principle by which the ownership of a trademark is obtained only in connection with the goods and services the trademark covers has been left aside by our courts in cases where third parties tried to take advantage of famous or well-known trademarks’ reputation and in cases which could derive in confusion to consumers.
- The holders of famous or well-known trademarks can file oppositions to similar or iden-

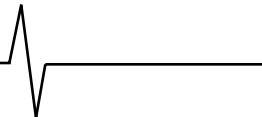
Argentine courts have been very receptive to this special category of trademarks and have recognized for them a larger scope of protection than for other trademarks.

tical trademark applications, even when they cover different products or services, in order to prevent third parties from taking advantage of the famous or well-known trademarks’ reputation and to avoid the loss of their distinctive power.

- The principle by which the ownership of a trademark is obtained by its registration has been left aside by our courts in cases where third parties tried to take advantage of famous or well-known trademarks’ reputation.
- As from ratification of the TRIPS Agreement, foreign famous or well-known trademarks are granted protection in Argentina even when they are not famous or well-known in our country.
- Even before ratifying the TRIPS Agreement, our courts have granted protection to foreign famous or well-known trademarks recognizing the right for their holders to claim the annulment of local trademarks in cases in which the local trademarks were “servile copies” of the foreign ones.
- The annulment of famous or well-known trademarks has to be analyzed with a strict criterion.

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Country Report



Famous or well-known trademarks have been granted protection in Argentina by means of the Paris Convention, the TRIPS Agreement and several court precedents.

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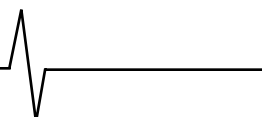
- When determining whether two trademarks are or not confusingly similar, the presence of a famous or well-known trademark forces a more severe comparison, since famous or well-known trademarks have to be protected from the loss of their distinctive power and from the negative image that may derive from a similar trademark.
- The usurper of a famous or well-known trademark cannot acquire property of said trademark by prescription.
- Protection for famous or well-known trademarks does not have to be granted in an automatic manner, but only in those cases in which the use of the third party's similar or identical trademark may cause confusion to consumers regarding the origin and quality of the

products identified with said trademark and, consequently, dilution of the famous or well-known trademark.

Famous or well-known trademarks have been granted protection in Argentina by means of the Paris Convention, the TRIPS Agreement and several court precedents. The protection granted to famous or well-known trademarks tends to protect (i) trademarks from dilution, from loss of distinctive power, and from third parties taking advantage of the famous or well-known trademarks' reputation; and (ii) consumers from confusion regarding the origin or quality of the products and services. □

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Country Report



Regulation of Spam in Australia

BY ALBERT YUEN (GILBERT + TOBIN)

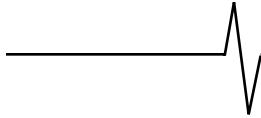
Since the introduction of the Spam Act, some of Australia's peak industry bodies have been developing industry codes for compliance by its members with the Spam Act.

Australia's spam legislation, the Spam Act 2003 (Cth) (Spam Act) targets the senders of unsolicited commercial electronic messages, by introducing civil penalties for individuals and companies that send them. Companies that offend repeatedly can find themselves liable for fines in excess of AUD1 million.

Although the operational parts of the Spam Act came into force on April 9, 2004, the public profile of the Spam Act has been steadily increasing for several reasons. As of late July 2004, the Australian Communications Authority (ACA), Australia's telecommunications regulator, had received about 30,000 reports of spam, including more than 300 formal complaints, and had contacted more than 100 businesses advising them to improve their email and SMS marketing practices to comply with the Spam Act. Additionally, the level of international coordination of anti-spam has increased. Australia has signed memorandums of understanding with Korea, the USA and the UK in relation to anti-spam measures.

Since the introduction of the Spam Act, some of Australia's peak industry bodies have been developing industry codes for compliance by its members with the Spam Act. On July 26, 2004, the Internet Industry Association (IIA), Australia's

peak national internet industry organization, issued a draft Industry Code of Practice (IIA Code) for spam and on August 11, 2004, the Australian Direct Marketing Association (ADMA) released an eMarketing Code of Practice (eMarketing Code) to complement the Spam Act. The IIA Code was developed by a specialist taskforce established by the IIA in March 2004, and the eMarketing Code was developed by the national eMarketing Code Development Committee, consisting of representatives from industry, regulatory and consumer bodies. Both codes are designed to complement the Spam Act. The IIA Code is intended to define best practice standards for internet service providers (ISPs) and email service providers (ESPs) in their spam management, as well as assisting their customers to exercise greater control as users and once registered with the Australian Communications Authority (ACA), Australia's telecommunications regulator, will bind all ISPs and ESPs. The eMarketing Code is intended to provide detailed guidance about acceptable eMarketing practice, particularly with respect to issues such as consent and viral marketing, which are currently causing some confusion. Similar to the IIA Code, once the eMarketing Code is registered with the ACA, this



code will bind all organizations that use either email or mobile as a primary form of marketing as well as third parties who market on behalf of a client. It will also assist companies who use email in their business but are not necessarily defined as eMarketers, to ensure they comply with the provisions of the Spam Act.

The Spam Act has ramifications for all businesses that use electronic means such as email or SMS for marketing, sales and other commercial communications. The following is a brief summary of the Spam Act and its ramifications for businesses.

What Does the Spam Act Do?

The purpose of the Spam Act is to regulate unsolicited and unwanted commercial electronic messages. Such messages are defined broadly, encompassing all commercial electronic messages sent via the Internet or a telecommunications carriage service, with the exception of voice calls.

The key features of the Spam Act are:

- a prohibition on sending unsolicited commercial electronic messages (with some limited exceptions);
- a requirement to include accurate sender information in commercial electronic messages;
- a requirement for commercial electronic messages to include a functional unsubscribe facility;
- a ban on the supply, acquisition and use of software for harvesting email addresses or generating lists, as well as the lists created by these tools;
- civil penalties and injunctions for breaches of the legislation; and
- enforcement powers given to the ACA.

What Messages are Affected by the Spam Act?

The Spam Act applies to commercial electronic messages. An electronic message is one sent through an internet carriage service or another carriage service to an electronic address. Key examples of electronic addresses include email, short messaging service (SMS) and multimedia messaging service (MMS) addresses, although voice calls and facsimiles are excluded.

Broadly speaking, commercial electronic message covers any electronic message with a commercial purpose such as advertising, promoting or offering goods, services, and land or business opportunities. It includes messages sent for the purpose of dishonestly obtaining goods, financial advantage or gain. It applies whether the subject

matter of the message (goods, services, land, business opportunity, etc) exists or not.

There is no requirement for 'bulk' distribution under the Spam Act, so it is possible that a single unsolicited message of a commercial nature could contravene the legislation.

There must be a relevant Australian link for the electronic message (email, SMS or MMS) to be captured by the Spam Act. In general, an Australian link is established if the:

- commercial message originates in Australia;
- sender is located in Australia;
- computer or server that accesses the message is located in Australia; or
- recipient of the message is an individual or electronic account holder is in Australia.

The wide scope of what is considered to have an Australian link for the purposes of the Spam Act may capture multinational business organizations which have part of its operations in

The Spam Act has ramifications for all businesses that use electronic means such as email or SMS for marketing, sales and other commercial communications.

Australia or where some of the recipients of its commercial electronic messages are located in Australia.

What Exceptions from the Prohibitions Exists?

The Spam Act permits commercial electronic messages to be sent to someone who has consented to receive it. Other than by consent of the recipient, the Spam Act provides two main types of exemption to the prohibition on sending commercial electronic messages as follows:

- (a) *Factual Information Exception* - it is permissible for organizations to send a designated commercial electronic message if it contains only factual information. The Spam Act does not provide a definition of *factual information*, but it does expressly state that factual information may be accompanied by comment, the name, logo and contact details of the sender and a sponsorship notice.

The Explanatory Memorandum accompanying the Spam Act gives a number of examples of 'factual content' suitable for designated messages including an electronic version of a community newsletter sponsored by a local news agent and a message from a

There is no requirement for 'bulk' distribution under the Spam Act, so it is possible that a single unsolicited message of a commercial nature could contravene the legislation.

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law firm with information about the Spam Act and including the law firm's details and logo would both be considered to fall within the factual information exemption.

- (b) *Certain types of sender* - Groups permitted to send designated commercial electronic messages include government bodies, registered political parties, religious organizations, charities and educational institutions communicating with students and alumni.

What are the Rules Governing Sending Commercial Electronic Messages?

In order to comply with the Spam Act, several requirements must be satisfied. All *commercial electronic messages* with an Australian link (with or without consent), must include:

- *Accurate sender information* – which includes an individual or organization's correct legal name, an Australian Business Number (if applicable) and contact details in the form of either a physical or virtual address.
- *Functional unsubscribe facility* - meaning that a message must include a clear and conspicuous statement that the recipient can respond to indicate that they do not wish to receive future commercial electronic messages. A recipient terminates consent by sending an unsubscribe response.

What Does the Spam Act Mean for Business?

Potentially, many electronic business communications, especially in the sales and marketing areas, may contravene the Spam Act with contraventions attracting penalties of up to AUD1.1 million a day for corporations.

Businesses can take a number of practical steps to ensure that their processes are in line with the Spam Act including:

- identifying potential risk areas in the business (eg. information technology, marketing and human resources departments) and reviewing any relevant policies, including email and privacy policies, and educate staff about the new law then review; and
- implementing accurate sender information and an unsubscribe facility at the end of all electronic commercial communications and confirm the unsubscribe facility's technical capability, including the ability to cope with a reasonable volume of responses and integration of workflow procedures between customer relationship management (CRM) systems and the unsubscribe facilities. □

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Country Report

Special Protection of Highly-Reputed Trademarks in Brazil

BY ANDRÉ ZONARO GIACCHETTA AND MÁRCIO JUNQUEIRA LEITE
(PINHEIRO NETO ADVOGADOS)

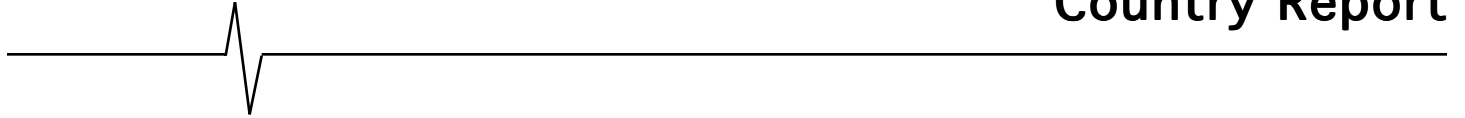
Protection of trademarks in Brazil, as a rule, is based on ownership, which means that all rights arise from registration of the respective trademark in Brazil. Notwithstanding, Brazilian law grants protection to well-known trademarks in its field of activities, irrespective of its registration in Brazil, pursuant to article 6 *bis* of the Paris International Convention, and article 126 of the Brazilian Industrial Property Law. Article 125 of Brazilian Industrial Property Law also establishes special protection in all filed of activities to the highly reputed trademarks registered in Brazil. Highly reputed trademark are those trademarks which its famous overtops its field of activities.

Brazilian former Industrial Property Code (Law No. 5771 /71) had a special registration pro-

ceeding for the highly reputed trademarks, at that time named "notorious", which established many specific requirements and charged huge fees. Current Brazilian Industrial Property Law (Law No. 9279/96), besides repealed the previous legislation, abolished this special registration, only providing as follows:

"Article 125. A highly reputed trademark in Brazil shall be accorded special protection in all fields of activity."

The absence of regulation generated some pressures and some owners of trademarks, at their view, considered "highly reputed" brought many lawsuits in order to condemn the Brazilian Industrial Property Office (INPI) to note down in its database the special status of these trademarks.



In view of these pressures, the INPI has recently issued Resolution 110/04, which “sets out the rules applying to the procedures for applicability of article 125 of Law No. 9279 of May 14, 1996.”

Under Resolution 110/04, this special protection for a highly reputed trademark must be applied to INPI, by incidental measures, on two single occasions: (i) when opposing an application for third-party trademark registration, and (ii) when filing an administrative proceeding for annulment of third-party trademark, based on the existence of a highly reputed trademark.

To that end, upon filing of an opposition or administrative proceeding for trademark annulment, INPI must be provided with all pieces of evidence about the renowned status of a trademark. As an example, INPI lists some material information that will be taken into consideration when classifying a trademark as “highly reputed”, such as (i) the date when a trademark was first used in Brazil; (ii) the recognition of the trademark on its traditional market and others; (iii) the amount invested by the trademark owner in advertising/marketing in the Brazilian media over the last 3 years; (iv) product sales or service income over the last 3 years; and (v) the economic value of the trademark as a company asset; among others.

If the INPI denies the recognizing of the status of highly reputed for the trademark, the application that suffered the opposition or the administrative proceeding for annulment shall be granted. On the other hand, as long as the highly reputed status is accepted, the INPI will deny the opposed/annulled application and certify the highly reputed status in the Trademark System for a five-year period.

During such term, the owner of the famous trademark will be dispensed from producing additional evidence concerning such highly reputed trademark status. By the same token, this will make it easier to defend this trademark in court, as such INPI classification will serve as evidence in favor of the trademark owner. It is important to note, however, that the issuance of Resolution 110 by the INPI does not exclude the appreciation of article 125 of the Brazilian Industrial Property Law by the Judiciary Branch, specially the recognition of the status of “highly reputed” for a trademark, since the law did not limit their special protection to the only two occasions established on the Resolution. □

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Canada: Trademark “Use” Does Not Require Intent

BY JUSTINE WHITEHEAD (STIKEMAN ELLIOTT LLP)

Canada’s Federal Court of Appeal recently grappled with the question of whether a claim for trademark infringement requires evidence that the alleged infringing party intended to use the infringing trademark as an indication of origin. The word “trademark” is defined in the Canadian *Trademarks Act* as “a mark that is used by a person for the purpose of distinguishing or so as to distinguish” wares and services of one person from those of another. The legal issue in the appeal was whether a mark could be considered to be used for the purpose of distinguishing wares, in the absence of the intention of the seller of such wares to so use the mark. In deciding that a party could “use” a mark as a trademark, even if no such intention was shown, the Federal Court of Appeal has removed a potential defense against claims of infringement based on design trademarks that could be considered to be merely decorative.

The facts of the case were relatively simple. In 1994, International Clothiers purchased shirts originally destined for Wal-Mart. The shirts bore a crest design that was identical to a crest that was trademarked and made well-known by Tommy Hilfiger, as well as labels bearing the trademark ASH CREEK, which is a well-known Wal-Mart brand. International Clothiers made arrangements to cut out the ASH CREEK labels, and replace them with its own GARAGE U.S.A. labels. However, the crests were left on the shirts, which were sold from February to September 1995. After that date, International Clothiers also sold shirts with crests that were similar, but not identical, to the Tommy Hilfiger crest design trademark.

The trial judge found that International Clothiers had infringed Tommy Hilfiger’s copyright in the crest design, and passed off its wares as those

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of Tommy Hilfiger. However, the trial judge declined to find trademark infringement, as there was no evidence that the crests in question were used on the garments sold by International Clothiers “for the purpose of distinguishing them from the wares of others.”

The Federal Court of Appeal held that there was no requirement to prove such an intention by the infringing party. Rather, the crucial question is whether International Clothiers, regardless of its intentions, had used the crest design to denote the origin of the wares or to serve the purpose of indicating origin. The Court pointed to evidence that International Clothiers was aware of the prac-

tice of affixing a crest or logo on a garment, independently of a brand name, for the purpose of indicating the source of the garment. In the circumstances of the case, and in light of the trial judge’s finding of a sufficient likelihood of consumer confusion to support a claim for passing-off, the Federal Court of Appeal determined that it was irrelevant whether International Clothiers actually intended to use the crest for the purpose of indicating origin, since the design did, in fact, serve that purpose. □

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Country Report

Colombia to Strengthen Enforcement of Intellectual Property for Plant Varieties

BY ALVARO CORREA AND FREDDY ROJAS (BAKER & MCKENZIE)

Due to its wide range of climates and its geographical location, Colombia is particularly suited for developing and growing new plant varieties. This has caught the attention of many plant breeders and plant variety enthusiasts, who have invested in this particular agro-industrial area. At the same time, however, Colombia is an open field for infringers on the industrial property related to plants.

Until now, various local and foreign plant breeders and developers, such as Delta and Pine Land Technology Holding, Corp.; Koninklijke Van Zanten B.V.; Centro Internacional de agricultura Tropical CIAT; International Flower Developments Pty. LTD.; W. Kordes’ Sohne Rosenschulen GMBH & CO KG; and many others who wish to invest and seek to obtain protection through an obtentor Certificate under UPOV and Colombian law, may have encountered difficulties when enforcement of their granted right comes to the scene, due to the lack of detailed regulation currently in force in the Colombian legislation.

In order to abolish the deficiency in enforcement issues, a bill is currently before the Colombian Congress¹, seeking to categorize the fraudulent use of plant varieties as a crime.

The bill was submitted to the Senate by the Minister of Agriculture with a view to providing an express and effective guarantee to those in the agricultural sector who engage professionally in

plant selection, phytoimprovement, genetic research, and engineering activities. This bill would give these companies a legal incentive to work on their plant varieties, without third parties unlawfully cultivating and marketing them.

To that end, what is proposed is not the inclusion of a new article in the Penal Code, but the amendment of the existing article 306 entitled “*misappropriation of trademarks and patents*”, consisting precisely of the change of its title to “*misappropriation of intellectual property rights and rights of obtainers of plant varieties*”. Thus, with wording that is both more comprehensive and more equitable, most intangible assets which constitute intellectual property are included, and the misappropriation of the rights of obtainers of plant varieties is expressly prohibited.

Furthermore, the project seeks the increase of the prison penalty² as punishment for the crime and makes it applicable not only to the person directly responsible for the misappropriation, but also to whoever finances, supplies, distributes, offers for sale, markets, transports, or acquires legally protected goods or plant materials for commercial or intermediation purposes. This should provide a more serious deterrent than previously existed.

In order to obtain this protection, the injured person must have previously gone through a specialized procedure through the competent national authority³, to obtain the Certificate of Plant

Obtainer's Rights in accordance with the prevailing regulations⁴, which certificate accredits him as the sole and exclusive owner of the plant variety whose registration is requested.

Through this mechanism, the Colombian government seeks to guarantee to domestic and foreign investors the sound and disruption-free exploitation of the rights of obtainers of plant varieties, in line with accepted international rules and regulations. This is a win-win situation for both investors and the country of Colombia: investors have a greater chance of increasing profitability, and Colombia, with the fertility and productivity of its land, benefits by attracting additional investors.

In addition to the express prohibition of misappropriation of the rights of obtainers of plant varieties, and once the law has been passed, their holders shall have at their disposal the infrastructure set up by the Office of the Prosecutor General of the Nation during the past few years to fight piracy in general; in other words, the holders may resort to a unit specialized in investigating these crimes, with prosecutors who are qualified in the matter and supported by the State's law enforcement agencies, which, together with the issuance of the new code of criminal procedure that is to take effect as of the year 2005,

implements the principle of oral proceedings in criminal actions and adopts the accusatory system, and constitutes a guarantee to effectively combat plant piracy.

If this bill is approved - and we believe it will certainly be - the intellectual property protection system would be strengthened in Colombia. While there has been significant legislative progress during the past few decades in the matter of copyrights and intellectual property, criminal legislation still has to be brought up to date in accordance with social realities and scientific developments, in particular those related to the obtaining of plant varieties. □

¹ Bill No. 26 of 2004.

² The 2-4 year prison penalty established in Art. 306 of the P.C. would become a 3-6 year penalty under Bill No. 26 of 2004.

³ Colombian Agriculture and Livestock Institute, ICA.

⁴ Decision 345 of 1993 of the Commission of the Cartagena Agreement (Common Regime for Protection of the Rights of Obtainers of Plant Varieties for the Andean Pact countries)

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Anti-Counterfeiting in Ecuador

BY AMANI S. HARRISON (BUSTAMANTE & BUSTAMANTE)

Despite the existence of national and Andean Community legislation protecting intellectual property rights as well as the adhesion by Ecuador to key international conventions on intellectual and industrial property rights, such as the Agreement on Trade-Related aspects of Intellectual Property (the TRIPS Agreement), Ecuador remains one of the countries in the region with the most prolific rates of piracy. Counterfeiting occurs across a variety of industry sectors including motion pictures and sound recording, alcoholic beverages, pharmaceutical products and consumer goods such as shampoos, batteries and toys. In March of this year, the video rental chain Blockbuster was forced to liquidate its franchise in Ecuador. According to news reports at the time of the franchise closure, Blockbuster's sales had experienced a decline of approximately sixty percent since 2002. This decline was, reportedly, in large

part due to the fact that while the chain rented movies at US\$3.50, counterfeiters freely sold the same movies or movies still showing in theaters, on the streets of major cities at an average price of US\$1.00. The index of piracy in the country is about ninety percent of all goods in the market.

In 2003, the United States Trade Representative once again placed Ecuador on its Watch List after having removed the country. According to the USTR, the principal motive for this is the lack of enforcement by governmental authorities of existing legislation. Ecuador, along with several other Andean nations, has not implemented Article 39.3 of the TRIPS Agreement, which requires that member countries of the World Trade Organization protect test data submitted by drug companies to health authorities from disclosure and unfair commercial use. The USTR alleges that

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number of copy products continues to increase due to the absence of linkage between the health and patent agencies.

Regional and Country Initiatives

Recently, the Ecuadorian government has instituted measures to combat piracy. Such measures include an information campaign, aimed at educating the consumer public against the harms caused by music piracy. Additionally, in April of this year, the government of Ecuador destroyed some sixty thousand counterfeit audio and video disks, part of the one hundred forty thousand seized as part of a campaign against piracy. However, this number is miniscule in comparison to the millions of such disks that are produced and

Ecuador remains one of the countries in the region with the most prolific rates of piracy. The principal reason is lack of enforcement.

sold domestically within in Ecuador and exported regionally to other countries such as Peru. Furthermore, the government has made little or no effort to investigate the source of duplication and distribution of such disks.

Legal Regime

Anti-counterfeiting measures in the Republic of Ecuador are undertaken pursuant to the following legislative provisions:

- Decision 486 of the Andean Community Commission (Common Industrial Property Regime). This legislation entered into effect as of December 2000 and applies to all Andean Community member nations, that is, Bolivia, Colombia, Ecuador, Peru and Venezuela. Titles VI through XIII define trade and service marks as well as actions that constitute counterfeiting. Title XV, Actions for Infraction of Rights, delimits the civil actions that may be taken by rights holders or the government, either ex officio or at the request of rights holders.
- Agreement on Trade-Related aspects of Intellectual Property.
- The Paris Convention.
- Intellectual Property Law, Law No. 83, published in May 1998 and its Regulation. This is the internal Ecuadorian legislation which supplements the community law, Decision 486. Decision 486 at Article 257 states that criminal measures are left to the domestic leg-

islation of the Andean Community member countries. The Intellectual Property Law, at Book IV, Title I, Chapter III, stipulates the crimes against intellectual property rights as well as the applicable sanctions. The Intellectual Property Law also briefly outlines some of the measures that may be taken by Customs authorities in order to prevent either importation or exportation of counterfeit goods.

- Ecuadorian Criminal Code – Chapter II of Title III of Book I.
- Ecuadorian Civil Procedure Code. The Civil Procedure Code supplements the Intellectual Property Law with respect to civil procedure to be followed with respect to enforcement actions. The Intellectual Property Law is also supplemented by the Statute for the Juridical Administrative Regime for the Executive Branch as regards administrative agency actions.
- The Organic Customs Law.

Barriers to Enforcement

Before the passage of the Intellectual Property Law in 1998 and Decision 486 in 2000, there were no anti-counterfeiting measures available to private parties or law enforcement agencies. However, now that such legislation exists, Ecuador is still a focal point for piracy and counterfeiting within Latin America. And, the principal reason for the proliferation of counterfeiting within the Republic of Ecuador is lack of enforcement. Counterfeit goods are sold freely by merchants on the street with little fear of police or administrative action. Government authorities do not enforce the law due to the following reasons:

- **Corruption.** There has been some indication that government authorities themselves, in some instances congressional representatives, are involved in the trade and distribution of counterfeit goods. Also, local companies may use their influence or bribe officials not to enforce the law.
- **Lack of internal regulations.** Administrative authorities lack clear regulations on ways to conduct enforcement actions, and there is a dearth of resources to undertake such actions, including the absence of facilities in which to keep confiscated goods. Therefore, in many instances, counterfeiters themselves are appointed by administrative authorities as depositories of “confiscated” goods. Additionally, although the intellectual property office may order that fines be imposed, they do not pursue payment of such fines, and so there is

little disincentive to produce or distribute counterfeit materials.

- **Failure to create intellectual property judges.** Although the Intellectual Property Law provided for the creation of judges especially mandated to resolve intellectual property cases, such action never occurred. Therefore, parties must file infringement actions before general civil judges who are unfamiliar with

intellectual property issues and already are experiencing a backlog due to the lack of economic resources within the Ecuadorian judicial system. □

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Turkey: Electronic Signatures Finally Gain Legal Recognition

BY RUBA UNKAN (HERGUNER BILGEN OZEKE)

The Law on Electronic Signature (the “Law”) has been finally enacted by the Turkish National Assembly and published in the Official Gazette on January 23, 2004. The Law, which entered into force on July 23, 2004 has been drafted in parallel with Directive 1999/93/EC of the European Parliament and of the Council on Electronic Signatures and the UNCITRAL Model Law on Electronic Signatures.

The Law aims to regulate legal and technical aspects and the use of electronic signatures (“e-signatures”). According to the Law, an e-signature is a secured electronic signature: (i) exclusively owned by its owner; (ii) created under the control of its owner with an electronic signature creating device; (iii) allowing the determination of its owner based on an electronic certificate; and (iv) allowing determination of whether or not any amendment is made to the signed electronic data following its execution. The Law defines electronic certificate as the electronic registration connecting the authentication data and identification information of the signature owner to each other.

As per the Law, a secure e-signature will have the same legal consequences as a hand-written signature. The use of e-signatures, however, will not be applicable to transactions where a specific official form or the completion of other formalities are required (such as notarization or land registry transactions) or for collateral agreements.

E-signatures will be capable of identifying the signatory and will be linked to the data through a qualified certificate. The certification service providers will issue a qualified certificate, thereby cer-

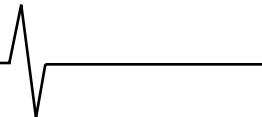
tifying the e-signature. The Law states that the services related to e-signatures and e-certificates will be provided by e-certificate service providers established by public entities, individuals or private legal entities. These services will be closely monitored by the Telecommunications Authority. The Telecommunications Authority will also be authorized to issue administrative fines to those e-certificate providers that fail to fulfill their liabilities under the Law. E-certificate providers will be required to obtain financial liability insurance.

According to the relevant provisions of the Law, legal consequences of e-certificates issued abroad will be determined in line with international agreements. In the event an e-certificate issued abroad is acknowledged by a local e-certificate provider, the local e-certificate provider will be jointly liable against third parties.

The Law provides that those who create e-certificates that are partially or totally forged will be charged to 2 to 5 years of imprisonment and fined. Persons who copy e-signatures or use them without permission will be subject to imprisonment for a term of 1-3 years.

Although the Law is a very significant step for the incorporation of e-signatures into our daily lives, it seems that issuance of secondary legislation and establishment of the relevant infrastructure are also needed to enable the effective use of e-signatures in transactions such as submission of documents to trade registries and other governmental offices. □

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promulgated by MOFCOM (the “Import Measures”); and

- Administrative Measures for Export-Prohibited Technology or Export Restricted Technology, promulgated by MOFCOM (the “Export Measures”, and, collectively with the Import Measures and Registration Measures, the “MOFCOM Regulations”).

The State Council Regulations set parameters for the new regime, while the MOFCOM Regulations detail its implementation and day-to-day operation.

The term “technology import and export” continues to be broadly defined and interpreted under the new regulations to include activities which

trade secrets. To date, however, China has yet to enact its own trade secret law. Foreign companies have attempted, and failed, to find protection for their trade secrets under China’s 1993 Anti-Unfair Competition Law. The lack of national legislation in this area has made it difficult for U.S. companies to protect their trade secrets as a matter of right. To work around this void in the law, trade secrets are most often protected through the use of Confidentiality Agreements or Non-Disclosure Agreements. These agreements are crucial and are usually initiated as a condition to the disclosure of any technical information during negotiation of technology transfer agreement.

As discussed in further detail below, MOFCOM approval is required for any contracts that include provisions requiring Chinese parties to keep transferred trade secrets confidential.

To date, China has yet to enact its own trade secret law. Foreign companies have attempted, and failed, to find protection for their trade secrets under China’s 1993 Anti-Unfair Competition Law.

Patents

China’s current patent law dates from 1984 and was amended in 1992 and again in 2000 to bring it closer to the WTO requirements. Types of patents are:

- Inventions, defined as “any new technical solution relating to a product or procedure, or relating to an improvement in a product or procedure;”
- Utility Models, defined as “any new technical solution fit for practical use relating to the shape of a product, its structure or combinations of the shape or structure of a product;” and
- Designs, defined as “any new design of the shape, color, pattern or a combination, creating an aesthetic feeling and suitable for industrial application.”

The duration is 20 years for most patents and 10 years for utility model and design patents.

In relation to technology transfer, Article 10 of the Chinese Patent Law provides:

Any assignment, by a Chinese entity or individual, of the right to apply for a patent or of the patent right, to a foreigner must be approved by the competent department concerned of the State Council.

Where the right to apply for a patent or the patent right is assigned, the parties shall conclude a written agreement and register it with the patent administration department under the State Council. The patent administration department under the State Council shall announce the registration. The assignment shall take effect as of the date of registration.

may not be naturally considered import or export of technology. The following types of technology transfers may be among those which might be subject to the regulations and MOFCOM approval process:

- Patent assignments
- Assignments of patent application rights
- Patent licensing
- Assignments or license of know-how or trade secrets
- Computer software licensing or importation contracts
- Trademark licenses or assignments combined with patented or non-patented technology
- Cooperative or joint research contracts
- Joint design contracts
- Joint development contracts
- Joint production contracts
- Technology consultancy contracts
- Technology service and other unspecified forms of technology transfer

Patents and Trade-Secret Protection in China

Two main categories of technology transfer subject matter that are subject to the regulations are 1) trade secrets and know-how and 2) patents. Each of these categories will be addressed in turn.

Trade Secret or Know-How

By way of background, as a signatory to the Paris Convention for the Protection of Industrial Property China, China is obligated to protect

Trade secrets are most often protected through the use of Confidentiality Agreements or Non-Disclosure Agreements. These agreements are crucial and are usually initiated as a condition to the disclosure of any technical information during negotiation.

The “patent administration department under the State Council” is the State Intellectual Property Office of China (“SIPO”). Rule 14 of the Implementing Regulations of the Chinese Patent Law promulgated by the State Council further provides:

Any assignment of the right to apply for a patent or of the patent right, by a Chinese entity or individual, to a foreigner shall be approved by the competent department for foreign trade and economic affairs of the State Council in conjugation with the science and technology administration department of the State Council.

According to SIPO Public Notice No. 94 issued on December 26, 2003, the approval process of an assignment of the right to apply for a patent or of the patent right, as required by Article 10 of Chinese Patent Law and Rule 14 of the Implementing Regulations, is governed by the State Council Regulations and MOFCOM Regulations.

Categories of Technologies and the Approval Process

Technologies are now classified into one of three categories: “prohibited” or “restricted” or “permitted.”

- **Prohibited technology.** Such technology cannot be imported into or exported out of China. Examples include manufacturing of nickel-cadmium cells, types of lead and copper making, type setting and plating processes for sheet glass.
- **Restricted technology.** Technology classified as “restricted” means that its import and export are subject to approval and/or recording. Restricted technologies include genetically modified organisms, certain oil refining technologies, polyester production and types of pigment manufacture.
- **Unrestricted technology.** If not “prohibited” or “restricted” then technology is classified as “unrestricted” or “permitted” and can be imported and exported without pre-approval, but needs to be registered.

To determine which classification your technology falls in, you will need to refer to catalogs issued by the government which are periodically amended and posted online at www.mofcom.gov.cn. If your technology is not listed in either catalog, then it is deemed “unrestricted” or “permitted.”

If a U.S. company’s technology is deemed to be “unrestricted,” the U.S. company can enter into an agreement to import it to or export it from China without formal approval from the MOFCOM. The U.S. company, however, will need to register the export/import agreements with MOFCOM. In short, registration, not pre-approval, is required.

Registering technology transfer agreements is relatively straightforward, and can be applied for online. Once submitted, MOFCOM will review the application and if complete, issue a Technology Import Contract Registration Certificate. It typically takes about 3 days for the certificate to issue once the registration application is submitted. If the technology transfer involves the export of patent rights or patent application rights from a Chinese entity or individual to a foreigner, an extra step must be taken. Specifically, SIPO Public Notice No. 94 of December 26, 2003, requires that under these circumstances, the parties shall also register with the Chinese patent - SIPO. To register with SIPO, the parties need only provide the Technology Import Contract Registration Certificate issued by MOFCOM.

If technology is deemed “prohibited” from import to China (25 categories of technology) or “prohibited” from export from China (33 categories of technology), MOFCOM will not approve agreements for its import or export.

Agreements for technology transfer including technology “restricted” from import (16 categories) or export (170 categories) must go through the MOFCOM approval process.

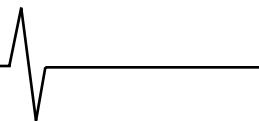
In contrast to “unrestricted” technology, a potential transferor of restricted technology has the choice of first submitting its application for “pre-approval” before submitting its executed technology transfer contract for registration. Currently, most companies prefer this practice. This is a new procedure and one which the foreign business community lobbied for years before concession was finally made on the run up to WTO.

The import side begins with the filing of an “Application for Importing Restricted Technology” (signed by both transferor and transferee) for approval by MOFCOM, a process which is designed to take no more than 30 days. There are four criteria which guide the agency’s decision whether to grant approval: (1) public interest and national security, (2) health, (3) environment, and (4) national industrial and technology policy. The regulations provide no further guidance other than these broad, general concepts.

If the parties chose the “pre-approval” route and MOFCOM approves the agreement, the agency will issue a Letter of Intent Permitting Technology Import. The parties will then draft and execute their final technology transfer contract, assemble the required documents, and submit them to MOFCOM. If it approves the final, executed contract, MOFCOM will issue a Technology Import License. The time from submission to issuance typically takes 10 to 30 days

MOFCOM approval is required for any contracts that include provisions requiring Chinese parties to keep transferred trade secrets confidential.

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Similar to “unrestricted” technology, if the transfer is an assignment of the right to apply for a patent or of the patent right from a Chinese entity or individual to a foreigner, the parties shall use the Technology Export License to register the assignment with SIPO.

Technology Contract Negotiating and Drafting

The new regulations have changed many of the old contractual terms allowed under the previous system. In addition to streamlining the approval process, the State Council Regulation also lifts certain limitations that have hampered technology companies in the past. In order to effectively negotiate your technology transfer contracts, you should be familiar with the new regulations as well as relevant prior laws.

The terms of confidentiality agreements, which once were limited in duration to the length of the underlying technology license, can now extend beyond the end of the license term.

For example, the new regulations allow the term of each contract and of any confidentiality provisions to be negotiated by the parties, and these are no longer subject to the ten-year maximum term that was imposed under the old regime. Now the parties can choose a longer (or shorter) term not to exceed the life of the underlying patent. Trade secret license agreements may be perpetual, but as a general practice should be worded to provide for perpetually renewable terms to give the parties flexibility. As well, contracts may now provide that the licensee be prohibited from using the technology after the expiration of the contract term; the old regulations prohibited such protective provisions. Put in other words, the terms of confidentiality agreements, which once were limited in duration to the length of the underlying technology license, can now extend beyond the end of the license term. Taken together, these changes greatly increase the ability of technology companies to protect their technology in China.

Despite the liberalization, certain restrictions on the contents of technology import contracts remain. If a technology transfer agreement contains the following types of clauses, it will not be registrable:

- Clauses that (a) tie or condition the transfer of technology to the transferee’s purchases of (i) unnecessary licensed technology, (ii) technology services, or (iii) materials or supplies; or (b) which would unduly restrict licensee access to such adjuncts from others.
- Clauses that require payments for expired or invalidated patents or copyrights.

- Clauses that would prevent licensees from improving or owning or using technology improvements.
- Clauses preventing licensees from acquiring competitive technologies from others.
- Clauses that unduly restrict the licensee’s sourcing of raw materials, components, products or equipment.
- Clauses that unduly restrict the selling prices, output or variety of products of the technology by the licensee.
- Clauses that unduly restrict the licensee’s export channels for products produced using the imported technology.

However, there are drafting strategies that can be employed to minimize the chances that your clauses will be deemed to cover the prohibited subject matter. For example, anti-improvement can be dealt with by way of royalty-free exclusive license back to the transferor. What might be considered tying by some, could be better drafted into a technical services component of the contract. Creative thinking and effective drafting can solve most of these concerns. With respect to the Choice of law clause, in general, Chinese law does not prohibit the choice of foreign law for licensing contracts. However, Chinese parties and, if government approvals are required, government agencies, often push very hard for Chinese choice of law, and Chinese JV contracts must be governed by Chinese law. Lastly, since it is still very difficult to enforce industrial property rights under the Chinese legal system, it is desirable to include an international arbitration clauses in all agreements. China does recognize arbitration, but arbitration in China is relatively easy to negotiate. Arbitration outside China is possible, but may be difficult to negotiate. The Chinese parties will recognize foreign arbitration awards, provided they agreed to the foreign arbitration in the first place. □

¹ China became a member country of WTO on December 11, 2001.

² Formerly, technology transfers to or from China were administrated by the Ministry of Foreign Trade and Economic Cooperation (“MOFTEC”), which has now become part of the Ministry of Commerce. For the purpose of convenience, this paper will use “MOFCOM” to refer to both MOFTEC and its successor Ministry of Commerce.

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The Directive accordingly aims at harmonizing these systems "to ensure a high, equivalent... homogeneous level of protection" throughout the EU. These provisions are intended to benefit not only rights holders, but also authorized users (e.g., licensees), IP collective rights management bodies and professional defense bodies (where permitted under national law).

Key Provisions

The Directive contains only civil procedures, measures and remedies. A proposal to harmonize criminal proceedings and penalties was refused by other European legislative institutions. The Directive refers to and combines procedures that have already been partially implemented with some success and practiced in some of the Member States. Under the Directive, Member States shall ensure the implementation of the following procedures, measures and remedies:

- **Access to Evidence** – Rights holders may request that the opposing party hand-over relevant evidence in its control. For commercial-scale infringement, such evidence includes banking, financial and commercial documentation.
- **Preservation of Evidence** – Court orders are available to preserve or seize relevant evidence. Such evidence includes detailed descriptions, samples or infringing goods.
- **Right to Information** – Rights holders may seek court orders to disclose information on the origin and distribution networks of alleged infringing goods/services. Such orders may be granted not only against the infringer and/or any person found in the possession of infringing goods, but also against others involved in the manufacture and distribution of alleged infringing goods or the provision of alleged infringing services.
- **Precautionary Measures** – Interlocutory injunctions are available, as well as court orders to seize or deliver-up alleged infringing goods, to seize movable and immovable property (including the blocking of bank accounts and other assets) and to disclose bank, financial or commercial documentation.
- **Corrective Measures** – Court orders are available to recall, destroy or remove infringing goods from channels of commerce, at the expense of the infringer.
- **Injunctions** – Rights holders may seek an injunction upon a finding of infringement.
- **Damages** – Rights holders may obtain compensation for damages where a defendant infringed knowingly or with reason to know of a possible

infringement. The damages should account for the actual prejudice suffered by the claimant as a result of the infringing activities and non-economic factors.

- **Publicity Measures** – Successful claimants may demand the displaying or prominent advertising of a decision of infringement, at the expense of the infringer.

Implementation

The European Commission has stated that, at present, no Member State has legislation enacting the full extent of the Directive. It is expected that the UK can implement these provisions with less dramatic alteration than elsewhere. Germany will have to change parts of its Civil Procedure Law and specific intellectual property laws to comply with the new rules. The new Member States will need to significantly alter their laws.

Discussion

The Directive's provisions have been the subject of public controversy. The Directive is seen as good news for parties interested in preventing counterfeiting and piracy across the newly expanded EU. Counterfeited and/or pirated products are estimated to amount to 5–10 percent of automobile spare-part supplies, 10 percent of music media, 16 percent of film media and 22 percent of shoes and clothing. Annual losses in the cultural sector (including the music and film industries) are said to amount to 4.5 billion euros. In Germany alone, it is estimated that a 10 percent reduction of product piracy will generate 40,000 new jobs in the IT industry and generate tax revenues of 4.1 billion euros.

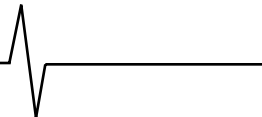
Critics claim that the Directive will benefit big music and film companies and dominant players on the software market, but hamper smaller software companies, artists and the communication industry (operators and ISPs), with the latter facing oppressive disclosure obligations and information requests.

After implementation of the Directive into national laws, US companies seeking to enforce their IP rights in Europe may rely on a system that will be much more consistent with US laws. In particular, the evidence-related provisions and the Right to Information are similar to discovery rules in the United States. Also, the Precautionary Measures, Corrective Measures and Injunctions provisions are consistent with US rules regarding preliminary and permanent injunctions. □

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The Development of Intangibles, Transfer Pricing and Competition Issues Arising from Collaboration

BY ISABEL VERLINDEN, AXEL SMITS, AND BART LIEBEN (PRICEWATERHOUSECOOPERS)

This article, the third in a series, analyzes the development of intangibles and the valuation of marketing-related intangible assets from a transfer pricing perspective. The article is drawn from an updated edition of the authors' book, *Intellectual Property Rights from a Transfer Pricing Perspective*.

Joint Development Outside a Group

In cases of collaboration with non-group members, the point is often made that transfer pricing issues should not occur, as they are necessarily third-party transactions. In our opinion, the answer to this question will not be straightforward, and will depend on how the collaboration is structured. We will first provide an overview of a number of forms of collaboration. Then, we will address the transfer pricing question.

Various Forms of Third-Party Collaboration

Innovation at Universities. Universities have played a crucial role in innovation throughout the centuries. In fact, if you think about a traditional research laboratory, the first image to pop into mind may well be that of an absent-minded professor working at some university. For many years, universities had the image of being dusty organizations with a long history of fundamental research that did not always lead to commercially viable solutions.

Over the past 30 to 50 years, universities all over the world have made great efforts to change that image. First, they have started to focus on commercializing R&D output by spinning off a number of ventures, sometimes with great success. (For a list of Oxford University spin-offs, see www.isis-innovation.com/spinout/index.html; for a list of University of Louvain spin-offs, see www.kuleuven.ac.be/lrd/expertise/spinoff_a_d.html.)

Second, they have also started licensing their knowledge to the private sector. Sometimes, they have specific websites devoted to technology transfers, as is the case with Harvard University (www.techtransfer.harvard.edu).

Finally, they have also intensified collaboration with industry, by performing more contract R&D assignments. In many cases, companies want the fundamental research to be performed by universities, while they focus in-house on applied research. In this respect, one issue that usually arises when performing contract R&D is that of the legal

ownership of IP developments. This is sometimes quite a complex issue because, first, there is the contractual relationship between the university and its researchers. In that relationship, the university will often say that legal ownership of any new developments lies with the university. Subsequently, companies that want contract R&D assignments performed by universities will usually require all legal ownership of the developments.

Nevertheless, this type of collaboration seems to be quite successful, given the amounts of contract R&D being performed today by universities for the business community.

Collaboration with Third-Party Contractors.

Alongside universities, there are also private sector organizations that focus on contract research. Here, we discuss the example of the pharmaceutical industry. (Information based on Birch, S., *loc. cit.*)

We have already mentioned a few times that R&D is a crucial activity for pharmaceutical companies. A lot is going to be happening for them over the coming few years: of the 44 products generating blockbuster sales in 2000, 33 will lose patent protection in the US before 2007, exposing \$45.5 billion of revenues to competition.

According to Reuters, productivity in R&D departments has been declining and the industry's main response, mergers and acquisitions, has not been fully effective in addressing this issue. Therefore, they predict that the industry will evolve towards a "networked" or "virtual" model, where companies will perform about 40 percent of their activities in-house and 60 percent will be conducted externally (sometimes even up to 90 percent), by carefully selected, risk-managed portfolios of straight outsourcing arrangements and strategic alliances.

The R&D outsourcing market grew from \$5.4 billion in 1997 to \$9.3 billion in 2001 and is predicted to grow further to \$36 billion in 2010. The contract research market is dominated by five major global players, who offer a full suite of services: Quintiles (10 percent), Covance (nine percent), PPD (five percent), Parexel (four percent) and MDS (three percent). These top-tier contract researchers will attempt to transform their profitability through focusing on higher value-added services, moving away from reliance on basic clinical development (phase I-IV) service revenues. Higher profitability services will include preclinical and bioanalytical testing, laboratory services, drug discovery, and

informatics. They also wish to become more strategic partners, rather than to remain service providers.

Currently the greatest barrier to take-off with the virtual pharmaceutical model is cultural. To outsource 90 percent of your activities (not only R&D, but also manufacturing and sales) will require a considerable amount of faith on the part of the big pharma players. Clear legal agreements will be required to secure IP ownership and guide technology transfers.

Corporate Partnering. The term corporate partnering is used to describe a collaboration between companies (often of similar size) that want to develop something together without creating a capital link between them. In most cases, this is based on a mere contractual relationship, but it can also take the form of a joint venture through a separate legal entity in which all of the partners participate.

We can see this form of innovation taking place between companies active in different industries, but in recent years there has also been a clear shift towards collaboration between traditional competitors.

The first form of collaboration is somewhat self-evident. Companies that focus on developing the best possible specific product may not have the capabilities to develop certain parts that they may want to add. Famous examples of corporate partnering have resulted in, for example, the Senseo coffee machine (www.senseo.com), which was jointly developed by Philips and Douwe Egberts, and the Philishave Coolskin razor (philishave.com/coolskin/index2.htm), which was developed jointly by Philips and Nivea.

Of course, we can see corporate partnering in many industries. Another example would be the Formula One circus, where huge investments are made to develop the fastest cars. At McLaren Mercedes for instance, the framework of the car is developed by McLaren, while the engine is developed by Mercedes.

Less evident is the collaboration between traditional competitors. Concerns, particularly about intellectual property rights, have long since blocked this collaboration. Not only was there a concern about who would own the new development, but also about what access had to be given to existing intellectual property, among other things. Today, with the need to bring products to market quickly and to reduce the sometimes excessive R&D budgets of the larger companies, we are seeing more and more collaboration of this kind.

Examples can be found in the pharmaceutical industry, where Merck works together with Schering

Plough, although Merck's CEO, Gilmartin, has clearly stated that he prefers Merck's own lab to collaboration or mergers with others. (Barrett, A., *Merck Could Use a Few Pep Pills*, *op. cit.*, p. 69.)

Another example can be seen in the technology industry, where important industry players, such as 3Com, Agere, Ericsson, IBM, Intel, Microsoft, Nokia, Motorola, and Toshiba (and hundreds of member companies) have joined forces to develop a low-cost short-range wireless specification for connecting mobile products, under the name Bluetooth (www.bluetooth.com).

Yet another technology example can be found with Symbian (www.symbian.com). Symbian is a software licensing company, owned by wireless industry leaders, that supplies the advanced, open, standard operating system — Symbian OS — for data-enabled mobile phones. Symbian was established as an independent private company in June 1998 and is owned by Ericsson, Nokia, Panasonic, Motorola, Psion, Samsung Electronics, Siemens, and Sony Ericsson. Headquartered in the

Cooperation in R&D, and in the exploitation of the results obtained from it, has a number of benefits.

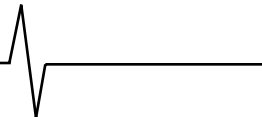
UK, it has offices in Japan, Sweden, the UK, and the USA.

Corporate Venturing. A way of innovating that already existed during the 1990s, but which has gained new momentum, is that of innovating by way of corporate venturing.

Corporate profitability has in many cases been hit over the past few years. CEOs are looking now for ways to put growth strategies in place, and this often does not even require them to look outside the company's walls. Certainly, numerous companies have been growing by acquisitions and large international mergers. Of course, these can help to generate sustainable growth. However, M&A deals often require a lot of hard work and even then regularly fail to deliver value. Only companies with a well-oiled "integration machine," such as GE, are well placed to keep growing successfully through acquisitions.

According to a UK survey of FTSE corporate leaders, 90 percent of CEOs in 110 listed companies said they were placing greater emphasis on generating new business opportunities from within their companies. (Anderson, R. *Stimulating New*

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Revenue Streams, *Corporate Venturing*, 2003, April, No. 1, p. 10.) This organic approach, often referred to as “internal” corporate venturing, can provide a real engine for growth. FTSE companies, including BT, Unilever, and Powergen, are creating new businesses that can provide real shareholder value, as well as strategic benefit to the parent company.

Corporate venturing characterizes the promotion of internally or externally originated start-ups (ventures) by established enterprises to pursue strategic or financial goals. Ventures are small companies or largely independent units that are not yet established in the marketplace and that need risk capital for the successful implementation of their business or product idea. (Arthur D. Little, *Venturing for Innovation*, 2002.)

Corporate venturing can be both “internal” and “external.” With internal venturing, reference is usually made to cases where ideas from within the company are commercialized outside the company. With external venturing, reference is usually made to companies investing in start-ups that are active in a domain that the company believes will contribute to its own growth.

The difference with traditional R&D is that the ventures are eventually separate legal entities, with a capital link remaining between the two companies. This also distinguishes corporate venturing from corporate partnering, where there is only a contractual relationship.

Sometimes, corporate venturing is perceived as something that is pursued to identify and develop new competences, new technologies, and new markets outside the core business of the established company. On the other hand, it can just as well relate to companies wanting to leverage on an existing pool of (intangible) assets that are currently underexploited commercially.

It seems that US companies, which are supposedly the powerhouse for commercializing technology, are sitting on unused assets with a potential of \$115 billion. These companies apparently ignore 35 percent of their patented technologies simply because they do not fit within their core businesses. Yet, commercializing these non-core technology assets could boost profits and maximize return on R&D investment. (Anderson, R. *op. cit.*, p. 11.)

Some of the companies active in this field include:

- HP, making equity investments only if they strengthen a concurrent commercial agreement between an HP business unit and a startup that will create value for HP.
- Intel is one of the pioneers of corporate venturing

and applies it as one of the core components of its own strategy.

- Nokia uses corporate venturing as a strategic tool to develop and identify new technologies and new markets, not necessarily within the scope of its core business.
- Novell uses corporate venturing to support the market penetration of its own products by strategically investing in ventures that create innovations that require the use of its products. (Arthur D. Little, *loc. cit.*)

Collaboration from a Competition Law Perspective

Cooperation in R&D, and in the exploitation of the results obtained from it, has a number of benefits. It promotes technical and economic progress because the dissemination of know-how between the collaborating parties is increased. Further, it helps to reduce costs by avoiding the duplication of R&D work, and stimulates new advances through the exchange of complementary know-how and by rationalizing the manufacture of the products or application of the processes arising out of the R&D. Finally, it significantly reduces the time to market and more easily helps to build industry standards because there is already a buy-in from a number of (major) players.

Nevertheless, a number of possible downsides also need to be identified, particularly when (major) competitors in a certain market carry on their R&D activities jointly. If the results obtained from these R&D efforts form a major barrier to entry, the participants in the joint R&D scheme may limit output or sales, fix prices, and set them at an artificially high level, divide markets, *etc.*

To ensure that effective competition can play its role, a number of competition authorities throughout the world have worked out specific regulations or guidelines with respect to horizontal collaboration agreements.

In Europe, Article 81(1) of the EC Treaty prohibits as incompatible with the common market all agreements between undertakings, decisions by associations of undertakings, and concerted practices that may affect trade between EU member states, and that have as their object or effect the prevention, restriction, or distortion of competition within the common market. A similar prohibition is laid down in section one of the US Sherman Antitrust Act: “[e]very contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is declared to be illegal.” (Sherman Act, 15 U.S.C. §1)

From a European competition law perspective, R&D agreements between (direct or indirect) competitors need to be reviewed in the context of Article 81(1) of the European treaty.

The nonexhaustive list of agreements that are considered to hinder competition includes dealings that: (a) directly or indirectly fix purchase or selling prices, or any other trading conditions; (b) limit or control production, markets, technical development, or investment; (c) share markets or sources of supply; (d) apply dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage; or (e) make the conclusion of contracts subject to acceptance by the other parties of supplementary obligations that, by their nature or according to commercial usage, have no connection with the subject matter of such contracts.

Any agreements or decisions that are prohibited by Article 81(1) of the European treaty are automatically void, per Article 81(2) of the treaty. Fines are imposed on companies not complying with section one of the US Sherman Act. (Section one of the Sherman Act states that “[e]very person who shall make any contract or engage in any combination or conspiracy hereby declared to be illegal shall be deemed guilty of a felony, and, on conviction thereof, shall be punished by fine not exceeding \$10,000,000 if a corporation, or, if any other person, \$350,000, or by imprisonment not exceeding three years, or by both said punishments, in the discretion of the court.”)

Nevertheless, some types of the agreements referred to in Article 81(1) of the European treaty might, in a strict sense, be considered as restricting competition, although they are intrinsically aimed at encouraging competition. This might, for instance, be the case where the agreements, decisions, or concerted practices in question are aimed at encouraging technical progress or improving distribution, like joint R&D agreements, specialization agreements, or technology transfer agreements.

To this end, the European Commission has the authority to declare the prohibition laid down in Article 81(1) of the European treaty inapplicable in the event categories of agreements, decisions, or concerted practices contribute to improving the production or distribution of goods or to promoting technical or economic progress, while allowing consumers a fair share of the resulting benefit. Nevertheless, categories of agreements, decisions, or concerted practices may not:

- i) impose on the undertakings concerned restrictions that are not indispensable to the attainment of these objectives; or
- ii) afford such undertakings the possibility of eliminating competition with respect to a substantial part of the products in question (per

Article 81(3) of the European treaty).

To obtain an individual exemption, firms must disclose their agreements to the European Commission. To avoid a large number of disclosures, the Commission has issued what are called “block exemption regulations” (“BERs”) or guidelines for certain types of agreements. These instruments aim to provide undertakings with a clear legal framework that, once complied with, obviates disclosure of the agreement, decision, or concerted practice under Article 81(3) of the European treaty.

Treatment of Joint R&D Agreements under EU Competition Law

From a European competition law perspective, R&D agreements between (direct or indirect) competitors need to be reviewed in the context of Article 81(1) of the European treaty. (As explained above, this article prohibits, as incompatible with the common market, all agreements between undertakings, decisions by associations of undertakings, and concerted practices, which may affect trade between EU member states and which have as their object or effect the prevention, restriction, or distortion of competition within the common market. A similar prohibition is laid down in section one of the US Sherman Antitrust Act.)

Nevertheless, in the event that competition is not hindered and the (contemplated) joint R&D efforts are in line with EU competition policy, the agreements are exempted from the application of Article 81(1).

Generally speaking, agreements will be exempted to the extent that the following conditions are met:

- a) All of the parties must have access to the results of the joint R&D for the purposes of further research or exploitation. However, research institutes, academic bodies, or undertakings that supply R&D as a commercial service without normally being active in the exploitation of results may agree to confine their use of the results to the purposes of further research.
- b) Without prejudice to (a) above, where an agreement provides only for joint R&D, each party must be free to exploit the results of the joint R&D, independently, and any pre-existing know-how necessary for the purposes of this exploitation. (This right may be limited to one or more technical fields of application, where the parties are not competing undertakings at the time the R&D agreement is made.)
- c) Any joint exploitation must relate to results that are protected by intellectual property rights or constitute know-how that substantially

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contribute to technical or economic progress, and the results must be decisive for manufacture of the contract products or application of the contract process.

- d) Undertakings contracted to manufacture products on a specialized production line must be required to fulfill orders for supplies from all parties, except where the R&D agreement also provides for joint distribution.

The exemption granted under this regulation is limited to R&D arrangements that do not afford the collaborating undertakings the possibility of

eliminating competition with respect to a substantial part of the products or services in question. Therefore, the exemption does not apply when the agreement includes, for instance:

- a restriction on the freedom of the participating undertakings to carry out R&D independently or in cooperation with third parties in a field unconnected with that to which the R&D relates;
- a limitation on output or sales;
- the fixing of prices when selling the contract product to third parties;
- the allocation of markets or customers.

Further, if the parties to the agreement are considered to be competitors whose combined share of the market for products or services capable of being improved or replaced by the results of the R&D exceeds 25 percent at the time the agreement is made, the agreement will be excluded from the exemption.

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