

# TEXAS INTELLECTUAL PROPERTY LAW JOURNAL

INTELLECTUAL PROPERTY LAW SECTION OF THE STATE BAR OF TEXAS  
THE UNIVERSITY OF TEXAS SCHOOL OF LAW

ARE INTELLECTUAL PROPERTY POLICIES SUBJECT TO COLLECTIVE BARGAINING?  
A CASE STUDY OF NEW JERSEY AND KANSAS  
*Michael W. Klein, J.D., Ph.D., and Joy Blanchard, Ph.D.*

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*Alberto J. Cerda Silva*

PATENT SECRECY ORDERS: FAIRNESS ISSUES IN  
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*Susanna Monseau*

STATE BAR SECTION NEWS



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## ARTICLES

- ARE INTELLECTUAL PROPERTY POLICIES SUBJECT TO COLLECTIVE BARGAINING? A CASE STUDY OF NEW JERSEY AND KANSAS 389  
*Michael W. Klein, J.D., Ph.D., and Joy Blanchard, Ph.D.*
- COPYRIGHT CONVERGENCE IN THE ANDEAN COMMUNITY OF NATIONS 429  
*Alberto J. Cerda Silva*
- PATENT SECRECY ORDERS: FAIRNESS ISSUES IN APPLICATION OF INVENTION OF SECRECY ACT 471  
*James Maune*
- THE CHALLENGE OF PROTECTING INDUSTRIAL DESIGN IN A GLOBAL ECONOMY 495  
*Susanna Monseau*
- STATE BAR SECTION NEWS 545

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# Are Intellectual Property Policies Subject to Collective Bargaining?

## A Case Study of New Jersey and Kansas

Michael W. Klein, J.D., Ph.D., and Joy Blanchard, Ph.D.\*

I. Introduction .....	390
II. Labor Law .....	393
A. Federal Labor Law .....	393
B. State Laws for Public Employees.....	394
1. Scope of Negotiation .....	395
2. New Jersey .....	396
a. Terms and Conditions of Employment.....	396
b. Three-Part Test .....	397
c. Preemption.....	398
3. Kansas .....	398
a. “Conditions of Employment” .....	398
b. Preemption Exemption.....	399
III. Intellectual Property .....	400
A. Copyright.....	400
1. What Can Be Copyrighted.....	400
2. Ownership .....	401
3. Works Made for Hire.....	401
4. Academic Exception.....	402
5. Campus Policies .....	404
B. Patents.....	404
1. What Can Be Patented.....	404
2. Inventorship.....	405
3. Ownership .....	406
4. Patent Ownership at Universities .....	407

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a. Assignment .....	407
b. Federally Funded Projects: The Bayh-Dole Act.....	408
IV. Intellectual Property Policies at Rutgers and Pittsburg State: Within the Scope of Bargaining? .....	409
A. Rutgers University's Intellectual Property Policies .....	409
B. Adjudication of Rutgers' Patent Policy .....	412
1. PERC .....	412
2. Appellate Division.....	414
C. Pittsburgh State University's Intellectual Property Policy .....	415
D. Adjudication of Kansas' Intellectual Property Policy .....	416
1. PERB and Lower Courts .....	416
2. Supreme Court of Kansas: No Preemption.....	417
3. "Mandatorily Negotiable" .....	417
4. On Remand to PERB.....	418
5. Current Kansas Board of Regents' Intellectual Property Policy and Pittsburg State Contract .....	419
V. Conclusion .....	420
A. New Jersey and Kansas: Similar Outcomes .....	420
B. Future Research: The Broader Context of Collective Bargaining .....	421
1. AAUP, AFT, and NEA Strategies .....	421
2. Comparison of Unionized vs. Nonunionized Faculty .....	423
3. Comparison by Type of Institution.....	423
4. Keeping Pace with Changes in Technology and the Law .....	424

## I. Introduction

Although Kansas and New Jersey might be in many ways as unlike as possible, their courts have recently grappled with the same issue related to higher education: whether a public university's policy regarding the ownership of intellectual property is subject to collective bargaining. The Kansas Supreme Court redirected the issue to the state's Public Employee Relations Board in *Pittsburg State University/Kansas National Education Association v. Kansas Board of Regents*,<sup>1</sup> which ruled in favor of the faculty union.<sup>2</sup> In New Jersey, the issue was decided in a somewhat Solomonic way. In *Rutgers Council of AAUP Chapters v. Rutgers*,

<sup>1</sup> 122 P.3d 336, 349 (Kan. 2005).

<sup>2</sup> PSU v. Kan. Bd. of Regents, No. 75-CAE-23-1998, 2007 WL 5883184, at \*4 (Kan. Pub. Emp. Relations Bd. 2007).

*The State University*, the Appellate Division found some provisions of Rutgers' patent policy to be managerial prerogatives not subject to bargaining,<sup>3</sup> but found other provisions to involve terms and conditions of employment that must be negotiated.<sup>4</sup>

Because of the potential revenue it can generate, ownership of intellectual property created at colleges and universities is becoming increasingly important, particularly as public support for higher education has shrunk at public institutions. State governments are spending smaller portions of their budgets on higher education. The percentage of state and local revenue allocated to higher education decreased 5.6% nationally between 1997 and 2007.<sup>5</sup> In 2010, total state funding for higher education was approximately \$1.4 billion less than what states provided in 2008.<sup>6</sup>

As a result of this decrease in public resources, colleges and universities are turning increasingly toward "academic capitalism," defined as "the pursuit of market and market-like activities to generate external revenues," which includes developing patents and spinoff companies.<sup>7</sup> Copyrightable works and patented inventions hold great—if not always realistic<sup>8</sup>—promise of providing streams of income. Between 1998 and 2008, annual patent grants to universities and colleges ranged from 2,950 to 3,700.<sup>9</sup> Between 2003 and 2007, invention disclosures filed with university technology management offices—which describe prospective inventions and are submitted before filing for a patent application—increased from 13,700 to 17,700, and new U.S. patent applications increased from 7,200 to 10,900 over that same period.<sup>10</sup> In 2007, 161 institutions reported a total of \$1.9 billion in net royalties from their patent holdings.<sup>11</sup>

Universities increasingly are attempting to exert control of these potential revenue sources through faculty contracts and intellectual property policies. In

<sup>3</sup> 884 A.2d 821, 826 (N.J. Super. Ct. App. Div. 2005) (deciding that laboratory notebooks are the property of the university).

<sup>4</sup> *Id.* at 828 (explaining that university must negotiate the terms under which individuals subject to the policy assign their rights to inventions and discoveries).

<sup>5</sup> STATE HIGHER EDUC. EXEC. OFFICERS, STATE HIGHER EDUC. FIN. FY 2009, 43 (2010).

<sup>6</sup> *Id.* at 11.

<sup>7</sup> SHEILA SLAUGHTER & GARY RHOADES, ACADEMIC CAPITALISM AND THE NEW ECONOMY: MARKETS, STATES, AND HIGHER EDUCATION 11 (2004).

<sup>8</sup> For example, of 2,751 discoveries disclosed by University of Wisconsin faculty as of 1990, only 73 had produced incomes greater than expenses. Pat K. Chew, *Faculty-Generated Inventions: Who Owns the Golden Egg?* 1992 WIS. L. REV. 259, 272 n.54 (1992). With regard to copyrights, only about 2% of all works protected by copyright produce continuing revenue for their owners. Amy Harmon, *Debate to Intensify on Copyright Extension Law*, N.Y. TIMES, Oct. 7, 2002, at C1, C6.

<sup>9</sup> NAT'L SCI. BD., SCI. & ENG'G INDICATORS 2010, 5–43 (2010).

<sup>10</sup> *Id.* at 5–44.

<sup>11</sup> *Id.* at 5–45.

1994, 33% of contracts in the Higher Education Contract Analysis System (HECAS), which is maintained by the National Education Association,<sup>12</sup> contained provisions outlining ownership of intellectual property.<sup>13</sup> By 2008, that number rose to 55%.<sup>14</sup> In 2008, specific provisions covering copyright ownership were included in 44% of faculty contracts, and specific provisions covering patents were included in 33% of contracts.<sup>15</sup>

As the struggle over ownership of academic work intensifies, faculties are becoming more like a “contingent labor force” and learning has been called a “commodity.”<sup>16</sup> Baez and Slaughter warned that “faculty-generated products and processes increasingly are treated as alienable property removed from free circulation of ideas.”<sup>17</sup> Some institutions put pressure on faculty to engage in commercial research or support themselves on “soft money,” which in turn may sway them from their original intended research agendas.<sup>18</sup> The need for money “is a chronic condition of American universities, a condition inherent in the very nature of an institution forever competing for the best students and faculty.”<sup>19</sup>

The cases in New Jersey and Kansas indicate that as colleges and universities increasingly enter the world of academic capitalism, their faculties—particularly through their unions—will fight for their piece of the pie. As of 2011, collective bargaining agents represented a total of 368,473 faculty members, organized into 639 separate bargaining units across 519 systems or institutions of higher education located on 1,174 campuses.<sup>20</sup> Organized faculties are located in 31 states and the District of Columbia, with a majority concentrated in three states: California, New York and New Jersey.<sup>21</sup> Despite recent legislative efforts to dilute public

<sup>12</sup> Higher Education Research Center, NAT'L EDUC. ASS'N, <http://www.nea.org/home/34725.htm>.

<sup>13</sup> GARY RHOADES, *MANAGED PROFESSIONALS: UNIONIZED FACULTY AND RESTRUCTURING ACADEMIC LABOR* 237 (1998).

<sup>14</sup> Michael W. Klein, *Ten Years After Managed Professionals: Who Owns Intellectual Property Now?* 2 J. COLLECTIVE BARGAINING IN THE ACAD. 1, 1 (2010), available at [http://www.library.eiu.edu/ncscbhep/journal/docs/2\\_1\\_Klein.pdf](http://www.library.eiu.edu/ncscbhep/journal/docs/2_1_Klein.pdf).

<sup>15</sup> *Id.* at 2.

<sup>16</sup> Roger Green, *Markets, Management, and 'Reengineering' Higher Education*, 585 ANNALS AM. ACAD. POL. & SOC. SCI. 196, 196–97 (2003).

<sup>17</sup> Benjamin Baez & Sheila Slaughter, *Academic Freedom and Federal Courts in the 1990s: The Legitimation of the Conservative Entrepreneurial State*, in 16 HIGHER EDUCATION: HANDBOOK OF THEORY AND RESEARCH 73, 74 (John C. Smart ed., 2001).

<sup>18</sup> Risa L. Lieberwitz, *Faculty in the Corporate University: Professional Identity, Law and Collective Action*, 16 CORNELL J.L. & PUB. POL'Y 263, 302 (2007).

<sup>19</sup> DEREK BOK, *UNIVERSITIES IN THE MARKETPLACE: THE COMMERCIALIZATION OF HIGHER EDUCATION* 9 (2003).

<sup>20</sup> JOE BERRY & MICHELLE SAVARESE, *DIRECTORY OF U.S. FACULTY CONTRACTS AND BARGAINING AGENTS IN INSTITUTIONS OF HIGHER EDUC.* ix (2012).

<sup>21</sup> *Id.* at xi.



collective bargaining,<sup>22</sup> faculty unions continue to contribute a strong voice in shared governance and national higher education issues.<sup>23</sup>

Taken together, the New Jersey and Kansas cases can help unionized institutions consider whether to amend their campus intellectual property policies. The courts in both states use similar tests to determine if a topic is within the scope of bargaining.<sup>24</sup> These tests will help unionized institutions determine how best to draft—or redraft—campus policies concerning ownership of and use of patents and copyrighted works.

To help explain the New Jersey and Kansas cases, this case study analyzes the current state of labor law and intellectual property law, specifically copyright law and patent law. It then summarizes the intellectual property policies adopted by Rutgers University and the Kansas Board of Regents, and explores the court cases involving those policies. Finally, this paper suggests areas of future research on the topic of collective bargaining and intellectual property rights.

## II. Labor Law

### A. Federal Labor Law

The National Labor Relations Act of 1935 (NLRA, also called the Wagner Act) governs collective bargaining between employers and employees.<sup>25</sup> Enacted to address widespread strikes and the Great Depression in the 1930s,<sup>26</sup> the NLRA grants employees the right to form labor organizations and to deal collectively through these organizations with their employers. The Labor-Management Relations Act of 1947 (or the Taft-Hartley Act) amended the NLRA by, among other provisions, creating the NLRB general counsel position, which made unions as well as employers subject to the NLRB's unfair labor-practice powers and imposed on unions the same requirement to bargain in good faith that the Wagner Act placed on employers.<sup>27</sup>

<sup>22</sup> See Steven Greenhouse, *Ohio's Anti-Union Law Is Tougher Than Wisconsin's*, N.Y. TIMES, Apr. 1, 2011, at A16 (comparing legislative efforts to dilute public collective bargaining in Ohio and Wisconsin); Michael Levenson, *House Votes to Restrict Unions*, BOSTON GLOBE, Apr. 27, 2011, [http://articles.boston.com/2011-04-27/news/29479557\\_1\\_unions-object-labor-unions-health-care](http://articles.boston.com/2011-04-27/news/29479557_1_unions-object-labor-unions-health-care) (documenting the Massachusetts' legislature's recent effort to dilute public collective bargaining).

<sup>23</sup> See Dan Berrett, *Looking Beyond Themselves*, INSIDE HIGHER EDUC. (Apr. 12, 2011, 3:00 AM), [http://www.insidehighered.com/news/2011/04/12/college\\_collective\\_bargaining\\_experts\\_push\\_for\\_shared\\_perspective](http://www.insidehighered.com/news/2011/04/12/college_collective_bargaining_experts_push_for_shared_perspective) (describing the role of faculty unions on the national stage).

<sup>24</sup> *In re Local 195*, 443 A.2d 187, 191–93 (N.J. 1982); *Kan. Bd. of Regents v. Pittsburg State Univ. Chapter of Kan.-Nat'l Educ. Assoc.*, 667 P.2d 306, 317 (Kan. 1983).

<sup>25</sup> 29 U.S.C. §§ 151–69 (2006).

<sup>26</sup> NAT'L LABOR RELATIONS BD., *Chapter One: In Search of a National Labor Policy, in THE FIRST SIXTY YEARS: THE STORY OF THE NATIONAL LABOR RELATIONS BOARD, 1935–1995* (1995).

<sup>27</sup> 29 U.S.C. § 141 (2006). See NAT'L LABOR RELATIONS BD., *supra* note 26, at *Chapter Three Taft-Hartly Act Years, 1947–1959*.

The National Labor Relations Act defines “employer” and “employee” in narrow terms. The definition of “employer” excludes “any state or political subdivision thereof,”<sup>28</sup> and thus does not apply to public colleges and universities. Not all private institutions are covered under the law, either. Under the current rules of the National Labor Relations Board, the NLRA applies only to institutions with gross annual unrestricted revenues of at least \$1 million.<sup>29</sup>

With regard to employees, the NLRA specifically excludes certain types of workers, such as independent contractors and supervisors.<sup>30</sup> The U.S. Supreme Court further sharpened the definition of employee in two important cases. First, in *National Labor Relations Board v. Bell Aerospace Co.*, the Court adopted language used by the National Labor Relations Board and excluded from the NLRA “managerial employees” who “formulate and effectuate management policies by expressing and making operative the decisions of their employer.”<sup>31</sup>

Building on the *Bell Aerospace* decision six years later, the Court held that faculty at private colleges and universities are “managerial” personnel—and therefore ineligible to form unions under the NLRA—in *National Labor Relations Board v. Yeshiva University*.<sup>32</sup> The Court based its ruling on faculty members’ authority over course offerings, teaching methods, grading policies, admission standards, and graduation decisions.<sup>33</sup>

#### B. State Laws for Public Employees

State laws regulate bargaining at public institutions of higher education. Generally under state law, public employees have the right to organize and to select a representative to negotiate on their behalf with the employer over terms and conditions of employment. Once a representative is elected by a majority of the employees in a specific bargaining unit, the employer must bargain with the representative, and individual employees may not negotiate with the employer over issues that are mandatory subjects of collective bargaining.<sup>34</sup> Collective bargaining statutes in nearly half of the states give faculty the right to unionize.<sup>35</sup>

New Jersey originally adopted a labor-relations act in 1941 to help mediate impasses in the private sector,<sup>36</sup> and then extended the law to the public sector in

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<sup>28</sup> 29 U.S.C. § 152(2) (2006).

<sup>29</sup> 29 C.F.R. § 103.1 (2012).

<sup>30</sup> 29 U.S.C. § 152(3) (2011).

<sup>31</sup> 416 U.S. 267, 288 (1974).

<sup>32</sup> 444 U.S. 672, 691 (1980).

<sup>33</sup> *Id.* at 686.

<sup>34</sup> WILLIAM A. KAPLIN & BARBARA A. LEE, *THE LAW OF HIGHER EDUCATION* 278 (4th ed. 2006).

<sup>35</sup> Lieberwitz, *supra* note 18, at 266 n.4.

<sup>36</sup> State of N.J. Pub. Emp’t Relations Comm’n, *PERC After 40 Years* 1 n.1 (2008), [http://www.state.nj.us/perc/PERC\\_after\\_40\\_Years.pdf](http://www.state.nj.us/perc/PERC_after_40_Years.pdf).

1968.<sup>37</sup> Kansas established its Public Employer-Employee Relations Act in 1971, providing public employees with “the right to form, join and participate in the activities of employee organizations of their own choosing.”<sup>38</sup>

Kansas is considered one of twenty-two states that have “right-to-work” laws, which do not require employees to join a union or to pay dues or fees to a union.<sup>39</sup> New Jersey, on the other hand, is one of several states that authorize public employers and labor unions to negotiate agreements that require all employees either to join the union or pay the equivalent of union dues as a condition of employment.<sup>40</sup> “[U]nless legislation is enacted at the federal level (to amend the NLRA, for instance) or in the states (to repeal ‘right to work’ legislation), this issue [regarding the collective-bargaining rights of college faculty] will remain a major bone of contention between faculty and their institutions, both public and private.”<sup>41</sup>

In chewing over this legal bone, the New Jersey and Kansas courts have used a similar approach in interpreting their respective labor laws. This approach is explained later.

### 1. *Scope of Negotiation*

State laws have language similar to the NLRA’s regarding the subjects that must be covered by collective bargaining. The NLRA requires employers and employee representatives to bargain in good faith regarding “wages, hours, and other terms and conditions of employment.”<sup>42</sup>

Beyond mandatory subjects of bargaining are “permissive” subjects of negotiations. These items are either not specifically excluded by the state’s collective bargaining statute or not preempted by another law.<sup>43</sup> The last category of subjects are nonnegotiable, either because the subjects are preempted by laws (such as affirmative action) or because they are managerial prerogatives, like the right to determine the institution’s mission.

It is difficult to draw the line between mandatory and permissive subjects of bargaining, particularly in a higher education setting, “where employees have

<sup>37</sup> N.J. STAT. ANN. §§ 34:13A-1 to -39, P.L. 1968, c. 303 (West 2011).

<sup>38</sup> KAN. STAT. ANN. § 75-4324 (2011).

<sup>39</sup> *Right to Work States*, NAT’L RIGHT TO WORK LEGAL DEF. FOUND., <http://www.nrtw.org/rtws.htm>.

<sup>40</sup> N.J. CONST. art. I, ¶ 19.

<sup>41</sup> MICHAEL A. OLIVAS, *THE LAW AND HIGHER EDUCATION: CASES AND MATERIALS ON COLLEGES IN COURT* 582 (3rd ed. 2005).

<sup>42</sup> 29 U.S.C. § 158(d) (2006). In the states, parties must negotiate over “mandatory” subjects of bargaining, which in most states include wages, hours, and terms and conditions of employment. KAPLIN & LEE, *supra* note 34, at 294.

<sup>43</sup> KAPLIN & LEE, *supra* note 34, at 293.

traditionally participated in shaping their jobs to a much greater degree than have employees in industry.”<sup>44</sup> For example,

Faculty play major roles in the decisions to hire other faculty, to award them tenure or to separate them, and to promote them. Faculty design the curriculum and often sit on the committees that select presidents, vice presidents, and deans. Faculty exercise great control over their professional lives and their work schedules, and they go about their day-to-day tasks unsupervised in traditional personnel terms.<sup>45</sup>

The laws in New Jersey and Kansas try to determine the boundaries between mandatory subjects of bargaining, permissive subjects, and managerial prerogatives. An explanation of those laws is following, followed by their application to campus-based intellectual property rights.

## 2. *New Jersey*

In New Jersey, the state constitution and the state statutes governing public labor relations provide broad rights to public employees without specifically defining subjects that must be negotiated between public employees and public employers. Under the state constitution, public employees “have the right to organize, present to and make known to the State, or any of its political subdivisions or agencies, their grievances and proposals through representatives of their own choosing.”<sup>46</sup> The New Jersey Employer-Employee Relations Act establishes that representatives selected by the majority of the employees in a unit shall be the exclusive representatives for collective negotiation of “terms and conditions of employment,” “[p]roposed new rules or modifications of existing rules governing working conditions,” and “grievances, disciplinary disputes, and other terms and conditions of employment.”<sup>47</sup>

### a. Terms and Conditions of Employment

The legislature did not enumerate negotiable “terms and conditions of employment” in the Employer-Employee Relations Act.<sup>48</sup> The New Jersey Supreme Court, noting this deficiency, designated the Public Employment Relations Commission (PERC), and not the courts, as the proper entity to determine whether, in a public-sector labor dispute, a specific subject is negotiable.<sup>49</sup> PERC is an adminis-

<sup>44</sup> *Id.* at 294.

<sup>45</sup> TAYLOR ALDERMAN, *THE RIGHT BALL: A PRIMER FOR MANAGEMENT NEGOTIATORS IN HIGHER EDUCATION* 41 (1989).

<sup>46</sup> N.J. CONST. art. I, ¶ 19.

<sup>47</sup> N.J. STAT. ANN. § 34:13A-5.3 (West 2011).

<sup>48</sup> *See* *Dunellen Bd. of Educ. v. Dunellen Educ. Ass'n*, 311 A.2d 737, 744 (N.J. 1973) (“Thus far our Legislature has not chosen to set forth the individual subjects which are to be negotiable and has left the matter to the judiciary for case by case determinations as to what are terms and conditions of employment within the meaning of N.J.S.A. 34:13A-5.3.”).

<sup>49</sup> *Ridgefield Park Educ. Ass'n v. Ridgefield Park Bd. of Educ.*, 393 A.2d 278, 282–83 (N.J. 1978). The year after this decision, the legislature amended the Public Employer-Employee Act to vest PERC with “the power and duty, upon the request of any public employer or majority representat-

trative agency established under the Employer-Employee Relations Act to make policy and promulgate regulations designed to implement the provisions of the Act.<sup>50</sup> It exercises authority over charges of unfair labor practices, representation issues, and impasse procedures.<sup>51</sup>

The New Jersey Supreme Court eventually ruled that, while public employees in New Jersey have the same interest as private employees in negotiating terms and conditions of employment, the scope of negotiations in the public sector should be more limited compared to the private sector. The Court, in *In re Local 195*, based its reasoning on the premise that “the employer in the public sector is government, which has special responsibilities to the public not shared by private employers.”<sup>52</sup> The unique responsibility of the State is “to make and implement public policy.”<sup>53</sup> Therefore, to determine if a particular subject is negotiable between public employers and public employees, “the Court must balance the competing interests by considering the extent to which collective negotiations will impair the determination of governmental policy.”<sup>54</sup>

#### b. Three-Part Test

The New Jersey Supreme Court used a three-part test to determine whether a subject is within the scope of negotiations.<sup>55</sup> Under the test,

a subject is negotiable between public employers and employees when (1) the item intimately and directly affects the work and welfare of public employees; (2) the subject has not been fully or partially preempted by statute or regulation; and (3) a negotiated agreement would not significantly interfere with the determination of governmental policy.<sup>56</sup>

The contours of the first and third prongs took shape quickly. Under the first prong of the test, the Court has held that compensation is a fundamental term and condition.<sup>57</sup> For the third prong of the test, the Court in *In re Local 195* provided a balancing test. To determine whether a negotiated agreement would significantly interfere with the determination of governmental policy, “it is necessary to balance the interests of the public employees and the public employer. When the dominant concern is the government’s managerial prerogative to determine policy,

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ive, to make a determination as to whether a matter in dispute is within the scope of collective negotiations.” N.J. STAT. ANN. §34:13A-5.4(d) (West 2011).

<sup>50</sup> N.J. STAT. ANN. § 34:13A-5.2 (West 2011).

<sup>51</sup> *Id.* § 34:13A-5.4(c)–(e).

<sup>52</sup> 443 A.2d 187, 191 (N.J. 1982).

<sup>53</sup> *Id.*

<sup>54</sup> *Id.*

<sup>55</sup> *Id.* at 191.

<sup>56</sup> *Id.* at 192.

<sup>57</sup> *Id.* See *In re Hunterdon Cnty. Bd. of Chosen Freeholders*, 561 A.2d 597, 602 (N.J. 1989); *Englewood Bd. of Educ. v. Englewood Teachers Ass’n*, 311 A.2d 729, 731 (N.J. 1973).

a subject may not be included in collective negotiations even though it may intimately affect employees' working conditions."<sup>58</sup>

The New Jersey Supreme Court has also found that educational goals, like governmental policies, are managerial prerogatives. "When the dominant issue is an educational goal, there is no obligation to negotiate . . . even though [the matter] may affect or impact [sic] upon the employees' terms and conditions of employment."<sup>59</sup>

### c. Preemption

The Court later refined *In re Local 195*'s second prong—preemption. In *Bethlehem Township Board of Education v. Bethlehem Township Education Association*, the New Jersey Supreme Court held that for a statute or regulation to preempt negotiation, it must "expressly, specifically and comprehensively" regulate the issue over which negotiations are proposed.<sup>60</sup>

## 3. Kansas

As in New Jersey, the constitution and statutes of the state of Kansas protect the rights of workers to belong to labor unions. The Kansas Constitution states, "[n]o person shall be denied the opportunity to obtain or retain employment because of membership or non-membership in any labor organization."<sup>61</sup> The Kansas Public Employer-Employee Relations ("PEER") Act provides public employees with "the right to form, join and participate in the activities of employee organizations of their own choosing, for the purpose of meeting and conferring with public employers or their designated representatives with respect to grievances and conditions of employment."<sup>62</sup>

### a. "Conditions of Employment"

Compared to New Jersey, however, the Kansas statutes regarding the subjects of bargaining for public employees are more detailed. The Kansas PEER Act delineates a list of "conditions of employment." They are: "salaries, wages, hours of work, vacation allowances, sick and injury leave, number of holidays, retirement benefits, insurance benefits, prepaid legal service benefits, wearing apparel, premium pay for overtime, shift differential pay, jury duty and grievance procedures."<sup>63</sup>

Despite this seemingly definitive list, the Kansas Supreme Court—in an earlier case between the Kansas Board of Regents and the faculty union at Pittsburg

<sup>58</sup> *In re Local 195*, 443 A.2d at 192–93.

<sup>59</sup> *Bd. of Educ. v. Woodstown-Pilesgrove Reg'l Educ. Ass'n*, 410 A.2d 1131, 1135 (N.J. 1980).

<sup>60</sup> 449 A.2d 1254, 1257 (N.J. 1982) (quoting *Council of N.J. State College Locals v. State Bd. of Higher Educ.*, 449 A.2d 1244, 1250 (N.J. 1982)).

<sup>61</sup> KAN. CONST. art. 15, § 12.

<sup>62</sup> KAN. STAT. ANN. § 75–4324 (2011).

<sup>63</sup> *Id.* § 75–4322(t).

State—concluded that the legislature did not intend “the laundry list of conditions of employment” to be viewed narrowly.<sup>64</sup> “To the contrary, the legislature targets all subjects *relating to* conditions of employment.”<sup>65</sup> The Court examined several subjects that arose during negotiations to see if they were “*significantly related to an express condition of employment*” of Pittsburg State faculty.<sup>66</sup> The Court found the following items to be significantly related to one or more of the statutorily listed conditions of employment and, therefore, mandatorily negotiable: budget inputs for salary generation and allocation; out-of-state travel funds; the criteria, procedures, or methods by which candidates for promotion are identified; the criteria, procedures, or methods for screening candidates for summer employment; tenure; retrenchment procedures; and personnel files.<sup>67</sup>

#### b. Preemption Exception

Although the Kansas Supreme Court has expanded the list of the conditions of employment, the PEER Act has four specific restrictions—or preemptions—on the subjects included in a collective bargaining agreement. They are: (1) any subject preempted by federal or state law; (2) statutorily defined public employee rights; (3) statutorily defined public employer rights; and (4) “the authority and power of any civil service commission [or] personnel board . . . to conduct and grade merit examinations” that determine appointments or promotions to “positions in the competitive division of the classified service of the public employer served by such civil service commission or personnel board.”<sup>68</sup>

The term “preempted” is not defined in the PEER Act. The third exception, regarding the rights of public employers, has been called “a managerial prerogative” by the Kansas Supreme Court.<sup>69</sup> That term makes the Kansas exception similar to the exception in New Jersey under the third prong of the balancing test in *In re Local 195*.<sup>70</sup>

The courts in New Jersey and Kansas have had to apply their respective scope-of-negotiation tests to campus patent policies in recent years. Before analyzing those cases, a brief review of copyright and patent law will help frame the issues confronted by the courts.

<sup>64</sup> Kansas Bd. of Regents and Pittsburg State Univ., 667 P.2d 306, 318–19 (Kan. 1983).

<sup>65</sup> *Id.* at 319 (emphasis in original).

<sup>66</sup> *Id.* at 317 (emphasis in original).

<sup>67</sup> *Id.* at 321–26.

<sup>68</sup> KAN. STAT. ANN. § 75–4330 (2011).

<sup>69</sup> 667 P.2d at 319.

<sup>70</sup> 443 A.2d at 187, 192–93 (N.J. 1982).

### III. Intellectual Property Law

Intellectual property includes patents, copyrights, trademarks, and trade secrets. This section will focus on the two subjects most relevant to faculty activities: copyrights and patents. Ownership of intellectual property is a significant incentive. “[A]uthors and inventors would not create intellectual property without the possibility of being rewarded through royalties and licenses derived from copyright and licensing, nor would businesses invest in new products unless they were able to reduce risk somewhat through purchase of copyrights and patents.”<sup>71</sup> Institutions have a similar economic interest: they want to ensure they are compensated for the use of their resources in these works.<sup>72</sup>

In the United States, the concepts of protecting the property interests of authors and inventors, and providing useful information to the public, are embedded in the Constitution, which grants Congress the power “[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.”<sup>73</sup>

#### A. Copyright

##### 1. *What Can Be Copyrighted*

The Copyright Act of 1976 defines eight categories of works of authorship: “literary works; musical works, including any accompanying words; dramatic works, including any accompanying music; pantomimes and choreographic works; pictorial, graphic, and sculptural works; motion pictures and other audiovisual works; sound recordings; and architectural works.”<sup>74</sup>

The Copyright Act protects a work from the time it is created. It provides copyright protection to “original works of authorship fixed in any tangible medium of expression, now known or later developed, from which they can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device.”<sup>75</sup> Stated more simply, “[A] work is protected at the very instant that, for example, a word is written on a page or encoded onto a computer disk.”<sup>76</sup> An author is not required to register a copyright, or even affix a copyright notice to the work to secure copyright protections.<sup>77</sup>

<sup>71</sup> SHEILA SLAUGHTER & LARRY LESLIE, *ACADEMIC CAPITALISM: POLITICS, POLICIES AND THE ENTREPRENEURIAL UNIVERSITY* 39 n.6 (1997).

<sup>72</sup> Laura G. Lape, *Ownership of Copyrightable Works of University Professors: The Interplay Between the Copyright Act and University Copyright Policies*, 37 *VILL. L. REV.* 223, 257 (1992).

<sup>73</sup> U.S. CONST. art. I, §8, cl. 8.

<sup>74</sup> 17 U.S.C. § 102(a) (2006).

<sup>75</sup> *Id.*

<sup>76</sup> Russ VerSteeg, *Copyright and the Educational Process: The Right of Teacher Inception*, 75 *IOWA L. REV.* 381, 384 (1990).

<sup>77</sup> 17 U.S.C. § 408(a) (2006).



## 2. Ownership

Copyright ownership “vests initially in the author or authors of the work”<sup>78</sup> and lasts for the life of the author plus 70 years,<sup>79</sup> or, in the case of a work made for hire (described later), 95 years from the first publication of the work or 120 years from its creation, whichever comes first.<sup>80</sup>

Copyright owners enjoy exclusive rights to their works under the Copyright Act. This bundle of rights includes: (1) reproducing the work in copies or phonorecords;<sup>81</sup> (2) preparing derivative works; (3) distributing copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending; (4) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, performing the copyrighted work publicly; (5) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work, displaying the copyrighted work publicly; and (6) in the case of sound recordings, performing the copyrighted work publicly by means of a digital audio transmission.<sup>82</sup>

Another stick in the bundle of rights constituting copyright ownership is the right of transfer.<sup>83</sup> A “transfer of copyright ownership” is an assignment, exclusive license, and any other conveyance other than a nonexclusive license.<sup>84</sup> All transfers, other than those by operation of law, must be through “an instrument of conveyance, or a note or memorandum of the transfer” in writing and signed by the transferor.<sup>85</sup>

## 3. Works Made for Hire

The law allows an exception to the general rule that the creator of the work is considered the author. Under the concept of “works made for hire,” the author—and therefore the owner of the copyright—is often an employer or the person for whom the work was prepared.<sup>86</sup> The Copyright Act establishes two situations un-

<sup>78</sup> *Id.* at § 201(a).

<sup>79</sup> *Id.* at § 302(a).

<sup>80</sup> *Id.* at § 302(c).

<sup>81</sup> Under the Copyright Act, phonorecords are defined as “material objects in which sounds, other than those accompanying a motion picture or other audiovisual work, are fixed by any method now known or later developed, and from which the sounds can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device. The term ‘phonorecords’ includes the material object in which the sounds are first fixed.” *Id.* at § 101.

<sup>82</sup> *Id.* at § 106.

<sup>83</sup> 17 U.S.C. § 201(d) (2006).

<sup>84</sup> *Id.* at § 101

<sup>85</sup> *Id.* at § 204(a).

<sup>86</sup> *Id.* at §§ 101, 201(b).

der which a work is a “work made for hire”: (1) a work prepared by employees within the scope of their employment; or (2) a work specially ordered or commissioned, provided “the parties expressly agree in a written instrument signed by them that the work shall be considered a work made for hire.”<sup>87</sup>

A healthy debate exists among legal scholars as to whether the copyrightable work of faculty members that is not specially ordered or commissioned is work a made for hire.<sup>88</sup> These legal arguments all stem from *Community for Creative Non-Violence v. Reid*, a U.S. Supreme Court case that considered whether a sculptor working for no fee for a nonprofit organization to create a statue to depict the plight of the homeless was an employee creating a work within the scope of his employment.<sup>89</sup> The Court devised a 13-point test to define an employee under the Copyright Act’s definition of work made for hire.<sup>90</sup> Analyzing this test, scholars who argue that faculty-authored works are not works made for hire include Dreyfuss,<sup>91</sup> Kilby,<sup>92</sup> Gorman,<sup>93</sup> and Kwall.<sup>94</sup> Scholars who find that faculty-authored works are works made for hire include Simon,<sup>95</sup> Wadley and Brown,<sup>96</sup> Laughlin,<sup>97</sup> and McSherry.<sup>98</sup>

#### 4. Academic Exception

An even healthier debate focuses on the “academic exception” from the Copyright Act.<sup>99</sup> The academic exception—a time-honored tradition that allows teachers and college faculty to retain copyright ownership of their work—grew out

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<sup>87</sup> *Id.* at § 101.

<sup>88</sup> See Michael W. Klein, *The ‘Equitable Rule’: Copyright Ownership of Distance-Education Courses*, 31 J.C. & U.L. 143, 159–66 (2004) (summarizing the debate).

<sup>89</sup> 490 U.S. 730 (1989).

<sup>90</sup> *Id.* at 751–52.

<sup>91</sup> Rochelle Cooper Dreyfuss, *The Creative Employee and the Copyright Act of 1976*, 54 U. CHI. L. REV. 590 (1987).

<sup>92</sup> Pamela A. Kilby, *The Discouragement of Learning: Scholarship Made for Hire*, 21 J.C. & U.L. 455 (1995).

<sup>93</sup> Robert A. Gorman, *Copyright Conflicts on the University Campus: The First Annual Christopher A. Meyer Memorial Lecture*, 47 J. COPYRIGHT SOC’Y OF THE U.S.A. 291 (2000).

<sup>94</sup> Roberta Rosenthal Kwall, *Copyright Issues in Online Courses: Ownership, Authorship and Conflict*, 18 SANTA CLARA COMPUTER & HIGH TECH L.J. 1 (2001).

<sup>95</sup> Todd F. Simon, *Faculty Writings: Are They “Works Made for Hire” Under the 1976 Copyright Act?*, 9 J.C. & U.L. 485 (1982–83).

<sup>96</sup> James B. Wadley & JoLynn M. Brown, *Working Between the Lines of Reid: Teachers, Copyrights, Work-for-Hire and a New Washburn University Policy*, 38 WASHBURN L.J. 385 (1999).

<sup>97</sup> Gregory Kent Laughlin, *Who Owns the Copyright to Faculty-Created Web Sites?: The Work-for-Hire Doctrine’s Applicability to Internet Resources Created for Distance Learning and Traditional Classroom Courses*, 41 B.C. L. REV. 549 (2000).

<sup>98</sup> CORYNNE MCSHERRY, *WHO OWNS ACADEMIC WORK? BATTLING FOR CONTROL OF INTELLECTUAL PROPERTY* (2001).

<sup>99</sup> Klein, *supra* note 88, at 167–70.

of case law interpreting the Copyright Act of 1909, though it is unclear whether it survived the amendments to the Copyright Act in 1976.<sup>100</sup> The influential Seventh Circuit Court of Appeals is split on this issue. Supporting the exception, the judge in one case wrote that “reasons for a presumption against finding academic writings to be work made for hire are as forceful today as they ever were.”<sup>101</sup> The year before this decision, a judge in the same circuit wrote that the Copyright Act’s work-made-for-hire provisions were “general enough to make every academic article a ‘work for hire’ and therefore vest exclusive control in universities rather than scholars.”<sup>102</sup>

Legal commentators who believe the academic exception still exists include VerSteeg,<sup>103</sup> Lape,<sup>104</sup> and Laughlin.<sup>105</sup> Legal scholars who conclude that the academic exception is no longer good law include Simon,<sup>106</sup> DuBoff,<sup>107</sup> Dreyfuss,<sup>108</sup> and Wadley and Brown.<sup>109</sup>

Given the current state of flux over the academic exception, including the split in the Seventh Circuit between *Hays* and *Weinstein* and the debate among legal scholars, “[w]hat is clear is that without an explicit statutory foundation[,] the exception can no longer simply be assumed.”<sup>110</sup> University policies that do not clearly address intellectual property ownership of online courses create a dilemma: such courses are part textbook, over which universities rarely exert rights, and part invention, over which universities typically assert ownership and share in licensing income.<sup>111</sup> The best way to resolve this ambiguity is to enact clear university policies.<sup>112</sup>

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<sup>100</sup> 35 Stat. 1075–88, 17 U.S.C. §§ 1–216 (repealed 1978); *Sherrill v. Grieves*, 57 Wash. L. Rep. 286 (1929); *Williams v. Weisser*, 78 Cal. Rptr. 542 (1969).

<sup>101</sup> *Hays v. Sony Corp.*, 847 F.2d 412, 416 (7th Cir. 1988).

<sup>102</sup> *Weinstein v. Univ. of Ill.*, 811 F.2d 1091, 1094 (7th Cir. 1987).

<sup>103</sup> VerSteeg, *supra* note 76.

<sup>104</sup> Lape, *supra* note 72.

<sup>105</sup> Laughlin, *supra* note 97.

<sup>106</sup> Simon, *supra* note 95.

<sup>107</sup> Leonard D. DuBoff, *An Academic’s Copyright: Publish and Perish*, 32 J. COPYRIGHT SOC’Y OF THE U.S.A 17 (1984–85).

<sup>108</sup> Dreyfuss, *supra* note 91.

<sup>109</sup> Wadley & Brown, *supra* note 96.

<sup>110</sup> McSHERRY, *supra* note 98.

<sup>111</sup> Michael W. Klein, “Sovereignty of Reason:” *An Approach to Sovereign Immunity and Copyright Ownership of Distance-Education Courses at Public Colleges and Universities*, 34 J.L. & EDUC. 199, 205 (2005).

<sup>112</sup> Georgia Harper, *Developing a Comprehensive Copyright Policy to Facilitate Online Learning*, 27 J.C. & U.L. 5, 8 (2000); Joy Blanchard, *The Teacher Exception Under the Work for Hire Doctrine: Safeguard of Academic Freedom or Vehicle for Academic Free Enterprise?*, 35 INNOVATIVE HIGHER EDUC. 61, 67 (2010).

### 5. *Campus Policies*

Between 1992 and 2002, an increasing number of leading research universities adopted copyright policies.<sup>113</sup> These policies meet the transfer requirements under the Copyright Act when institutions expressly incorporate by reference their written copyright policy into a written employment contract signed by the faculty member and the university.<sup>114</sup> Faculty contracts often consist of several documents, including “[a] university’s faculty handbook, a departmental handbook, departmental policies, and various pamphlets on fringe benefits and personnel administration.”<sup>115</sup>

Under their copyright policies, most institutions assert institutional ownership over expressly assigned works made for hire.<sup>116</sup> For works that are not expressly made for hire, “use of university resources” or “significant or substantial use of university resources” is the criterion for the institution to claim at least some ownership of the faculty member’s authored work.<sup>117</sup> Such resources usually will not include libraries, offices, classrooms, laboratories, and support staff.<sup>118</sup>

With regard to traditional scholarly works, some institutions “expressly disclaim university ownership of copyrights.”<sup>119</sup> Such works are defined to include “traditional literary works,” such as books, articles, plays, and poetry; and “educational materials,” such as syllabi, lecture notes, and tests.<sup>120</sup>

## B. Patents

### 1. *What Can Be Patented*

Patents protect inventions and discoveries. The Patent Act states, “[w]hoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor.”<sup>121</sup> It spells out four requirements for obtaining a patent. The invention must be novel; be nonobvious to someone skilled in the field related to the patent; have utility; and be within one of five classes of patentable subject matter: (1) processes, (2) machines, (3) manufactures, (4) compositions of matter, and (5) new and useful improvements of items within the first four categories.<sup>122</sup> A

<sup>113</sup> See Lape, *supra* note 72, at 252; Ashley Packard, *Copyright or Copy Wrong: An Analysis of University Claims to Faculty Work*, 7 COMM. L. & POL’Y 275, 294 (2002).

<sup>114</sup> Lape, *supra* note 72, at 247. See also *Weinstein v. Univ. of Ill.*, 811 F.2d 1091, 1094 (7th Cir. 1987) (providing an example of a university copyright policy).

<sup>115</sup> Michael C. Weston, “*Outside*” *Activities of Faculty Members*, 7 J.C. & U.L. 68, 69 (1980–81).

<sup>116</sup> Packard, *supra* note 113, at 301.

<sup>117</sup> Lape, *supra* note 72, at 257.

<sup>118</sup> *Id.*

<sup>119</sup> Packard, *supra* note 113, at 298.

<sup>120</sup> *Id.* at 298–99.

<sup>121</sup> 35 U.S.C. § 101 (2006).

<sup>122</sup> *Id.* at §§ 101–103.

patent confers to its owner exclusive rights to use the invention for a period of twenty years from the date of application, which allows owners to prevent imitations and to develop and sell their product.<sup>123</sup>

The U.S. Supreme Court has ruled that by “choosing such expansive terms as ‘manufacture’ and ‘composition of matter,’ modified by the comprehensive [term] ‘any,’ Congress plainly contemplated that the patent laws would be given wide scope.”<sup>124</sup> While the courts have held that the laws of nature, physical phenomena, and abstract ideas cannot be patented,<sup>125</sup> inventions such as a genetically altered bacterium that breaks down components of crude oil have been held to be patentable because they are a non-naturally occurring manufacture, not a previously unknown natural phenomenon.<sup>126</sup>

## 2. *Inventorship*

Patent law, unlike the Copyright Act’s “work-made-for-hire” doctrine, has no “invention for hire” doctrine. However, the inverse of this concept, “hired to invent,” has appeared in case law, as explained later. The “inventor” must be a natural person, not a corporation.<sup>127</sup>

With a few exceptions, inventors must apply for the patent. The “inventor” is the person who devises the original inventive concept and reduces it to practice.<sup>128</sup> “Reduction to practice” means “the conception [is] embodied in readily utilizable form,” which is necessary to receive a patent.<sup>129</sup>

Under the Patent Act, inventors have the authority to assign patent ownership rights. The act provides that patent applications, patents, and any interests therein have the attributes of personal property and may be transferred by a written instrument.<sup>130</sup>

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<sup>123</sup> *Id.* at § 154(a)(2).

<sup>124</sup> *Diamond v. Chakrabarty*, 447 U.S. 303, 308 (1980).

<sup>125</sup> *Id.* at 309.

<sup>126</sup> *Id.*

<sup>127</sup> Sunil R. Kulkarni, *All Professors Create Equally: Why Faculty Should Have Complete Control Over the Intellectual Property Rights in Their Creations*, 47 HASTINGS L.J. 221, 230–31 (1995). Some courts have recognized that the “true inventive entity” might not be a particular individual inventor, but an institution like a corporation or a university. *Haskell v. Colebourne*, 671 F.2d 362, 1366 (C.C.P.A. 1982) (noting that some courts have recognized that the “true inventive entity” might not be a particular individual inventor, but an institution like a corporation or a university).

<sup>128</sup> 35 U.S.C. § 102 (2011).

<sup>129</sup> PAUL GOLDSTEIN, *COPYRIGHT, PATENT, TRADEMARK AND RELATED STATE DOCTRINES: CASES AND MATERIALS ON THE LAW OF INTELLECTUAL PROPERTY* 407–08 (3rd ed. 1993).

<sup>130</sup> 35 U.S.C. § 261 (2006).

### 3. Ownership

Because patents are considered private property, state laws regarding contracts, rather than federal laws, govern ownership of inventions and discoveries.<sup>131</sup> Court cases provide important interpretations of employment relationships based on the presence of a contract. In 1933, the U.S. Supreme Court ruled on a case in which an associate physicist and a lab assistant in the Bureau of Standards in the U.S. Department of Commerce invented three products related to broadcast reception and power amplification in loudspeakers.<sup>132</sup> The researchers worked on these inventions voluntarily, but pursued their research while on the job, using Bureau resources and facilities, and with the knowledge and encouragement of their supervisors.<sup>133</sup> The Court ruled that employees are generally considered the inventor of any patentable invention they develop in the course of their work, writing: "if the employment be general, albeit it covers a field of labor and effort in the performance of which the employee conceive the invention for which he obtained a patent, the contract is not so broadly construed as to require an assignment of the patent."<sup>134</sup>

If employees use the resources and time of their employer to create their invention, the employer retains a "shop right" in the invention, which provides the employer with a nonexclusive and nontransferable use of the invention, even after the inventor is no longer an employee.<sup>135</sup> The employees still retain ownership, which includes the rights to assign and sublicense interest in the invention.<sup>136</sup>

If, however, the employee is hired specifically to create an invention, the employee must assign the patent to the employer. The *Dubilier* Court wrote:

One employed to make an invention, who succeeds, during his term of service, in accomplishing that task, is bound to assign to his employer any patent obtained. The reason is that he has only produced that which he was employed to invent. His invention is the precise subject of the contract of employment.<sup>137</sup>

This provision within *Dubilier* has become known as the "hired-to-invent" doctrine. "If an employee is hired to invent, the employee must assign his entire right, title, and interest in any patents arising from inventions conceptualized during

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<sup>131</sup> KAPLIN & LEE, *supra* note 34, at 1359.

<sup>132</sup> *United States v. Dubilier Condenser Corp.*, 289 U.S. 178, 184–85, *amended by* 289 U.S. 706 (1933).

<sup>133</sup> *Id.* at 185.

<sup>134</sup> *Id.* at 187.

<sup>135</sup> *Id.* at 188–89. See also Ann Bartow, *Inventors of the World, Unite! A Call for Collection Action by Employee-Inventors*, 37 SANTA CLARA L. REV. 673, 686 (1997).

<sup>136</sup> *Dublier*, 289 U.S. at 189.

<sup>137</sup> *Id.* at 187.

employment and stemming from the tasks delegated to him by his employer.”<sup>138</sup> If this relationship is “not specifically expressed in the employment contract, it is implicit that what the employee is hired to invent will become the sole property of the employer.”<sup>139</sup>

#### 4. Patent Ownership at Universities

##### a. Assignment

As with copyrights, universities usually assert patent rights over faculty inventions through campus policies incorporated into faculty contracts. “[W]here there has been a knowing and voluntary waiver by the faculty inventor, such as signing an agreement to abide by institutional policies or an agreement to assign inventions,” the law is “quite settled that universities may claim ownership of patents.”<sup>140</sup> Even without a signed agreement, universities may require employees to assign inventions to the institution. “Generally, the policy must clearly require assignment of all inventions by all persons likely to be inventors, and the inventor must have known about the policy.”<sup>141</sup>

Campus patent policies generally follow one of three models.<sup>142</sup> They are: (1) the “resource-provider approach,” based on the faculty member’s use of institutional resources; (2) the “maximalist approach,” where the institution asserts ownership if the faculty member uses institutional resources, or develops inventions in the “course of employment”; and (3) the “supra-maximalist approach,” where the institution claims any invention developed by the faculty member, regardless of the use of university resources or whether the invention was developed during the course of employment.<sup>143</sup>

Patent policies usually require faculty to assign creations and any accompanying rights to their institution in exchange for a specified percentage of any royalties the institution might receive. Many colleges and universities pay royalties to their faculty that are a fixed percentage of the total revenue received, “ranging from 15% to 50% at major research universities.”<sup>144</sup> Other institutions pay royalties on a sliding scale based on the net income they receive.<sup>145</sup> In many cases, the faculty

<sup>138</sup> Marc B. Hershovitz, *Unhitching the Trailer Clause: The Rights of Inventive Employees and Their Employers*, 3 J. INTELL. PROP. L. 187, 194 (1995).

<sup>139</sup> *Id.* at 194–95.

<sup>140</sup> KAPLIN & LEE, *supra* note 34, at 1359. See *Modern Controls, Inc. v. Andreadakis*, 578 F.2d 1264, 1269 n.12 (8th Cir. 1978) (“Such provision are valid, if they are restricted to the line of actual employment involved and not unreasonably extended in time.”).

<sup>141</sup> KAPLIN & LEE, *supra* note 34, at 1360.

<sup>142</sup> Chew, *supra* note 8, at 276.

<sup>143</sup> *Id.*

<sup>144</sup> Kulkarni, *supra* note 127, at 234.

<sup>145</sup> *Id.*

member's department receives a percentage of royalty revenue.<sup>146</sup> The institution's technology transfer office—rather than the faculty member—will handle the marketing and licensing of the creation.<sup>147</sup>

b. Federally Funded Projects: The Bayh-Dole Act

After World War II, most of the funding for large-scale scientific research came from the federal government.<sup>148</sup> Although universities conducted much of the research, they did not have ownership rights over their work. The federal government determined that research resulting from federal funding should belong in the public domain, available to the public at no cost.<sup>149</sup> "Universities were able to secure patents on federally funded research only when the government, through a long and cumbersome application process, granted special approval."<sup>150</sup>

The Bayh-Dole Act of 1980 changed that approach, in part to spur economic and scientific development. The law permits colleges and universities—and businesses as well—to obtain title to inventions made with the assistance of federal funding and to promote the commercial use of those inventions.<sup>151</sup> There are five steps toward obtaining title under Bayh-Dole: (1) the inventor, usually the faculty member, reports any patentable invention to the university;<sup>152</sup> (2) the university must then disclose the existence of the patentable invention to the federal sponsoring agency "within a reasonable time";<sup>153</sup> (3) the university has the opportunity to claim title to the invention provided it files a patent application in a timely fashion;<sup>154</sup> (4) if the university declines to claim title to the invention, then the federal government may claim title;<sup>155</sup> (5) if the government does not claim title (and it claims title infrequently), then the inventor can request rights in the invention.<sup>156</sup>

If the university obtains title, the government funding agency receives a nonexclusive royalty-free license on behalf of the United States.<sup>157</sup> The Bayh-Dole

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<sup>146</sup> *Id.*

<sup>147</sup> *Id.* at 235.

<sup>148</sup> DAVID L. KIRP, SHAKESPEARE, EINSTEIN, AND THE BOTTOM LINE: THE MARKETING OF HIGHER EDUCATION 208 (2003).

<sup>149</sup> Sheila Slaughter & Larry Leslie, *Professors Going Pro: The Commercialization of Teaching, Research, and Service*, in CAMPUS, INC.: CORPORATE POWER IN THE IVORY TOWER 140, 142 (Geoffrey D. White ed., 2000).

<sup>150</sup> SLAUGHTER & RHOADES, *supra* note 7, at 50.

<sup>151</sup> 35 U.S.C. § 202 (2006).

<sup>152</sup> *Id.* at § 202(c)(1).

<sup>153</sup> *Id.*

<sup>154</sup> *Id.* at § 202(c)(3).

<sup>155</sup> *Id.* at § 202(c)(2).

<sup>156</sup> *Id.* at § 202(d); KAPLIN & LEE, *supra* note 34, at 1359.

<sup>157</sup> 35 U.S.C. § 202(c)(4) (2006).



Act also reserves “march-in” rights to federal agencies to ensure adequate use of inventions, if the university does not fully exercise its right to use the invention.<sup>158</sup>

There is no equivalent to the Bayh-Dole Act for federally funded copyrightable works. The enabling acts of certain federal programs, however, have provisions regarding the ownership of copyrightable works produced in part through federal money. For example, the Regional Centers for the Transfer of Manufacturing Technology allow faculty members to claim copyright in works, such as computer software, created at the centers.<sup>159</sup> The faculty member must acknowledge government sponsorship in the work, and provide a permanent shop right in the work to the government.<sup>160</sup>

The Bayh-Dole Act applies only to government-sponsored research. When research is privately funded, the funding agreement usually determines ownership and licensing rights. Under most of these agreements, institutions must file patent applications before disclosing the results of the research, and they must permit research sponsors to review research results.<sup>161</sup>

Although the Bayh-Dole Act applies only to government-sponsored research, it has created a presumption that all faculty research is owned by the employer university. One legal scholar questions this assumption and argues that faculty have an inherent right of ownership that is abrogated only under a written agreement.<sup>162</sup> Building on this assertion, another commentator argues that faculty should own all the intellectual property rights—copyrights and patents—to their works, no matter the medium in which they appear.<sup>163</sup>

#### IV. Intellectual Property Policies at Rutgers and Pittsburg State: Within the Scope of Bargaining?

##### A. Rutgers University’s Intellectual Property Policies

Rutgers University has separate policies for copyrights and patents. The AAUP challenged only the patent policy, perhaps because the copyright policy at the time did not assert many university rights over faculty-authored work, focusing mainly on works made for hire.<sup>164</sup>

<sup>158</sup> *Id.* at § 203.

<sup>159</sup> 15 C.F.R. § 290.9 (2010).

<sup>160</sup> *Id.*

<sup>161</sup> KAPLIN & LEE, *supra* note 34, at 1359.

<sup>162</sup> Chew, *supra* note 8, at 261–62.

<sup>163</sup> See Kulkarni, *supra* note 127, at 223 (“[P]rofessors . . . should own all IP rights in their creations.”).

<sup>164</sup> RUTGERS UNIVERSITY, *Interim Copyright Policy*, in A MANUAL FOR RESEARCH AND SPONSORED PROGRAMS 37 (1990). Rutgers adopted a new copyright policy on January 18, 2007. RUTGERS UNIVERSITY, *Copyright Policy*, in RUTGERS POLICY § 50.3.7 (2007), available at <http://policies.rutgers.edu/PDF/Section50/50.3.7-current.pdf>.

The Rutgers' copyright policy in effect at the time of the AAUP suit stated that the university did not intend to "infringe upon the traditional rights of faculty, staff, and students to write or otherwise generate, on their own initiative, copyrightable materials to which they have sole rights of ownership and disposition."<sup>165</sup> The university did not claim copyrightable materials on the basis that "it provides the libraries, offices and laboratories where the materials are generated or because it pays salaries to those who generate the materials."<sup>166</sup>

Rutgers did, however, assert an interest in copyrightable works "when it provide[d] facilities, salaries, or other support for the express purpose of creating such materials."<sup>167</sup> In those cases, the departmental chairman, dean, or university officer who directed the production of the work decided whether to copyright the work. Ordinarily, the university would not copyright faculty-produced materials.<sup>168</sup> "But if the cost of producing the materials must be recovered from sales, or if there is other good reason, the materials shall be copyrighted in the name of Rutgers University, or in the name of a publisher with whom the University will enter into a contract."<sup>169</sup> If materials were copyrighted, then the author and possibly the publisher entered a copyright agreement with the university, and property rights to the materials were "divided between the University, the author or authors, and the publisher in an equitable way, reflecting the contribution made by each party to the finished materials."<sup>170</sup>

The copyright policy adopted in 2007 expanded the ownership rights of the university. While reaffirming "the faculty's rights to retain copyright ownership to the scholarly and artistic works they create . . . without regard to the extent of university resources involved in the creation of these works,"<sup>171</sup> Rutgers asserted ownership over four specific works: (1) "[w]orks created at the university's direction"; (2) "[w]orks created by staff within the scope of their employment"; (3) "[w]orks created by students in their capacity as employees of the university"; and (4) works created with external funding where the terms of the funding require copyright in the name of the university.<sup>172</sup> Moreover, "[w]ith the exception of traditional scholarly and artistic works . . . the university also may elect to own the copyright to works created using substantial university resources," defined as "the use of univer-

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<sup>165</sup> *Interim Copyright Policy*, *supra* note 164.

<sup>166</sup> *Id.*

<sup>167</sup> *Id.*

<sup>168</sup> *Id.* at 38.

<sup>169</sup> *Id.*

<sup>170</sup> *Id.*

<sup>171</sup> *Copyright Policy*, *supra* note 164, § 50.3.7 (III).

<sup>172</sup> *Id.*

sity funds, facilities, equipment or other resources not ordinarily available to all or most faculty members.”<sup>173</sup>

Under its patent policy, Rutgers requires those individuals covered under the policy—which include faculty, staff, and students—to “promptly” disclose inventions or discoveries to the director of the Office of Corporate Liaison and Technology Transfer before the inventor “discloses the same to the public and soon enough to permit timely filing of a patent application in the United States and in foreign countries.”<sup>174</sup> Persons covered under the policy are also required “to assign their individual rights to inventions, discoveries, improvements, and reductions to practice to the University, including, without limitation, United States and foreign patent rights and the right to claim priority under the terms of any international patent agreement.”<sup>175</sup>

Rutgers shares with inventors “revenue which it receives on patents according to a schedule of distribution designed to recognize the inventor’s creativity, the academic unit as an innovative environment, and the administrative leadership necessary for inventions to be commercialized successfully.”<sup>176</sup> The schedule for distributing licensing income has three steps:<sup>177</sup>

- a. the first \$5,000 in gross licensing income are paid to the inventor, “in recognition of individual creativity and inventorship”; then
- b. expenses—including patent filing, prosecution and maintenance fees, and marketing and litigation costs—are deducted to determine net income; then
- c. net income is distributed as follows:

Recipient	First \$100,000	Above \$100,000
Inventor	25%	28%
University/ Office of Corporate Liaison and Technology Transfer	25%	32%
Research Unit	40%	30%

<sup>173</sup> *Id.* at § 50.3.7 (III)–(IV).

<sup>174</sup> RUTGERS UNIVERSITY, *Patent Policy, in RUTGERS POLICY § 50.3.1(B)* (1996), available at <http://policies.rutgers.edu/PDF/Section50/50.3.1-current.pdf>.

<sup>175</sup> *Id.*

<sup>176</sup> *Id.* at § 50.3.1(F)(1).

<sup>177</sup> *Id.*

Department	10%	5%
Dean/Director	—	5%

Also under the policy, Rutgers asserts ownership over “[l]aboratory notebooks and all other documents pertaining to research activities.”<sup>178</sup> The policy states: “These records are necessary for the University to document an invention or discovery and to support a related patent application.”<sup>179</sup>

Rutgers’ patent policy also contains a provision that returns rights to the inventor. Under Section C, if Rutgers elects not to patent or commercialize an invention that has been disclosed to it, it shall notify the inventor, who may request permission to file a patent or have the rights to the invention assigned back to him or her. The policy further states that Rutgers has sole discretion to grant such requests, after considering “the public interest[,] the interests of sponsors . . . [and] the interests of the inventor and the University.”<sup>180</sup>

Rutgers amended its patent policy in 1996, the fourth revision of the policy originally adopted in 1962. The amended policy addressed some issues for the first time, such as equity holdings, and it significantly revised the methodology for distributing income resulting from a patent on an invention subject to the policy.<sup>181</sup>

## B. Adjudication of Rutgers’ Patent Policy

### 1. PERC

In April 2003, the Rutgers Council of AAUP Chapters filed a petition with PERC to determine whether certain aspects of Rutgers’ patent policy were subject to mandatory negotiation and could not be unilaterally adopted by the university.<sup>182</sup> The AAUP was principally concerned with assignment of patents, the restrictions on royalties they could receive for assignments, and the timing over disclosing inventions and discoveries to the university.<sup>183</sup>

PERC found that four subjects covered by the 1996 policy were mandatorily negotiable: (1) the distribution of royalty income to inventors; (2) the timing of

<sup>178</sup> *Id.* at § 50.3.1(B).

<sup>179</sup> *Id.*

<sup>180</sup> RUTGERS UNIVERSITY, *Patent Policy*, in RUTGERS POLICY § 50.3.1 (C) (1996), available at <http://policies.rutgers.edu/PDF/Section50/50.3.1-current.pdf>.

<sup>181</sup> Rutgers Council of AAUP Chapters v. Rutgers, 884 A.2d 821, 824 (N.J. Super. Ct. App. Div. 2005).

<sup>182</sup> *Id.* at 823.

<sup>183</sup> Rutgers v. Rutgers Council of AAUP Chapters, 30 N.J. Pub. Emp. Rep. 44, 68–71, 74, 77 (N.J. Pub. Emp. Relations Comm’n 2004).

disclosure of inventions and discoveries; (3) the ownership of laboratory notebooks; and (4) the terms under which inventions and discoveries are assigned to Rutgers.<sup>184</sup> The Appellate Division affirmed in part and reversed in part.<sup>185</sup>

PERC ruled that both the requirement to assign patents and the terms of these assignments are negotiable. Rutgers asserted that it owned faculty members' inventions as a matter of law, but PERC stated that the university "has not offered any particularized facts on this point and has not shown that all faculty members are 'hired to invent'."<sup>186</sup> With regard to non-federally funded research, PERC ruled that "[t]he terms of patent rights and other terms that may be arrived at through individual agreements may in theory be collectively negotiated."<sup>187</sup> This ruling was largely based on *Dubilier's* holding that employees' patent rights are established by their contract,<sup>188</sup> causing PERC to conclude that "the extent of an employer's rights to an employee's invention may be, and generally is, determined by agreement between the employer and employee."<sup>189</sup>

PERC limited this finding to non-federally funded research. It recognized that under the "comprehensive federal scheme" of Bayh-Dole, the scope of collective negotiations is more restricted for federally-funded inventions than for those that are not so financed.<sup>190</sup>

Moreover, PERC found that the percentage of royalties to be received by faculty member inventors is a mandatorily negotiable subject with respect to federally-funded and other research.<sup>191</sup> PERC agreed with the AAUP's argument "that royalty income constitutes compensation received by unit members in exchange for their assigning Rutgers patent rights to their inventions."<sup>192</sup>

PERC also declared that the policy provision regarding laboratory notebooks was subject to bargaining. PERC agreed that the university needed to have access to notebooks to support patent applications and prosecutions, but beyond that, "we find that the employees' interest in owning research materials unrelated to patent applications so that they can pursue publication outweighs any demonstrated managerial interest in owning that material."<sup>193</sup>

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<sup>184</sup> *AAUP*, 884 A.2d. at 825.

<sup>185</sup> *Id.* at 823.

<sup>186</sup> *Rutgers*, 30 N.J. Pub. Emp. Rep. at 62.

<sup>187</sup> *Id.*

<sup>188</sup> *United States v. Dubilier Condenser Corp.*, 289 U.S. 178, 187 (1933).

<sup>189</sup> *Rutgers*, 30 N.J. Pub. Emp. Rep. at 61–62.

<sup>190</sup> *Id.* at 64–65.

<sup>191</sup> *Id.* at 70.

<sup>192</sup> *Id.* at 68–69.

<sup>193</sup> *Id.* at 81.

## 2. Appellate Division

Addressing the least controversial issue first, the Appellate Division reversed PERC's decision and sided with Rutgers regarding ownership of laboratory notebooks. In reversing PERC's ruling on this matter, the Appellate Division found that the university's "assertion of ownership of these tangible, physical items" will not "in any way impede the ability of [the AAUP's] members to publish the results of their research."<sup>194</sup>

The Appellate Division also reversed PERC's decision regarding the timing of an inventor's duty to disclose inventions and discoveries to the university. Rutgers' policy requires inventors to "promptly . . . disclose [an] invention, discovery, improvement, or reduction to practice to the Director of the Office of Corporate Liaison and Technology Transfer."<sup>195</sup> The Appellate Division found it was difficult to "specify more precisely when an individual is required to disclose to the University an invention or discovery," and that it was "persuaded by Rutgers' assertion that the subject does not permit a more precise formulation."<sup>196</sup>

The court did not get the chance to rule whether the requirement to assign patents is mandatorily negotiable, but did get to address the negotiability of the terms of such assignments. Rutgers had appealed PERC's ruling "that the issue whether individuals subject to the Patent Policy had to assign to the University their rights in inventions and discoveries was mandatorily negotiable."<sup>197</sup> Both the AAUP and PERC, in their responding briefs, agreed with Rutgers that individuals subject to Rutgers' patent policy were obligated to make such an assignment, so the Appellate Division found that issue "is no longer an issue on appeal."<sup>198</sup>

Regarding the terms of such assignments, however, the Appellate Division upheld PERC. Citing precedent going back to *In re Local 195*, the court wrote:

It is clear from the record that the terms of such an assignment have the potential for a significant impact upon the overall financial compensation an individual may receive as a result of his or her efforts at Rutgers. Such issues of compensation, which "intimately and directly affect[] the work and welfare" of the employee, are mandatorily negotiable.<sup>199</sup>

<sup>194</sup> Rutgers Council of AAUP Chapters v. Rutgers, 884 A.2d 821, 826–27 (N.J. Super. Ct. App. Div. 2005).

<sup>195</sup> RUTGERS UNIVERSITY, *Patent Policy*, *supra* note 174, § 50.3.1 (B).

<sup>196</sup> AAUP, 884 A.2d at 827.

<sup>197</sup> *Id.* at 828.

<sup>198</sup> *Id.*

<sup>199</sup> *Id.* (quoting *City of Jersey City v. Jersey City Police Officers Benevolent Ass'n*, 713 A.2d 472, 478 (N.J. 1998) (citing *In re Local 195 v. State*, 443 A.2d 187, 192 (N.J. 1982))).

Concluding its review of terms of assigning a patent, the Appellate Division stated emphatically, “[t]he University cannot act by its own fiat in such a sphere.”<sup>200</sup>

Despite such strong language, the Appellate Division did not directly address the licensing-income distribution schedule in the Rutgers patent policy. Presumably, if the terms of a patent assignment are negotiable, the income received for such an assignment—termed a form of “compensation” by the AAUP, which Rutgers did not dispute<sup>201</sup>—is also negotiable as a term and condition of employment.

Neither Rutgers nor the AAUP appealed this case to the New Jersey Supreme Court. It is expected that the two sides will negotiate this matter,<sup>202</sup> but as of May 2012, the 1996 policy remained in place.<sup>203</sup>

### C. Pittsburg State University’s Intellectual Property Policy

In 1997, the Kansas Board of Regents proposed an intellectual property policy under which the board would retain ownership and control of any intellectual property created by faculty at Pittsburg State University.<sup>204</sup> The faculty union opposed the policy, proposed its own version, and demanded that the board and the union negotiate the issue.<sup>205</sup> The board refused to negotiate, claiming “the subject of intellectual property rights was not a condition of employment, was preempted by federal and state law, and was a management prerogative.”<sup>206</sup>

In the meantime, the board adopted a different intellectual property policy, which provided some intellectual property rights to institutional employees. A detailed case study has been published that describes the process that the Board of Regents followed between 1995 to 1998 in restructuring its intellectual property policies, including the “initial development of ownership policies for technology-based course materials.”<sup>207</sup> The purpose of the intellectual property policy was “to provide certainty in individual and institutional rights associated with ownership and with the distribution of benefits that may be derived from the creation of intel-

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<sup>200</sup> *Id.*

<sup>201</sup> *Rutgers v. Rutgers Council of AAUP Chapters*, 30 N.J. Pub. Emp. Rep. 44, 69 (N.J. Pub. Emp. Relations Comm’n 2004).

<sup>202</sup> Lisa Klein, *After Long Battle, AAUP-AFT Wins on Negotiability of Patent Policy*, RUTGERS AAUP-AFT NEWSLETTER (Rutgers AAUP-AFT, New Brunswick, N.J.), Dec. 2005, available at <http://www.rutgersaaup.org/news/December2005newsletter.htm#patent>.

<sup>203</sup> Rutgers University Office of Technology Commercialization, Patent Policy, <http://otc.rutgers.edu/downloads/patentpolicy.pdf> (last visited April 30, 2012).

<sup>204</sup> *Pittsburg State Univ. v. Kan. Bd. Of Regents*, 122 P.3d 336, 339 (Kan. 2005).

<sup>205</sup> *Id.*

<sup>206</sup> *Id.*

<sup>207</sup> John F. Welsh, *Course Ownership in a New Technological Context: The Dynamics of Problem Definition*, 71 J. HIGHER EDUC. 668, 674 (2000).

lectual property.”<sup>208</sup> The policy applied to “all full or part-time employees, including students, creating intellectual property related to the scope of their employment while under contract with a Regents institution,”<sup>209</sup> which encompasses six state universities.<sup>210</sup> The policy covered copyrights, patents, and trademarks.<sup>211</sup>

The copyright section of the policy provided the institutions with ownership of “all rights associated with works produced as ‘work-for-hire’ or other works that make ‘substantial use’ of institutional resources.”<sup>212</sup> “Substantial use” meant that the author “receives more than normal support for the project or receives time and/or resources specifically dedicated to the project.”<sup>213</sup> Faculty members retained ownership of “scholarly and artistic works,” including textbooks, scholarly monographs, and artistic works.<sup>214</sup>

Under the patent section of the policy, patents obtained on inventions “with an actual or projected market value in excess of \$10,000 annually resulting from institutionally sponsored research” were retained by the institution or assigned to an organization created to promote research and develop intellectual property at the institution.<sup>215</sup> If the institution received any revenue “from the development or assignment of any patent or from royalties, license fees or other charges based on any patent,” the faculty-inventor received at least 25% of the revenues.<sup>216</sup>

#### D. Adjudication of Kansas’ Intellectual Property Policy

##### 1. PERB and Lower Courts

In light of that policy, the faculty union “amended its complaint to allege that [the board’s] unilateral adoption of this policy was also a prohibited practice.”<sup>217</sup> The Kansas Public Employee Relations Board (PERB) determined there was no obligation to meet and confer on intellectual property policies because federal and state law preempted the subject.<sup>218</sup> The district court reversed this conclusion, but the Court of Appeals agreed with PERB and reversed the district court.<sup>219</sup>

<sup>208</sup> KAN. BD. OF REGENTS, *Intellectual Property Policy*, in POLICIES AND PROCEDURES MANUAL Ch. II, § D(8) (2011).

<sup>209</sup> *Id.*

<sup>210</sup> They are the University of Kansas, Kansas State University, Emporia State University, Fort Hays State University, Pittsburg State University, and Wichita State University. *Mission, Role, and Scope*, in POLICY AND PROCEDURES MANUAL, *supra* note 208, at Ch. II, § H.

<sup>211</sup> *Intellectual Property Policy*, in POLICIES AND PROCEDURES MANUAL, *supra* note 208.

<sup>212</sup> *Id.* at Ch. II, § D(8)(a).

<sup>213</sup> *Id.*

<sup>214</sup> *Id.* at Ch. II, § D(8)(a)(2).

<sup>215</sup> *Id.* at Ch. II, § D(8)(b).

<sup>216</sup> *Id.* at Ch. II, § D(8)(b)(3).

<sup>217</sup> Pittsburg State Univ. v. Kan. Bd. Of Regents, 122 P.3d 336, 339 (Kan. 2005).

<sup>218</sup> *Id.* at 338.

<sup>219</sup> *Id.*



The Court of Appeals wrote that “requiring mandatory negotiations concerning intellectual property is preempted by federal copyright law.”<sup>220</sup> The case next went to the Supreme Court of Kansas.

### 2. *Supreme Court of Kansas: No Preemption*

The Supreme Court of Kansas framed the case as “a narrow question of first impression: whether ownership of intellectual property rights is a subject preempted by state or federal law and, therefore, not mandatorily negotiable.”<sup>221</sup> In a lengthy review of federal copyright and patent law, the Court concluded that federal law does not preempt negotiations over intellectual property rights.<sup>222</sup> Focusing on whether “federal law prevents the parties from negotiating regarding ownership of intellectual property rights and entering into a memorandum of agreement which includes that subject,” the Court analyzed both copyright and patent law.<sup>223</sup> The Court found that “parties could negotiate ownership of a copyright” under the Copyright Act’s work-for-hire provision.<sup>224</sup> Similarly, the Court found that “the Patent Act specifically provides that the parties may assign patent ownership rights.”<sup>225</sup> Therefore, “federal law does not preempt any kind of intellectual property rights from becoming the subject of a memorandum of agreement under PEERA.”<sup>226</sup>

### 3. *“Mandatorily Negotiable”*

After its preemption analysis, the Kansas Supreme Court noted that the PERB “hearing officer did not reach the step of employing the balancing test”<sup>227</sup> to determine whether a particular item is mandatorily negotiable: “If an item is *significantly related* to an express condition of employment, and if negotiating the item will not unduly interfere with management rights reserved to the employer by law, then the item is mandatorily negotiable.”<sup>228</sup> The Court ruled that “[t]he district court should have remanded the case to PERB for additional findings regarding whether ownership of intellectual property is a condition of employment and whether the exception of K.S.A. 75-4330(a)(3) (public employer rights as defined in K.S.A. 75-4326) applies.”<sup>229</sup>

<sup>220</sup> *Id.* at 342 (quoting *Pittsburg State Univ. v. Kan. Bd. Of Regents*, 101 P.3d 740, 740 (Kan. Ct. App. 2004)).

<sup>221</sup> *Id.* at 338.

<sup>222</sup> *Id.* at 343-45.

<sup>223</sup> *Pittsburg State Univ. v. Kan. Bd. Of Regents*, 122 P.3d 336, 343 (Kan. 2005).

<sup>224</sup> *Id.* at 344 (citing 17 U.S.C. § 201(b) (2006)).

<sup>225</sup> *Id.* at 347 (citing 35 U.S.C. § 261 (2006)).

<sup>226</sup> *Id.*

<sup>227</sup> *Id.* at 349.

<sup>228</sup> *Id.* (quoting *Kansas Bd. of Regents v. Pittsburg State Univ. Chapter of Kan. Nat’l Educ. Ass’n*, 667 P.2d 306, 317 (Kan. 1983))(emphasis in original).

<sup>229</sup> *Pittsburg State Univ. v. Kan. Bd. Of Regents*, 122 P.3d 336, 349 (Kan. 2005).

#### 4. *On Remand to PERB*

Taking the cue from the Kansas Supreme Court, PERB implemented the scope-of-bargaining balancing test to determine whether the intellectual property policy could be classified as mandatorily negotiable.<sup>230</sup> With the Supreme Court having settled the matter of preemption,<sup>231</sup> PERB focused on the other two prongs.

In reference to whether publishing and inventorship were significantly related to employment, PERB found that “a professor's production of intellectual[] property has a direct and significant impact on the salary he or she earns.”<sup>232</sup> For example, a faculty member could get paid twice for the same creation, first through a salary increase<sup>233</sup> and then by royalty or licensing revenue.

In deciding whether negotiations would interfere with the managerial rights of the Board of Regents, PERB found that state statute did not indicate “any ‘inherent managerial prerogative’ that would suffer significant interference by negotiating in regard to intellectual property rights.”<sup>234</sup> Pittsburg State University and the Board of Regents argued that a requirement to negotiate intellectual property rights would interfere with their right to “direct the work of [their] employees.”<sup>235</sup> PERB disagreed, stating that the issue was the rights of faculty members “regarding intellectual property after it has been created.”<sup>236</sup>

Finally, PERB considered whether the unilateral implementation of the prior intellectual property policy at Pittsburg State constituted a “willful” refusal to meet and bargain in good faith with the faculty union.<sup>237</sup> After analyzing the legal meaning of “willful,” PERB found that implementation of the policy without consulting the faculty union constituted a prohibited practice per Kansas statutory law,<sup>238</sup> and it ordered the university to cease implementation of the intellectual property so that the parties could meet and confer in good faith.<sup>239</sup> The results of

<sup>230</sup> See *PSU v. Kan. Bd. of Regents*, No. 75-CAE-23-1998, 2007 WL 5883184, at \*4 (Pub. Emp. Relations Bd. 2007) (explaining the balancing test used to determine mandatory negotiability).

<sup>231</sup> *Id.* at \*6 (“[T]he ultimate determination by the Kansas Supreme Court that the subject is not preempted has rendered any further discussion of this issue moot.”). See *Pittsburg State Univ.*, 122 P.3d at 345, 347 (ruling that “federal law does not preempt any kind of intellectual property rights from becoming the subject of a memorandum of agreement under PEERA”).

<sup>232</sup> *PSU*, 2007 WL 5883184, at \*6

<sup>233</sup> *Id.*

<sup>234</sup> *Id.* at \*7.

<sup>235</sup> *Id.* (quoting KAN. STAT. ANN. § 75-4326(a) (2011)).

<sup>236</sup> *Id.*

<sup>237</sup> *Id.* at \*7-12.

<sup>238</sup> *PSU v. Kan. Bd. of Regents*, No. 75-CAE-23-1998, 2007 WL 5883184, at \*12 (Pub. Emp. Relations Bd. 2007).

<sup>239</sup> *Id.*

these negotiations can be seen in the 2008–2011 collective bargaining agreement for the faculty at Pittsburg State.<sup>240</sup>

##### *5. Current Kansas Board of Regents' Intellectual Property Policy and Pittsburg State Contract*

In its preamble, the Board of Regents' Intellectual Property Policy states that the policy "is intended to be a broad statement to provide uniformity among the institutions while allowing for institutional flexibility."<sup>241</sup> The policy is included in the 2008–2011 collective bargaining agreement between the Kansas NEA and Pittsburg State, with some institution-specific language.<sup>242</sup>

The current policy, like the one in question before the courts, exerts institutional ownership in some cases. With regard to copyrights, the policy states that "all rights associated with works produced as 'work-for-hire' or other works that make 'substantial use' of institutional resources belong to the institution."<sup>243</sup> In regard to general revenue sharing, the faculty and/or creator can obtain profits only after the university has recouped direct costs for equipment and materials and costs paid to third parties.<sup>244</sup>

The policy provides for only limited university ownership, however, for "mediated courseware", such as online courses. If the courseware is created at the faculty member's own initiative, he or she shall retain all rights but must reimburse the university for use of institutional resources should that course be offered elsewhere. If the course is created at the behest of the institution, ownership rests with the university, and the institution has the "right to revise it and decide who will utilize the mediated courseware in instruction."<sup>245</sup> The Pittsburg State collective bargaining agreement requires that an individual contract be created outlining the spec-

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<sup>240</sup> PITTSBURG STATE UNIV., A CONTRACT BETWEEN PITTSBURG STATE UNIVERSITY/KANSAS NATIONAL EDUCATION ASSOCIATION AND PITTSBURG STATE UNIVERSITY/KANSAS BOARD OF REGENTS 2008–2011 app. C at 90–95 (2008) [hereinafter CONTRACT], available at <http://www2.pittstate.edu/admin/vpaa/documents/2008to2011ContractwSignaturePage.pdf>.

<sup>241</sup> *Intellectual Property Policy*, in POLICIES AND PROCEDURES MANUAL, *supra* note 208.

<sup>242</sup> CONTRACT, *supra* note 240.

<sup>243</sup> *Intellectual Property Policy*, in POLICIES AND PROCEDURES MANUAL, *supra* note 208, at Ch. II § D(8)(a). The Pittsburg State collective bargaining agreement refers to the definition of work made for hire in the AAUP statement on copyright: "Works created as a specific requirement of employment or as an assigned institutional duty that may, for example, be included in a written job description or an employment agreement, may be fairly deemed works made for hire. Even absent such prior written specification, ownership will vest in the college or university in those cases in which it provides the specific authorization or supervision for the preparation of the work.' Examples are reports prepared by members of a faculty committee or works of a faculty member in the normal execution of his/her duties." CONTRACT, *supra* note 240, at app. C at 90 n.11.

<sup>244</sup> *Intellectual Property Policy*, in POLICIES AND PROCEDURES MANUAL, *supra* note 208.

<sup>245</sup> *Id.* at Ch. II, § D(8)(a)(1).

ifications of the project, time commitment, revenue sharing, and compensation, among other items.<sup>246</sup>

Regarding patents, the Board of Regents still exerts ownership of inventions with a market value greater than \$10,000 annually. If the institution decides not to commercialize the invention, then the creator is free to patent it.<sup>247</sup>

The Pittsburg State collective bargaining agreement provides the university's faculty members with a greater share of patent-related revenue than the Board of Regent's policy requires to be paid to the faculty at the rest of the Regents' institutions. The Board of Regents' policy provides "not less than twenty-five (25) percent of revenues shall be paid to the inventor(s) or creator(s)" from the development or assignment of patents or from royalties, license fees, or other charges based on patents or copyrightable software.<sup>248</sup> The Pittsburg State contract provides one-third of such revenues.<sup>249</sup>

## V. Conclusion

### A. New Jersey and Kansas: Similar Outcomes

As the cases involving Pittsburg State and Rutgers indicate, the legal analysis required to determine if a university's intellectual property policy is subject to collective bargaining is complicated, and it can take several years to resolve. The Supreme Court of Kansas prominently noted that "the overarching question raised in this case [is] whether a public employer must meet and confer with a recognized public employee organization regarding ownership of intellectual property rights."<sup>250</sup> After wending their way through judicial and administrative proceedings, the cases in New Jersey and Kansas reached the same basic conclusion: because patents can increase the income of their inventor,<sup>251</sup> campus policies that determine the distribution of this income must be negotiated.

As academic commercialization becomes increasingly territorial between faculty and administration, the similar outcome in the cases in New Jersey and Kansas may prove to be a harbinger of decisions in other states. State cases—because contract law falls under state jurisdiction—will increasingly become more important

<sup>246</sup> CONTRACT, *supra* note 240, app. C at 91.

<sup>247</sup> *Id.* at 93.

<sup>248</sup> *Intellectual Property Policy*, in POLICIES AND PROCEDURES MANUAL, *supra* note 208, at Ch. II, § D(8)(b)(3).

<sup>249</sup> CONTRACT, *supra* note 240, app. C at 93.

<sup>250</sup> Pittsburg State Univ. v. Kan. Bd. of Regents, 122 P.3d 336, 339 (Kan. 2005).

<sup>251</sup> See Rutgers Council of AAUP Chapters v. Rutgers, 884 A.2d 821, 828 (N.J. Super. Ct. App. Div. 2005) ("[T]he terms of such an assignment [of a patent] have the potential for a significant impact upon the overall financial compensation an individual may receive as a result of his or her efforts at Rutgers."); PSU v. Kan. Bd. of Regents, No. 75-CAE-23-1998, 2007 WL 5883184, at \*6 (Kan. Pub. Emp. Relations Bd. 2007) ("[A] professor's production of intellectual property has a direct and significant impact on the salary he or she earns.").

than federal cases in resolving intellectual property ownership and broader issues of academic freedom.<sup>252</sup>

Because each state determines the scope of bargaining under its own laws, faculty would need to bring suits in each state to determine whether intellectual property policies on their campuses are subject to collective bargaining. The cases in New Jersey and Kansas indicate that some unions are willing to undertake this effort. Administrators of unionized public institutions should be aware of this trend and determine whether it is more prudent to negotiate with their faculty over intellectual property policies rather than waiting for a lawsuit of their own.

#### B. Future Research: The Broader Context of Collective Bargaining

The lawsuits in New Jersey and Kansas should be seen in a larger context of organized labor's efforts to secure greater rights over the intellectual property created by faculty members. Of all organized faculty, 79% are represented, in whole or part, by one of the three national unions that have historically represented educators—the American Association of University Professors (AAUP), the American Federation of Teachers (AFT), and the National Education Association (NEA)—or by their joint affiliations, the AFT/NEA and AFT/NEA/AAUP.<sup>253</sup> Each of these unions has counseled its members on securing intellectual property rights, either at the bargaining table or in the courts.

##### 1. AAUP, AFT, and NEA Strategies

The revised AAUP *Statement of Collective Bargaining* states that through labor negotiations, “the principles of academic freedom and tenure, fair procedures, faculty participation in governance, and the primary responsibility of the faculty for determining academic policy will thereby be secured.”<sup>254</sup> With specific regard to intellectual property, the AAUP has adopted a *Statement on Copyright* (1999),<sup>255</sup> but “it has not formally addressed the questions of patents.”<sup>256</sup> In its copyright statement, the AAUP argued that the ownership of online courses should be no different from traditional courses. It wrote, “[i]t has been the prevailing academic practice to treat the faculty member as the copyright owner of works that are created independently and at the faculty member’s own initiative for traditional academic purposes,” such as class notes, syllabi, books, and articles.<sup>257</sup> This academic practice has not depended on “the physical medium in which these ‘traditional academic

<sup>252</sup> Baez & Slaughter, *supra* note 17, at 114.

<sup>253</sup> BERRY & SAVARESE, *supra* note 20, at xi.

<sup>254</sup> Am. Ass’n of Univ. Professors, *Statement on Collective Bargaining*, AAUP (2009), <http://www.aaup.org/AAUP/pubsres/policydocs/contents/statementcolbargaining.htm>.

<sup>255</sup> AM. ASS’N OF UNIV. PROFESSORS, *Statement on Copyright* (1999).

<sup>256</sup> Am. Ass’n of Univ. Professors, *Sample Intellectual Property Policy & Contract Language*, AAUP, <http://www.aaup.org/AAUP/issues/DE/sampleIP.htm> (last visited May 1, 2011).

<sup>257</sup> AM. ASS’N OF UNIV. PROFESSORS, *supra* note 255, at 1.

works' appear; that is, whether on paper or in audiovisual or electronic form."<sup>258</sup> The AAUP concludes, "[T]his practice should therefore ordinarily apply to the development of courseware for use in programs of distance education."<sup>259</sup> The AAUP has recommended that—because of the nature of online courses—heavily enrolled courses be compensated as an overload in teaching assignments.<sup>260</sup> Florida International University and United Faculty of Florida negotiated such a policy in Fall 2010.<sup>261</sup>

The AFT has provided a primer on intellectual property for its members.<sup>262</sup> In it, the union argues: "Ownership of intellectual property should be the right of all academic employees and is key to controlling the quality and duplication of their work. Therefore, academic employees must be vigilant in protecting intellectual property rights."<sup>263</sup> "[T]he AFT is concerned about the unplanned utilization of pedagogical techniques that would serve to reduce the role of faculty and limit the interaction of faculty in the education of students."<sup>264</sup>

The NEA takes the strongest position on intellectual property ownership among the major faculty unions. It "believes that education employees should own the copyright to materials that they create in the course of their employment," and it advocates amending the work-made-for-hire doctrine in the Copyright Act "to expressly recognize an appropriate 'teacher's exception'."<sup>265</sup> Short of that goal, copyright ownership of faculty-created works should be determined by "negotiated agreements . . . [that] provide that copyright ownership vests in the education employee who creates the materials and that he or she has all of the legal rights that come with such ownership."<sup>266</sup> The NEA opposes making the assignment of intellectual property rights a condition of employment because it wants to ensure that digital course materials remain current and do not become outdated under institutional ownership.<sup>267</sup>

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<sup>258</sup> *Id.*

<sup>259</sup> *Id.* The AAUP recognizes, however, that the employer university may fairly claim ownership of faculty-created work that falls into three categories: "special works created in circumstances that may properly be regarded as 'made for hire,' negotiated contractual transfers, and 'joint works' as described in the Copyright Act." *Id.* at 2.

<sup>260</sup> Michele J. Le Moal-Gray, *Distance Education and Intellectual Property: The Realities of Copyright Law and the Culture of Higher Education*, 16 *TOURO L. REV.* 981, 1033 (2000).

<sup>261</sup> The Fla. Int'l Univ. Bd. of Trs. & the United Faculty of Fla., *Collective Bargaining Agreement 2008-2011 (as amended 2010)*, UFF-FIU, app. G, § 10(B)(iii)(b) (2010), <http://www.uff-fiu.org/nindex.php/bargaining/uff.bargaining.html>.

<sup>262</sup> DAVID STROM, *INTELLECTUAL PROPERTY ISSUES FOR HIGHER EDUCATION UNIONS: A PRIMER* (2002), available at <http://www.aft.org/pdfs/highered/intelprop1202.pdf>.

<sup>263</sup> *Id.* at 11.

<sup>264</sup> Le Moal-Gray, *supra* note 260, at 1026.

<sup>265</sup> Nat'l Educ. Ass'n, *Distance Education*, NEA (2002), <http://www.nea.org/home/34765.htm>.

<sup>266</sup> *Id.*

<sup>267</sup> Le Moal-Gray, *supra* note 260, at 1027.

## 2. Comparison of Unionized vs. Nonunionized Faculty

Given these strategies on behalf of unionized faculty, future research might investigate whether unionized faculty have secured, through collective bargaining or other means, greater ownership rights over their intellectual property than have nonunionized faculty. A 10-year-old comparison of collective bargaining agreements at unionized colleges and universities with intellectual property policies at nonunionized research universities found “that institutions with collective bargaining tend to do a better job of protecting the interests of academics than do research universities without unions.”<sup>268</sup>

Academics at unionized institutions tend to fare better than their nonunionized peers. Many collective bargaining contracts accord faculty members ownership of, and the profits from, any intellectual property they create. Moreover, when the institution owns the property, unionized faculty members often receive a larger share of the profits (for example, 60 to 80 percent) than their nonunionized counterparts. Some even get a share even when their work is produced “for hire.”<sup>269</sup>

An updated comparison of unionized and nonunionized faculties could naturally lead to a comparison between public and private institutions and their approach to intellectual property ownership. “Ninety-four percent of organized faculty are employed in public institutions.”<sup>270</sup> Although unionized faculty at a number of institutions have “bargained intellectual property clauses that provide for faculty ownership, most [institutions] have not. Increasingly, institutional policies, on which nonunionized faculty offer advice and consent, claim ownership of faculty’s intellectual property, especially when substantial institutional resources, usually information technology, are used.”<sup>271</sup>

## 3. Comparison by Type of Institution

Future researchers could also compare intellectual property rights among different types of institutions. Slaughter and Rhoades found a “limited pattern of more aggressive institutional claims” to faculty-authored work in more elite institutions than less prestigious ones.<sup>272</sup> This finding is consistent with studies that have found that two-year institutions are more likely to grant faculty ownership of copyrights and patents than four-year institutions.<sup>273</sup> “Two-year college contracts are overrepresented among those provisions that accord faculty ownership rights and

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<sup>268</sup> Gary Rhoades, *Whose Property Is It? Negotiating with the University*, 87 *ACADEME* 38, 40 (2001), available at <http://www.aaup.org/AAUP/pubsres/academe/2001/SO/Feat/rhoa.htm>.

<sup>269</sup> *Id.* at 42.

<sup>270</sup> BERRY & SAVARESE, *supra* note 20.

<sup>271</sup> SLAUGHTER & RHOADES, *supra* note 7, at 173.

<sup>272</sup> *Id.* at 145.

<sup>273</sup> RHOADES, *supra* note 13, at 252; Klein, *supra* note 14, at 3.

claims to profits.”<sup>274</sup> Therefore, “pursuing the differences in copyright policies by type [of institution, elite vs. less prestigious] may repay investigation.”<sup>275</sup>

#### 4. *Keeping Pace with Changes in Technology and the Law*

The rapid changes in technology and the law covering intellectual property present a scholarly challenge to keep pace. In the modern economy, “knowledge is the critical raw material to be mined and extracted from any unprotected site; patented, copyrighted, trademarked, or held as a trade secret; then sold in the marketplace for a profit.”<sup>276</sup> Digital technology is driving this economy, as described by Tom Friedman in *The World is Flat*:

Once the PC-Windows revolution demonstrated to everyone the value of being able to digitize information and manipulate it on computers and word processors, and once the browser brought the Internet alive and made Web pages sing and dance and display, everyone wanted everything digitized as much as possible so they could send it to someone else down the Internet pipes. Thus began the digitization revolution.<sup>277</sup>

The law is trying to keep up with the advances in technology. On September 16, 2011, President Obama signed the Leahy-Smith America Invents Act, which overhauled the U.S. patent system to one that rewards the first inventor to file a valid application instead of the first inventor who creates the new product but who may not be the first to file an application.<sup>278</sup> Large technology and pharmaceutical companies supported the legislation, saying that it makes the U.S. patent system consistent with patent policies in other countries and makes it easier to settle ownership disputes.<sup>279</sup> Small companies and inventors, on the other hand, argued that the legal reforms favor companies with the resources to retain lawyers who can quickly file applications for inventions.<sup>280</sup>

A June 2011 U.S. Supreme Court decision in a case between Stanford University and pharmaceutical giant Roche Molecular Systems, Inc. has significant implications for the assignment of ownership rights in inventions resulting from federally financed research at colleges and universities.<sup>281</sup> Stanford accused Roche

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<sup>274</sup> RHOADES, *supra* note 13, at 252.

<sup>275</sup> SLAUGHTER & RHOADES, *supra* note 7, at 145.

<sup>276</sup> *Id.* at 4.

<sup>277</sup> THOMAS L. FRIEDMAN, *THE WORLD IS FLAT: A BRIEF HISTORY OF THE TWENTY-FIRST CENTURY* 64 (2005).

<sup>278</sup> Pub. L. No. 112-29, 125 Stat. 284 (2011) (to be codified in scattered sections of 35 U.S.C.). See Jason Rantanen and Lee Petherbridge, Commentary, *Toward a System of Invention Registration: The Leahy-Smith America Invents Act*, 110 Mich. L. Rev. First Impressions 24 (2011), available at <http://www.michiganlawreview.org/assets/fi/110/rantanenpetherbridge.pdf>.

<sup>279</sup> Edward Wyatt, *Senate Passes Bill to Change Patent System and Pricing*, N.Y. TIMES, Mar. 9, 2011, at B9.

<sup>280</sup> *Id.*

<sup>281</sup> *Bd. of Trs. v. Roche Molecular Sys.*, 131 S. Ct. 2188 (2011).



of infringing its patents on a technology—funded in part through the National Institutes of Health and invented by a Stanford researcher who was also working with a small research company collaborating with Stanford that was eventually acquired by Roche—that measures the concentration of HIV in blood plasma.<sup>282</sup> Stanford initially succeeded in federal district court, which found that the professor had no rights to assign because the university’s research was federally funded, giving it superior rights under the Bayh-Dole Act.<sup>283</sup>

On appeal, the focus of the case was the language in the agreements signed by the Stanford researcher, Mark Holodniy, that defined his obligations to assign his invention rights.<sup>284</sup> Under with the agreement with Stanford, Holodniy “agree[d] to assign” rights to inventions to the university, which the U.S. Court of Appeals for the Federal Circuit interpreted to mean “a mere promise to assign rights in the future, not an immediate transfer of expectant interests”,<sup>285</sup> and one with a subsidiary of Roche, under which he “will assign and *do[es] hereby assign*” his patent rights, which the court held “effected a present assignment of . . . future inventions,” meaning Roche’s subsidiary “immediately gained equitable title to” the Stanford researcher’s inventions.<sup>286</sup> The circuit court remanded the case to the district court with instructions to dismiss Stanford’s claims.<sup>287</sup>

Universities argued that the circuit court’s decision shakes the foundations of the Bayh-Dole Act. In an amicus brief to the Supreme Court, the American Association of Universities, several other organizations, and 42 universities argued that the circuit court was

casting in doubt the rights of universities and the federal government alike to inventions arising from hundreds of billions of dollars in research. The decision of the court of appeals turns the statutory structure [of Bayh-Dole] on its head, allowing rights in federally funded patents to be disposed of in obscure private contracts between researchers and third parties rather than according to Congress’s dictates.<sup>288</sup>

The Supreme Court disagreed with Stanford and its amicus supporters, holding that the Bayh-Dole Act did not upend the historical premise that “rights in an

<sup>282</sup> Bd. of Trs. v. Roche Molecular Sys., 583 F.3d 832, 837, 838 (Fed. Cir. 2009), *aff’d*, 131 S. Ct. 2188 (2011).

<sup>283</sup> Bd. of Trs. v. Roche Molecular Sys., 487 F. Supp. 2d 1099, 1119 (N.D. Cal., 2007). A subsequent district court opinion in the same case found Stanford’s claims to three patents to be invalid for obviousness. Bd. of Trs. v. Roche Molecular Sys., 563 F. Supp. 2d 1016 (N.D. Cal. 2008), *aff’d in part, vacated in part*, 583 F.3d 832 (Fed. Cir. 2009), *aff’d*, 131 S. Ct. 2188 (2011).

<sup>284</sup> *Roche*, 583 F.3d at 841.

<sup>285</sup> *Id.*

<sup>286</sup> *Id.* at 842.

<sup>287</sup> *Id.* at 849.

<sup>288</sup> Brief for Ass’n of Am. Univs. et al. as Amici Curiae Supporting Petitioner at 3, Bd. of Trs. v. Roche Molecular Sys., 131 S. Ct. 502 (2010) (No. 09-1159), 2010 WL 1725587.

invention belong to the inventor” and does not “automatically vests title to federally funded inventions in federal contractors.”<sup>289</sup> The Court wrote:

Under Stanford’s construction of the [Bayh-Dole] Act, title to one of its employee’s inventions could vest in the University even if the invention was conceived before the inventor became a University employee, so long as the invention’s reduction to practice was supported by federal funding. What is more, Stanford’s reading suggests that the school would obtain title to one of its employee’s inventions even if only one dollar of federal funding was applied toward the invention’s conception or reduction to practice.<sup>290</sup>

The Court indirectly noted the deficiency in Stanford’s assignment agreement with Holodniy. The Court wrote:

universities typically enter into agreements with their employees requiring the assignment to the university of rights in inventions. With an effective assignment, those inventions—if federally funded—become “subject inventions” under the Act, and the statute as a practical matter works pretty much the way Stanford says it should. The only significant difference is that it does so without violence to the basic principle of patent law that inventors own their inventions.<sup>291</sup>

Commenting on the Court’s decision, one patent attorney said, “This whole case [emerged] because of how somebody at Stanford decided to draft their assignment provision.”<sup>292</sup> The attorney said, “[A]t this point, what everybody has done, is go change their [contracts with researchers] to say ‘I hereby assign’ instead of ‘I hereby promise to assign.’ You gotta do the assignment right. If you screw that up, you can see what can happen.”<sup>293</sup>

Like patent law, copyright law is also struggling to keep up with technology, especially the conflict between online infringement and fair use. The Online Copyright Infringement Liability Limitation Act established a safe harbor for online service providers, generally providing they would not be liable for storing or transmitting infringing material at their users’ direction.<sup>294</sup> Copyright owners, in turn, have an efficient way to notify online companies about infringing works with takedown notices. Online companies must respond to such takedown notices by expeditiously removing the allegedly infringing material, risking its safe-harbor protection for failing to do so.<sup>295</sup> When Universal Music Corporation issued a notice to YouTube to take down a 29-second video of a baby dancing to Prince’s

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<sup>289</sup> *Bd. of Trs. v. Roche Molecular Sys.*, 131 S. Ct. 2188, 2192 (2011).

<sup>290</sup> *Id.* at 2198.

<sup>291</sup> *Id.* at 2199.

<sup>292</sup> Doug Lederman, *Supremes Rule Against Stanford*, INSIDE HIGHER EDUCATION (June 7, 2011, 3:00 AM), [http://www.insidehighered.com/news/2011/06/07/supreme\\_court\\_rules\\_against\\_stanford\\_in\\_patent\\_case](http://www.insidehighered.com/news/2011/06/07/supreme_court_rules_against_stanford_in_patent_case).

<sup>293</sup> *Id.*

<sup>294</sup> 17 U.S.C. § 512 (2006).

<sup>295</sup> *Id.*

“Let’s Go Crazy” playing in the background, the mother of the baby asserted that her video constituted fair use of the song and did not infringe Universal’s copyrights.<sup>296</sup> This case has obvious implications for copyrighted material used in online courses.

In addition to changes in federal law, practitioners will need to keep current on the rules at the state and institutional levels.<sup>297</sup> While patents and copyrights “are the province of the federal government,” states “have authority for shaping institutional policy for public universities and colleges,” and “that authority is sometimes delegated to state systems of higher education, sometimes to the institutions themselves.”<sup>298</sup> Moreover, “[s]tate and institutional policy sometimes preceded and always interpret and implement federal policies and statutes.”<sup>299</sup> With regard to labor laws, state legislatures have “[a] tremendous impact” on the “legality and scope of collective bargaining in higher education,”<sup>300</sup> as seen in several states in 2011.<sup>301</sup>

As this case study of New Jersey and Kansas reveals, administrative agencies and the state courts are the final arbiters of those laws.

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<sup>296</sup> *Lenz v. Universal Music Corp.*, 572 F. Supp. 2d 1150, 1151–52 (N.D. Cal. 2008).

<sup>297</sup> See generally RICHARD RICHARDSON, JR. & MARIO MARTINEZ, POLICY AND PERFORMANCE IN AMERICAN HIGHER EDUCATION: AN EXAMINATION OF CASES ACROSS STATE SYSTEMS (2009) (examining cases from multiple states).

<sup>298</sup> SLAUGHTER & RHOADES, *supra* note 7, at 81.

<sup>299</sup> *Id.*

<sup>300</sup> See RHOADES, *supra* note 13, at 18.

<sup>301</sup> Greenhouse, *supra* note 22; Levenson, *supra* note 22.



# Copyright Convergence in the Andean Community of Nations

Alberto J. Cerda Silva\*

I. Background .....	430
II. Copyright Common Regime in the Andean Community .....	432
III. Limitations of the Common Copyright Regime.....	436
A. The Andean Community Common Regime does not Prevent Competitive Distortions Within the Internal Market: Publishing and Software .....	437
B. The Andean Community Common Regime Provides Competitive Advantages to Third Countries to the Detriment of Its Internal Market: National Treatment and Restoration of Rights .....	442
C. The Andean Community Common Regime Generates Obstacles for the Free Flow of Copyrighted Works: Exhaustion of Rights .....	445
D. The Andean Community Common Regime has been Unable to Serve Public Interest Needs: Public Domain and Copyright Exceptions and Limitations.....	450
1. Public Domain Regulation.....	451
2. Copyright Exceptions and Limitations .....	454
E. The Andean Community Common Regime Requires an Urgent Update..	457
F. The Andean Community Common Regime has been Unable to Provide a Common Platform in Negotiations with Third Countries: Effects of the Free Trade Agreements .....	458
1. Technological Protection Measures .....	460
2. Online Service Provider Liability.....	462
IV. Working on Increasing Copyright Convergence Within the Andean Community.....	463

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V. Conclusions and Remarks .....	468
VI. Table .....	470

## I. Background

The Andean Community, initially known as the Andean Pact, is an integration process in the Americas that started in 1969 with the signing of the Cartagena Agreement by Bolivia, Colombia, Chile, Ecuador, and Peru.<sup>1</sup> In 1973, Venezuela also joined.<sup>2</sup> Through the 1970s and '80s, besides the creation of communitarian institutions, there was insignificant progress in regional economic integration within the Andean Community. In part, this was due to the pervasive dictatorships in the region and the incompatibility of domestic economic measures adopted by some countries including Chile, which dropped the initiative in 1976.<sup>3</sup>

Starting in the early '90s, once democratic governments returned to the region and overcame the economic crisis, the process of integration within the Andean Community was revitalized.<sup>4</sup> In those years, several measures contributed to the creation of a free trade area. These included reduced tariffs, the harmonization of custom procedures, and the liberalized trade in goods, transport, and telecommunications, contributed to the creation of a free trade area.<sup>5</sup> Additionally, as part of this intensification, the Andean Community adopted common regulations in areas like foreign investment, communitarian enterprises, and industrial and intellectual property.<sup>6</sup> In fact, in 1993, the Andean Community adopted *Decision 351*, which set forth the common regime on copyright and neighboring rights.<sup>7</sup>

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<sup>1</sup> Andean Subregional Integration Agreement, May 26, 1969, 8 I.L.M. 910 (as amended by Trujillo Protocol, Mar. 10, 1996) [hereinafter Cartagena Agreement].

<sup>2</sup> *Id.*

<sup>3</sup> See Bernardo Vela Orbeagozo, *La Integración Regional como un Factor de Desarrollo Nacional*, in REFORMAS Y POLÍTICAS EN COLOMBIA Y AMÉRICA LATINA, 289, 297 (Universidad Externado de Colombia – CIPE, 2003); Alfredo Fuentes Fernández, *Contexto Histórico y Avances de la Integración en la Comunidad Andina*, in REVISTA OASIS 177 (Universidad Externado de Colombia, 2008).

<sup>4</sup> See Thomas Andrew O'Keefe, *How the Andean Pact Transformed Itself into a Friend of Foreign Enterprise*, 30 INT'L LAW 811, 818 (1996) (referring to the "revival" of the Andean Pact, which by the early '90s established uniform rules encouraging free trade and attracting foreign investment, becoming one of the most innovative integration initiative in the region).

<sup>5</sup> *Id.* at 818–19.

<sup>6</sup> Fuentes, *supra* note 3, at 178.

<sup>7</sup> Andean Community, *Régimen Común sobre Derecho de Autor y Derechos Conexos [Common Regime on Copyright and Neighboring Rights Decision 351]*, Official Gazette of the Andean Community No. 145 (Dec. 21, 1993) [hereinafter *Decision 351*].

As a first step in the process of copyright convergence, *Decision 351* was a remarkable and ambitious initiative that contributed significantly to the harmonization of copyright law among the members of the Andean Community (AC members).<sup>8</sup> However, the idiosyncratic approaches of domestic law, the challenges of new technologies, and the emergence of bilateralism, among other causes, have undermined the role of *Decision 351* in building copyright convergence within the Andean Community. The lack of convergence may become a serious obstacle for the ongoing process of integration, particularly in the context of the information economy by obstructing the proper functioning of the internal market.

There is abundant literature on the Andean Community process of integration.<sup>9</sup> However, its legal harmonization of copyright law remains barely studied in the United States, where scholars have focused on the important role of the Andean Community Tribunal of Justice on intellectual property litigation and enforcement.<sup>10</sup> Meanwhile, Latin American scholars shy away from critically analyzing the common regime on copyright, providing mere descriptions of it and only occasional criticisms.<sup>11</sup> This paper briefly describes *Decision 351* of the Andean Com-

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<sup>8</sup> RICARDO ANTEQUERA PARILLI, *DERECHO DE AUTOR*, 935–36, (Dirección Nacional del Derecho de Autor, 2nd ed., 1998) (referring to the fact that *Decision 351* was “a first attempt” to harmonize copyright law among AC members, a process that needs to deepen in the future).

<sup>9</sup> See Secretaría General de la Comunidad Andina, *40 Años de Integración Andina: Avances y Perspectivas*, in 4 *REVISTA DE LA INTEGRACIÓN* (2009) (providing an evaluation of the integration of the Andean Community by its own actors); THOMAS ANDREW O’KEEFE, *LATIN AMERICAN AND CARIBBEAN TRADE AGREEMENTS: KEYS TO A PROSPEROUS COMMUNITY OF THE AMERICAS* 243–302 (Martinus Nijhoff ed., 2009) (providing an updated analysis of the Andean Community, its institutional framework, and common regimes). See also ALLAN RANDOLPH BREWER CARÍAS, *DERECHO COMUNITARIO ANDINO* (Fondo Editorial Pontificia Universidad Católica del Perú, 2003) (providing the most comprehensive review of Andean Community’s common legal regimes).

<sup>10</sup> See Maria Alejandra Rodriguez Lemmo, *Study of Selected International Dispute Resolution Regimes, with an Analysis of the Decisions of the Court of Justice of the Andean Community*, 19 *ARIZ. J. INT’L & COMP. L.* 863, 902–28 (2002) (describing in details the tribunal and its main rulings); Laurence R. Helfer & Karen J. Alter, *The Andean Tribunal of Justice and Its Interlocutors: Understanding Preliminary Reference Patterns in the Andean Community*, 41 *N.Y.U. J. INT’L L. & POL.* 871, 893 (2009) (describing the relations between the tribunal and both domestic courts and authorities, and finding that 97% of the cases judged by the Andean Community Tribunal of Justice are related to intellectual property); Camilo A. Rodriguez Yong, *Enhancing Legal Certainty in Colombia: the Role of the Andean Community*, 17 *MICH. ST. J. INT’L L.* 407 (2009) (analyzing the role of the Andean Community Tribunal of Justice in providing legal certainty for investment in the Andean region); Laurence R. Helfer et al., *Islands of Effective International Adjudication: Constructing an Intellectual Property Rule of Law in the Andean Community*, 103 *AM. J. INT’L L.* 1 (2009) (arguing that Andean Community Tribunal of Justice has contributed to creating a rule-of-law on intellectual property within the Andean Community). See also CHRISTIAN LEATHLEY, *INTERNATIONAL DISPUTE RESOLUTION IN LATIN AMERICA: AN INSTITUTIONAL OVERVIEW* 109–15 (Kluwer Law International, 2007) (describing institutional arrangement of the Andean Community, particularly the competence of its Tribunal of Justice).

<sup>11</sup> See, e.g., Ricardo Antequera Parilli, *Copyright and Andean Community Law*, 166 *REVUE INTERNATIONALE DU DROIT D’AUTEUR* 56 (1995) (Fr.); Ana María Pacón, *La Protección del Derecho de Autor en la Comunidad Andina*, in *DERECHO COMUNITARIO ANDINO* 299, 299–324 (Fondo Editorial Pontificia Universidad Católica del Perú, 2003).

munity, analyzes in detail the main limitations of the current common regime on copyright in order to identify the issues that require an urgent effort at convergence in Andean Community, and suggests some strategies to achieve that goal.

Analyzing the challenges to copyright regulation in the context of the process of regional integration may be useful for outlining future work within the Andean Community. It is true that during the last decade integration between AC members has stalled, but in recent years the Andean region has seen a more relaxed political atmosphere within the Andean region, the consolidation of democratic governments, and the growth of economies, all of which may contribute to revitalizing the process of integration. Additionally, this analysis may prove useful to other processes of regional integration within Latin America, such as the South American Community of Nations, which would unite the Andean Community, MERCOSUR, Chile, Guyana, and Suriname.<sup>12</sup>

## II. Copyright Common Regime in the Andean Community

At the end of the 1980s, the Andean Community lacked a uniform regime for protecting intellectual and artistic creations.<sup>13</sup> The differences between international commitments evidenced the significant dissimilarities in their levels of protection. Colombia, Ecuador, and Bolivia were parties to the Inter-American Convention on Copyright,<sup>14</sup> which provides a lower level of protection than the Berne Convention.<sup>15</sup> Colombia and Ecuador, along with Venezuela and Peru, were parties to the Universal Convention on Copyright,<sup>16</sup> which provided an intermediate level of protection and worked as a one-way bridge to the Berne Convention.<sup>17</sup> Colom-

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<sup>12</sup> See South American Community of Nations Constitutive Treaty, May 23, 2008, available at <http://www.comunidadandina.org/INGLES/csn/treaty.htm>.

<sup>13</sup> Antequera, *supra* note 11, at 62–65; ANTEQUERA, *supra* note 8, at 913–15 (referring to the “highly dissimilar situation” of domestic copyright laws among AC members by the time of the adoption of *Decision 351*).

<sup>14</sup> Inter-American Convention on the Rights of the Author in Literary, Scientific and Artistic Works, June 22, 1946. UN Registration: 03/20/89 No. Vol. 24373.

<sup>15</sup> Delia Lipszyc, *Esquema de la Protección Internacional del Derecho de Autor por las Convenciones del Sistema Interamericano*, in LA PROTECCIÓN DE LOS DERECHOS DE AUTOR EN EL SISTEMA INTERAMERICANO 17, 33 (Delia Lipszyc et. Al. eds., Universidad Externado de Colombia, 1998) (describing some weaknesses of the Inter-American Convention when compare with the Berne Convention, such as the absence of a common term of protection and the waiverability of moral rights).

<sup>16</sup> Universal Copyright Convention, Sept. 6, 1952 (with Appendix Declaration relating to Article XVII and Resolution concerning Article XI).

<sup>17</sup> DELIA LIPSYC, COPYRIGHT AND NEIGHBOURING RIGHTS 604–05, 751 (UNESCO Publishing, 1999) (referring to the UCC as a first step in the process of acceding to the Berne Convention); RICARDO ANTEQUERA PARILLI, EL NUEVO RÉGIMEN DEL DERECHO DE AUTOR EN VENEZUELA 572 (Autoralex, 1994) (referring to the UCC as a bridge to the Berne Convention).



bia, Peru and Venezuela adhered to the Berne Convention,<sup>18</sup> but the latter two still needed to incorporate it into their domestic law.<sup>19</sup>

The significant differences between the levels of protection of copyright within the Andean Community created problems for the proper functioning of the internal market. One potential solution was harmonization. In 1991, they started this process, but were interrupted because of the legislative discussion of new copyright laws in Bolivia and Venezuela;<sup>20</sup> they resumed the process in 1993.<sup>21</sup> At the end of that year, the Commission, the legislative body of the AC,<sup>22</sup> adopted *Decision 351* based on an expert committee's report.<sup>23</sup> By then, all the AC members had also ratified both the Universal and the Berne Conventions.<sup>24</sup>

*Decision 351* is communitarian and supranational law, with direct and immediate effects upon communitarian and domestic authorities.<sup>25</sup> Unlike European Union directives, communitarian decisions do not require adoption into domestic law because they have immediate binding effects and prevail over domestic law.<sup>26</sup> Communitarian decisions allow the joint existence of domestic law, as long as the latter does not conflict with the former.<sup>27</sup> As a result, AC members may need to modify their domestic law in order to avoid confusion, but not for implementation purposes. One exception is that communitarian decisions admit "complementary

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<sup>18</sup> Berne Convention for the Protection of Literary and Artistic Works, July 24, 1971, 828 U.N.T.S. 221 [hereinafter Berne Convention].

<sup>19</sup> See Table: Andean Community Nations, by international instruments on copyright to which they are parties.

<sup>20</sup> Antequera, *supra* note 11, at 56–127, 62–67; ANTEQUERA, *supra* note 8, at 913–14.

<sup>21</sup> ANTEQUERA, *supra* note 8, at 913–14; see also Pacón, *supra* note 11, at 300 (referring to the background and approval of *Decision 351*).

<sup>22</sup> Andean Community, *Codificación del Acuerdo de Cartagena* [Codification of the Cartagena Agreement Decision 236], Official Gazette of the Andean Community, No. 31 (Jul. 26, 1988) (conferring to the Commission legislative powers within the Andean Community).

<sup>23</sup> ANTEQUERA, *supra* note 8, at 915 (referring to the drafting of *Decision 351* as a task addressed by an expert committee).

<sup>24</sup> See Table: Andean Community Nations, by international instruments on copyright to which they are parties.

<sup>25</sup> Eric Tremolada Álvarez, *El Derecho Andino: Una Sistematización Jurídica para la Supervivencia de la Comunidad Andina de Naciones*, 57 Cuadernos CONSTITUCIONALES DE LA CÁTEDRA FADRIQUE FURIÓ CERIO 35, 36 (2006); HILDEGARD RONDÓN DE SANSÓ, EL RÉGIMEN DE LA PROPIEDAD INDUSTRIAL, 86–87 (1995).

<sup>26</sup> Tremolada Álvarez, *supra* note 25, at 36.

<sup>27</sup> See Ana María Salones Gaité, *La Propiedad Intelectual en Bolivia: Marco Conceptual, Jurídico e Institucional* 100, 100 (2003) (complaining about the legal uncertainty the subsistence of domestic law creates and arguing for "overcoming the current legal duplicity"); RICARDO ANTEQUERA PARILLI & MARYSOL FERREYROS CASTAÑEDA, EL NUEVO DERECHO DE AUTOR EN EL PERÚ 34 (Peru Reporting, 1996) (referring to the legal uncertainty about which norms of the Peruvian domestic law are still in force and which were repealed by *Decision 351*).

regulation by domestic law,"<sup>28</sup> which, as this paper will explain, seems to be the case in several provisions of *Decision 351*.

*Decision 351* was conceived as a first step in the process of legal convergence on copyright law among the AC members, one which would require subsequent strengthening.<sup>29</sup> It provided for national protection for creators, recognized some rights, including moral rights, set forth a 50 years *post mortem auctoris* term of protection, adopted some exceptions and limitations, established protection of software and databases, and included some measures of copyright enforcement.<sup>30</sup> Because *Decision 351* prevails over domestic law of the AC members when they are inconsistent with *Decision 351*'s provisions,<sup>31</sup> it forced the adoption of a common regime on copyright issues for all AC members.

*Decision 351* allowed for additional provisions under the domestic laws of the AC members, as long as these rules were not inconsistent with the provisions of the common regime. In fact, *Decision 351* made several references to its integration into domestic law. For instance, the provisions on works-for-hire,<sup>32</sup> *droit de suite*,<sup>33</sup> computing terms of protection,<sup>34</sup> transferring and licensing,<sup>35</sup> and affiliation to collective rights management societies.<sup>36</sup> In other cases, such as rules on judicial procedures, civil measures, and criminal sanctions, *Decision 351* did not address certain regulatory issues, but rather left such space to domestic law. In some cases, the Decision only set forth a minimum legal standard, allowing the standard to be heightened by domestic law. This is the case for moral rights recognized for authors,<sup>37</sup> economic exclusive rights,<sup>38</sup> term of protection,<sup>39</sup> and exceptions and limi-

<sup>28</sup> Tremolada Álvarez, *supra* note 25, at 49.

<sup>29</sup> Antequera, *supra* note 11, at 56–127, 66–67; ANTEQUERA, *supra* note 8, at 915 (explaining that *Decision 351* was a first step through a uniform regime, and there was consciousness that in the short or medium term it will need to advance in harmonization).

<sup>30</sup> See *Decision 351*, *supra* note 7.

<sup>31</sup> See, e.g., *In re Germán Cavellier Gaviria y otro*, Andean Community Tribunal of Justice, Case 64-IP-2000, ¶¶2-5 (Sept. 6, 2000) (ruling that community law is binding for state and non-state actors in the Community and each country member, has direct effect within domestic law and prevail over any domestic regulations); *In re Claudia Blum de Barberi y otros*, Constitutional Court of Colombia, Case 155/98, ¶19 (Apr. 28, 1998) (community law is preeminent and preferentially apply to domestic law of AC members).

<sup>32</sup> *Decision 351*, *supra* note 7, art. 10 (referring to domestic law the determination of entitlements on exclusive economic rights on work-for-hire).

<sup>33</sup> *Id.* art. 16 (providing that domestic law of AC members shall regulate *droit de suite* on artistic works).

<sup>34</sup> *Id.* art. 19 (setting forth that AC members can determine, according to the Berne Convention, the rules for computing terms of protection starting the date of creation, diffusion or publication of a given work).

<sup>35</sup> *Id.* art. 30 (providing that AC members' domestic law shall regulate transferring and licensing).

<sup>36</sup> *Id.* art. 44 (setting forth that affiliation of right holders to collective rights management societies shall be voluntary, except when AC members' domestic laws provide differently).

<sup>37</sup> *Id.* art. 12 (providing that "AC members' domestic law may recognize other moral rights").

tations to copyright.<sup>40</sup> Referring to domestic law seems to have been the main mechanism used to overcome the lack of agreement around a given issue during negotiations of *Decision 351*.<sup>41</sup> Unfortunately, this legal technique, based on references to domestic law, omissions in the common regime, and the adoption of minimal standards, has undermined the achievement of an adequate level of convergence within the Andean Community, which, as we will see, has instead deteriorated over the years.

*Decision 351* was remarkable and ambitious at the time of drafting. Its provisions significantly anticipated the content of the Agreement on Trade-Related Aspects of Intellectual Property Rights (the TRIPS Agreement).<sup>42</sup> This is true of the provisions dealing with protection for software and databases.<sup>43</sup> In fact, *Decision 351* facilitated all AC members' near-immediate accession to the World Trade Organization<sup>44</sup> due to the consistency between the Decision and TRIPS.<sup>45</sup> The legal convergence produced by the common regime was impressive when compared with other processes of harmonization, such as that of the European Union, which required the implementation of several communitarian directives to regulate some of the issues solved by *Decision 351*.<sup>46</sup> However, this cautious and gradual approach

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<sup>38</sup> *Id.* art. 17 (providing that "AC members' domestic law may recognize other economic rights").

<sup>39</sup> *Id.* art. 18 (setting forth that the duration of the term of protection shall not be inferior to the life of the author plus fifty years post-mortem).

<sup>40</sup> *Id.* arts. 21–22 (allowing the adoption of exceptions and limitation, if they comply with the *Berne* three-step test).

<sup>41</sup> See ANTEQUERA, *supra* note 8, 920–23 (referring to the lack of agreement on moral rights, parallel importations, *droit de suite*, term of protection, and exceptions); Ricardo Antequera Parilli, *El Derecho de Autor y los Derechos Conexos en la Legislación Venezolana*, in LEGISLACIÓN SOBRE DERECHO DE AUTOR Y DERECHOS CONEXOS 7 (Judidica Venezolana, 1999) (referring to the lack of agreement during the negotiations of *Decision 351* around work-for-hire).

<sup>42</sup> Agreement on Trade-Related Aspects of Intellectual Property Rights, Apr. 15, 1994, 1869 U.N.T.S. 299, 33 I.L.M. 1197 [hereinafter TRIPS Agreement]. See also Antequera, *supra* note 11, at 56–127, 94–95 (mentioning that drafters of *Decision 351* took advantage of work done in adopting a Protocol for the *Berne* Convention).

<sup>43</sup> Compare *Decision 351*, *supra* note 7, arts. 23–27 (providing copyright protection for computer programs and databases, and adopting a set of special exceptions for them), with TRIPS Agreement, *supra* note 42, arts. 10–11 (adopting copyright protection for computer programs and databases).

<sup>44</sup> See Table: Andean Community Nations, by international instruments on copyright to which they are parties.

<sup>45</sup> XAVIER GÓMEZ VELASCO, *PATENTES DE INVENCION Y DERECHO DE LA COMPETENCIA ECONOMICA 17* (Universidad Andina Simón Bolívar, 2003); MARCO RODRÍGUEZ RUIZ, *LOS NUEVOS DESAFÍOS DE LOS DERECHOS DE AUTOR EN ECUADOR 48–49* (Universidad Andina Simón Bolívar, 2007).

<sup>46</sup> See Copyright Documents, EUROPEAN COMMISSION THE EU SINGLE MARKET, [http://ec.europa.eu/internal\\_market/copyright/documents/documents\\_en.htm](http://ec.europa.eu/internal_market/copyright/documents/documents_en.htm) (last visited May 15, 2011) (listing communitarian directives on copyright and related rights adopted by the European Union).

has allowed better coordination among EU members in terms of both content and procedures,<sup>47</sup> and a more transparent process by legislative bodies.

### III. Limitations of the Common Copyright Regime

The common regime created by *Decision 351* represented significant progress in the protection of copyright and legal convergence among AC members,<sup>48</sup> but it is not free of criticism. As is discussed below, the common regime has been unable to eliminate differences in domestic laws that provide unfair competitive advantages to producers from one AC country over another, creating distortion in the internal market. Instead, it has provided advantages to third countries to the detriment of the internal market. Additionally, it has not overcome some obstacles to the free flow of copyrighted goods, and in some cases the common regime has aggravated those inconveniences, even among AC members. Moreover, several provisions of the common regime have undermined the capacity of AC members to develop public policies aimed at promoting the public interest.

Other limitations of the common regime have emerged due to negotiations of free trade agreements and technological development. On one hand, the common regime has been insufficient to allow AC members to have a common position when facing the challenges of subsequent bilateral negotiations on intellectual property.<sup>49</sup> On the other hand, the regime suffers from a relative absence of provisions on copyright and new technologies, particularly regarding the digitalization of works and increasing Internet use. Those two limitations, as is explained below, have been evident in the regulation of technological protection measures and the liability regime of online service providers.

This section addresses the limitations of the common regime in detail, including their legal contexts and effects on AC members. The analysis is illustrated with situations that make evident an improper functioning of the internal market. This is a concept extensively used in the European Union's integration law.<sup>50</sup> A common

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<sup>47</sup> See Annette Kur, *Intellectual Property*, in FROM PARIS TO NICE: FIFTY YEARS OF LEGAL INTEGRATION IN EUROPE 75, 85 (Martin van Empel ed., 2003) (referring to the "very cautious and pragmatic step-by-step" harmonization of copyright law within the European Union).

<sup>48</sup> See Pacón, *supra* note 11, at 299–324 (analyzing the effect of *Decision 351* on the copyright protection provided by AC members and concluding that the Decision raised the communitarian level of protection).

<sup>49</sup> Fabio Forero, *La Coordinación de la Política Comercial en la Comunidad Andina y su Efecto en el Proceso de Integración*, in REVISTA DE LA ASOCIACIÓN IBEROAMERICANA DE ACADEMIAS, ESCUELAS E INSTITUTOS DIPLOMÁTICOS 5, 29–30 (2010), available at <http://segib.org/colaboraciones/2010/10/05/revista-de-la-asociacion-iberoamericana-de-academias-escuelas-e-institutos-diplomaticos/> (arguing that the negotiations of free trade agreements reflect the incapacity of AC members to act in block, which, in this instance, required the adoption of flexibilities by the Andean Community in favor of third countries).

<sup>50</sup> See, e.g., SYBE ALEXANDER DE VRIES, TENSION WITHIN THE INTERNAL MARKET: THE FUNCTIONING OF THE INTERNAL MARKET AND THE DEVELOPMENT OF HORIZONTAL AND FLANKING POLICIES (Europa Law Publishing, 2006); NIAMH NIC SHUIBHNE, REGULATING THE INTERNAL MARKET (Edward

market requires the free movement of goods and services as well as people and capital.<sup>51</sup> In order to achieve a common market, it is necessary to remove artificial barriers and harmonize national policies.<sup>52</sup> One of the non-tariff barriers may be intellectual property rights. The highly territorial character of intellectual property rights may conflict with a common market when legitimate goods or services are exported to a country where those goods or services are illegal.<sup>53</sup> For example, when a publisher prints works available in public domain according to its national law and attempts to export them to foreign countries where the work is still protected under copyright protection. In fact, in the integration of the European Union, as it should be in the Andean Community, harmonizing intellectual property rights has been “vital” for the internal market because the rights may affect the “free flow of goods and the maintenance of undistorted competition.”<sup>54</sup>

Achieving a common market does not require a uniform regulation on intellectual property or on copyright. A common market requires removing those legal barriers that block the free movement of copyrighted goods and services, by distorting it, divesting commerce, and affecting fair competition.<sup>55</sup> Requirements of a common market are, to some extent, contingent because they vary depending on the progress of the building and perfecting of the market. Based on that analysis, the following section of this article supports increasing the convergence of the copyright laws in the Andean Community.

A. The Andean Community Common Regime does not Prevent Competitive Distortions Within the Internal Market: Publishing and Software.

To be able to function properly, the Andean Community’s internal market would require a higher level of harmonization between the domestic laws of its

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Elgar Publishing, 2006); DEMIAN CHALDERS ET AL., *European Union Law* 674–711 (Cambridge University Press, 2nd ed., 2010).

<sup>51</sup> Compare Consolidated Version of the Treaty on the Functioning of the European Union, art. 26, Mar. 30, 2010, 2008 OJ (C 115/49) (“1. The Union shall adopt measures with the aim of establishing or ensuring the functioning of the internal market, in accordance with the relevant provisions of the Treaties. 2. The internal market shall comprise an area without internal frontiers in which the free movement of goods, persons, services and capital is ensured in accordance with the provisions of the Treaties.”), with Cartagena Agreement, *supra* note 1, art. 1 (setting forth the objectives of the Andean Community, which include “looking ahead toward the gradual formation of a Latin American Common Market,” but without defining the community itself).

<sup>52</sup> Andrew Scott, *Theories of Regional Economic Integration and the Gloval Economy*, in THE EUROPEAN UNION HANDBOOK 103–16 (Jackie Gower ed., Fitzroy Dearborn Publishers, 2nd ed. 2002) (referring to the negative and the positive integration of the common market).

<sup>53</sup> CATHERINE COLSTON & JONATHAN GALLOWAY, *MODERN INTELLECTUAL PROPERTY LAW* 13–16 (Routledge, 3rd ed. 2010); see also GARETH DAVIES, *EU INTERNAL MARKET LAW* 185–95 (Cavendish Publishing, 2nd ed. 2003).

<sup>54</sup> ALINA KACZOROWSKA, *EUROPEAN UNION LAW* 489 (Routledge, 2nd ed. 2011).

<sup>55</sup> ANTEQUERA & FERREYROS, *supra* note 27, at 33; ANTEQUERA, *supra* note 8, at 70.

member countries. However, the common regime tolerates,<sup>56</sup> and even encourages,<sup>57</sup> creating differences in its members' domestic laws. This can create an inadequate functioning of the market by providing competitive advantages to competitors from one country over others. This is the case in both the publishing and software development sectors.

The common regime recognizes some economic rights as exclusive to the copyright holder,<sup>58</sup> but allows AC members to recognize additional rights.<sup>59</sup> For example, *Decision 351* recognizes that the distribution of a work may or may not be for profit,<sup>60</sup> but seems to limit the right of exclusivity only to the former.<sup>61</sup> However, because of the flexibility that *Decision 351* provides to AC members, Colombia has extended copyright to the not-for-profit lending of works.<sup>62</sup> In fact, unlike the seeming *numerus clausus* of exclusive rights recognized by *Decision 351*, Colombian law grants control to right holders over any possible use of the work.<sup>63</sup> This criterion of comprehensive scope of copyright, which some scholars see as consistent with the European tradition of "*droit d' auteur*,"<sup>64</sup> has also been accepted by

<sup>56</sup> See *supra* notes 37–40 and accompanying text.

<sup>57</sup> See *supra* notes 32, 35–36 and accompanying text.

<sup>58</sup> *Decision 351*, *supra* note 7, art. 13 (recognizing to copyright holder the exclusive rights for reproduction, public communication, public distribution, importation, translation, adaptation and the creation of other derivative works). See also Pacón, *supra* note 11, at 316 (affirming that the list of exclusive economic rights set forth by *Decision 351* is merely "illustrative").

<sup>59</sup> *Decision 351*, *supra* note 7, art. 17 ("AC members' domestic law may recognize other economic rights.").

<sup>60</sup> *Id.* art. 3 ("[P]ublic distribution" as "making available to the public the original or copies of a work through its selling, renting, lending or any other manner.").

<sup>61</sup> *Id.* art. 13(c) (providing that the author or right holder has the exclusive right to authorize or prohibit the public distribution of copies of the work through selling or leasing); see also ANTEQUERA & FERREYROS, *supra* note 27, at 137 (supporting the argument that *Decision 351* limits exclusive right of distribution to for-profit transferences and excludes those for free).

<sup>62</sup> Dirección Nacional de Derecho de Autor, Legal Opinion 1-2005-4826 (March 9, 2005) (Colom.) (rejecting the existence of any exception for lending books for libraries), Legal Opinion 2-2010-4800 (Nov. 30, 2010) (rejecting the existence of any exception for lending audiovisual works for libraries).

<sup>63</sup> *In re Maria Resesa Garcés Lloreda*, Constitutional Court of Colombia, Judgment C-276/96 (Jun. 20, 1996) (Colom.) ("The economic rights of authors, in the civil law tradition, are as many as manners of using works, and they do not have any exception other than those set forth by law, because exceptions must be specific and restricted."); see also Dirección Nacional de Derecho de Autor, Legal Opinion 1-2006-4988 (Apr. 1, 2006) (supporting a comprehensive protection of economic right), and Legal Opinion 1-2008-8704 (Apr. 29, 2008) (reiterating that before copyright holders have a comprehensive protection for economic rights). This comprehensive protection for economic rights has been also articulated at communitarian level. See Andean Community Tribunal of Justice, Case 24-IP-98, at ¶3 (Sep. 25, 1998) (ruling in a case on copyright protection of computer programs that "[the copyright] economic right is unlimited, therefore, right holder is allowed to authorize any form of exploitation of the computer program").

<sup>64</sup> Ricardo Antequera Parilli, *El Derecho de Autor y los Derechos Conexos en el ALCA: Una Visión Panorámica de las Negociaciones*, in *Perspectivas Autorais do Direito da Propriedade Intelectual* 8, 23–24 (Helenara Braga Avancini & Milton Lucídio Leão Barcellos eds., EdiPUCRS, 2009)

other AC members.<sup>65</sup> This additional protection granted by domestic laws is also enjoyed by foreign works because of the broad national treatment adopted by the common regime.<sup>66</sup> For example, software corporations have been successful in enforcing exportation rights in Peru;<sup>67</sup> similarly, the Ecuadorian copyright authority has exercised *ex-officio* enforcement of exportation rights on foreign movies,<sup>68</sup> in spite of the fact that right holders may not have those rights in their countries of origin. On the other hand, Bolivia has recognized only limited exclusive rights.<sup>69</sup>

Publishers and writers from some AC members may enjoy a competitive advantage with respect to their colleagues from other member countries. In Colombia, for example, because of the comprehensive control by publishers and writers and the lack of exceptions for public lending, libraries and educational institutions must pay for their not-for-profit lending of books.<sup>70</sup> Peru provides comprehensive copyright protection with an exception that allows free public lending.<sup>71</sup> And Bolivia, which does not grant an exclusive right to control public lending, allows public lending of books by libraries without restriction.<sup>72</sup> In addition to creating an inappropriate function in the internal publishing market, the asymmetry seems unfair

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(supporting that adopting comprehensive economic rights and limited exceptions is a “triumph” of civil law tradition in the failed negotiations of the Free Trade Agreement of the Americas); *see also* Pacón, *supra* note 11, at 302 (stating that *Decision 351* adopted the European civil law tradition on copyright).

<sup>65</sup> In Peru, *see* ANTEQUERA & FERREYROS, *supra* note 27, at 127–28, 155, and 177 (supporting a comprehensive scope for copyright bases on articles 31 (f), 37, and 50 of the Peruvian Copyright Act). In Ecuador, *see* LEY DE PROPIEDAD INTELECTUAL [Intellectual Property Act] arts. 19, 20, and 27 (Ecuador) [hereinafter Intellectual Property Act–Ecuador] (setting forth a broad exclusive right for exploiting works). In Venezuela, former AC member, *see* Antequera, *supra* note 41, at 25–28 (supporting a comprehensive scope for copyright based on articles 23 of the Venezuelan Copyright Act and 18 of its Regulation).

<sup>66</sup> *See infra* notes 90–101 and accompanying text.

<sup>67</sup> Instituto Nacional de Defensa de la Competencia y de la Protección de la Propiedad Intelectual, Resolution 0121-1998-ODA (Jul. 9, 1998) (recognizing exhaustion of rights for purpose of introducing a software from one country to another for using but not for commercializing).

<sup>68</sup> *See* Juzgado Décimo de Garantías Penales de Guayas, Judgment 09260-2011-0071 (Feb. 3, 2011) (Ecuador) (rejecting constitutional action against sanction adopted *ex-officio* by the Ecuadorian copyright authority based on the fact that the infringer did not prove a legitimate origin of movies and the existence of a license for importing them into the domestic market).

<sup>69</sup> Ley de Derecho de Autor [Copyright Act], art. 15 (Bol.) [hereinafter Copyright Act–Bolivia] (granting to right holders the exclusive rights on reproduction, public communication, translation, adaptation, and any other transformation of the copyrighted work).

<sup>70</sup> *See supra* notes 62–63 and accompanying text.

<sup>71</sup> *See* Ley sobre Derechos de Autor [Copyright Act], arts. 31(f), 43(f) (Peru) [hereinafter Copyright Act–Peru] (setting forth that copyright includes any form of using the work that is not excepted by law, and that the list of rights recognized in the law is “merely illustrative and not strict” and setting forth an exception for public lending of books by not-for-profit libraries and archives).

<sup>72</sup> Copyright Act–Bolivia, *supra* note 69, art. 15 (lacking any recognition to an exclusive right on public leading of works).

because it deprives a significant portion of the population basic services that provide access to knowledge and opportunities for development.<sup>73</sup>

*Decision 351* reflects a standard of copyright protection from the early 1990s that does not account for the development of information technologies, particularly the digitalization of works and the Internet. Because of the absence of provisions about these phenomena within the common regime, AC members are free to adopt specific rules on digital works and the Internet within their domestic laws as long as they do not conflict with the common regime. As a result, the distortion of the internal market has increased because of the differences between domestic laws, which provide unfair competitive advantages in fields such as information technologies. These unfair advantages include the creation of multimedia content, the provision of online services,<sup>74</sup> and the development of computer programs.

For instance, the common regime protects computer programs and sets forth some limitations. In fact, before completion of the TRIPS Agreement,<sup>75</sup> *Decision 351* expressly recognized that computer programs—both object and source code<sup>76</sup>—are protected by copyright.<sup>77</sup> The Decision also authorized exceptions such as back-up copies, copies necessary for the functioning of the program,<sup>78</sup> and any modifications of the program for personal purposes.<sup>79</sup> These provisions of *Decision 351* have been replicated in the domestic law all AC members<sup>80</sup> except Colombia, which only has regulates the registration of computer programs.<sup>81</sup> Therefore, *Decision 351* has provided a common minimum standard for copyright protection for computer programs, but AC members are authorized to adopt additional norms if consistent with the common regime.

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<sup>73</sup> See Margaret Chon, *Copyright and Capability for Education: An Approach From Below*, in INTELLECTUAL PROPERTY AND HUMAN DEVELOPMENT: CURRENT TRENDS AND FUTURE SCENARIOS, 218–49 (Tzen Wong & Graham Dutfield eds., Cambridge University Press, 2011) (referring to the severe shortage of textbook in developing countries and arguing in favor of public policies and legal changes to provide access to knowledge).

<sup>74</sup> See *infra* notes 233–42 and accompanying text.

<sup>75</sup> TRIPS Agreement, *supra* note 42, art. 10.1 (providing copyright protection to computer programs).

<sup>76</sup> *Id.* art. 23(1) (providing protection for both the source and the object code of computer programs).

<sup>77</sup> *Decision 351*, *supra* note 7, art. 4(l) (providing copyright protection to computer programs).

<sup>78</sup> *Id.* arts. 24–26 (setting forth specific copyright exceptions for computer programs).

<sup>79</sup> *Id.* art. 27 (providing that the adaptation of a computer program made by its user for its exclusive use does not constitute modification).

<sup>80</sup> Reglamento del Soporte Lógico o Software [Software Regulation] arts. 15 and 16 (Bolivia) [hereinafter Software Regulation–Bolivia]; Intellectual Property Act–Ecuador, *supra* note 65, art. 30; Copyright Act–Peru, *supra* note 71, arts. 73–75.

<sup>81</sup> Por el cual se reglamenta la inscripción del soporte lógico (software) en el Registro Nacional del Derecho de Autor [Regulation about Software Inscription in the National Register of Copyright] (Colombia).



Over the years, the evolution of domestic law in AC members has increased the differences in the regulation of computer programs. These differences are particularly significant with regard to the cases of works-for-hire and exceptions to use software without the authorization of the copyright holder. In the latter, neither Colombia nor Bolivia<sup>82</sup> has gone beyond the exceptions already available in the common regime, but the other AC members have. For instance, following the TRIPS Agreement,<sup>83</sup> Ecuador has recognized an exception for rentals when the program itself is not the essential object of the rental, such as when renting a car that includes a computer program in its system.<sup>84</sup> This is also the case in Peru.<sup>85</sup> However, Peru has also recognized, similar to the European Union<sup>86</sup> and the United States,<sup>87</sup> a specific exception that allows reverse engineering of computer programs in order to achieve the interoperability of independent programs.<sup>88</sup>

The recognition of an exception for the reverse engineering of computer programs provides competitive advantages to Peruvian software development companies. In fact, in other countries of the Andean Community, companies are required to apply for licenses from provider of proprietary software—such as Microsoft and Apple—to develop interoperable computer programs.<sup>89</sup> Peru allows software development companies to do so without licensing and authorizes reverse engineering by law, including decompiling the object code of a given software, distilling the source code, and developing computer programs compatible with the original source. In simple terms, software development companies in Peru are able to save the usually high licensing fees required in other countries and technically may access the programming code of given software in order to develop a compatible solution. This creates an improper function in the internal market of computer programming services because companies in one country enjoy advantages that are based on mere legal barriers. One way to overcome the improper function in the

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<sup>82</sup> Software Regulation—Bolivia, *supra* note 80.

<sup>83</sup> TRIPS Agreement, *supra* note 42, art. 11 (setting forth that the obligation to provide right holders the right to authorize or to prohibit the commercial rental to the public of originals or copies of their copyright works “does not apply to rentals where the [computer] program itself is not the essential object of the rental”).

<sup>84</sup> Intellectual Property Act—Ecuador, *supra* note 65, art. 31.

<sup>85</sup> Copyright Act—Peru, *supra* note 71, art. 72.

<sup>86</sup> Directive 2009/24/EC, of the European Parliament and of the Council of 23 April 2009 on the Legal Protection of Computer Programs, 5.5.2009 OJ (L 111), 6.

<sup>87</sup> *Sega Enter. Ltd. v. Accolade, Inc.*, 977 F.2d 1510 (9th Cir. 1992).

<sup>88</sup> Copyright Act—Peru, *supra* note 71, art. 76.

<sup>89</sup> See ANTEQUERA & FERREYROS, *supra* note 27, at 234–36 (arguing that reverse engineering activities require a copyright exception in domestic law), but see Agustin Grijalva, *Copyright & the Internet*, in *THE INTERNET AND SOCIETY IN LATIN AMERICA AND THE CARIBBEAN* 311, 324–25 (Marcelo Bonilla & Gilles Cliché eds., International Development Research Center 2004) (assuring that reverse engineering is “compatible” with the fundamental principles of copyright and, therefore, permitted in the Andean Community).

internal market is to extend a reverse engineering exception to the entire Andean Community internal market.

B. The Andean Community Common Regime Provides Competitive Advantages to Third Countries to the Detriment of its Internal Market: National Treatment and Restoration of Rights.

The national treatment principle is essential for international trade to flourish. Through this principle, countries treat nationals of other countries no less favorably than their own nationals.<sup>90</sup> In copyright law, this principle has been expressly recognized by the Berne Convention<sup>91</sup> and the TRIPS Agreement.<sup>92</sup> Countries have committed to not discriminate in the protection that they provide copyrighted goods and services that originate in other country party to those international agreements. However, the Andean Community common regime went further by awarding one-sided protection to works of foreign origin even in cases where doing so was not required by international law.<sup>93</sup>

*Decision 351* granted national treatment to all creators, even if the country of origin of the works did not protect the nationals of the Andean Community.<sup>94</sup> This implies that by the time *Decision 351* entered in force, on December 21, 1993, AC members extended protection not only to authors whose countries of origin were party to the Berne Convention, the leading international instrument on copyright, but also to those authors from countries that were not members of that convention. As a result, authors from more than fifty countries—including Russia, Korea, and El Salvador—received protection by the Andean Community even though commu-

<sup>90</sup> See Marrakesh Agreement Establishing the World Trade Organization, Apr. 15, 1994, 1867 U.N.T.S. 187, Annex 1, art. 3 (requiring national treatment for imported goods once they have passed customs); Marrakesh Agreement Establishing the World Trade Organization, Apr. 15, 1994, 1896 U.N.T.S. 183, Annex 1B, art. 17 (accord national treatment for supply of services).

<sup>91</sup> Berne Convention, *supra* note 18, art. 5.1 (“Authors shall enjoy, in respect of works for which they are protected under this Convention, in countries of the Union other than the country of origin, the rights which their respective laws do now or may hereafter grant to their nationals, as well as the rights specially granted by this Convention.”).

<sup>92</sup> TRIPS Agreement, *supra* note 42, art. 3 (“1. Each Member shall accord to the nationals of other Members treatment no less favorable than that it accords to its own nationals with regard to the protection of intellectual property. . .”).

<sup>93</sup> César Parga, *Intellectual Property Rights*, in TOWARD FREE TRADE IN THE AMERICAS 207, 218 (Jose Manuel Salazar Xirinachs & Maryse Robert eds., Brookings Institution Press 2001) (recognizing that the Andean Community provides a broad concept of national treatment, without exceptions).

<sup>94</sup> *Decision 351*, *supra* note 7, art. 2 (providing that each AC member shall grant to nationals of other countries no less favorable protection than those provided to its own nationals). This provision has reflects on domestic law, *see, e.g.*, Intellectual Property Act—Ecuador, *supra* note 65, art. 5(2) (providing protection for all the works regardless of the country of origin of the work, nationality or domicile of the author or right holder, and wherever the work was published or disclosed).

nitarian authors were not protected in those countries.<sup>95</sup> Even today, after the massive adherence of developing countries to the Berne Convention as a result of the TRIPS Agreement,<sup>96</sup> presumably in exchange of market access for agricultural goods,<sup>97</sup> *Decision 351* can be used to protect authors from twenty countries, even though they do not protect communitarian authors. This is the case for Angola, Iran, Iraq, Mozambique, Taiwan, and others.<sup>98</sup>

Because of the lack of transparency in the process of adopting *Decision 351*,<sup>99</sup> it is unclear why protection was granted to foreign authors beyond what is required internationally. One may suggest that it is consistent with the *droit d'auteur* rationality, since creators deserve protection independent of country of origin.<sup>100</sup> It may be suggested also that drafters of *Decision 351* were scared of the competition posed by foreign authors, under the rationality that unprotected foreign works could substitute for domestic ones.<sup>101</sup> Whatever the underlying reason, there is no empirical data proving that preserving such broad protection for foreign works provides any benefit for the Andean Community internal market; on the contrary, it undermines the access to those works by AC population and reduces business opportunities for domestic publishers.

*Decision 351* protects the creations of authors from third countries even when they are not protected in their country of origin and in spite of the lack of reciprocity from those countries to communitarian authors. The most emblematic instance of this may be the reestablishment of rights, thus is, the reentry of a public domain work into the private domain.<sup>102</sup> In these cases, *Decision 351* reestablished the

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<sup>95</sup> See BERNE CONVENTION CONTRACTING PARTIES, WORLD INTELLECTUAL PROPERTY ORGANIZATION, available at [http://www.wipo.int/treaties/en/ShowResults.jsp?lang=en&treaty\\_id=15](http://www.wipo.int/treaties/en/ShowResults.jsp?lang=en&treaty_id=15) (last visited May 28, 2011).

<sup>96</sup> See BERNE CONVENTION STATISTICS, WORLD INTELLECTUAL PROPERTY ORGANIZATION, available at [http://www.wipo.int/treaties/en/statistics/StatsResults.jsp?treaty\\_id=15&lang=en](http://www.wipo.int/treaties/en/statistics/StatsResults.jsp?treaty_id=15&lang=en) (last visited May 28, 2011).

<sup>97</sup> See Peter Yu, *TRIPS and Its Discontents*, 10 MARQ. INTELL. PROP. L. REV. 369, 371–79 (2006) (describing the four different narratives used to explain the origins of the TRIPS Agreement and why developing countries became parties).

<sup>98</sup> See *supra* note 95.

<sup>99</sup> Pacón, *supra* note 11, at 300 (complaining about the lack of information about the process in the expert committee that drafted *Decision 351*).

<sup>100</sup> ANTEQUERA & FERREYROS, *supra* note 27, at 61–62 (arguing that a broad national treatment was adopted by *Decision 351* because, since copyright a fundamental right, it would be unfair to leave its recognition subject to formal requirements, making the author a victim of the negligence of his country of origin).

<sup>101</sup> DELIA LIPSZYC, CONFERENCIAS DE REVISIÓN DE LAS CONVENCIONES DE BERNA Y UNIVERSAL: ENFOQUE ARGENTINO 44 (CISAC 1975) (supporting the argument that unprotected foreign works substitute domestic ones when rejecting the adoption of flexibilities for developing countries in the Berne Convention).

<sup>102</sup> ANTEQUERA, *supra* note 8, at 934, 1014 (arguing that *Decision 351* “remedies the unfairness” of leaving unprotected works because they lack registration according to the repealed law).

rights in the Andean Community for works that had entered into the public domain because of lack of compliance with formalities in a given country, such as registration.<sup>103</sup> For example, a work that never received protection in the United States due to lack of registration<sup>104</sup> may still enjoy copyright protection in the AC,<sup>105</sup> even if communitarian authors do not enjoy an analogous benefit in the United States.<sup>106</sup>

Fortunately, the effects of the reestablishment of rights granted by the Andean Community will dilute over the years as more countries adhere to the Berne Convention and the TRIPS Agreement, which reject formalities and require automatic protection for works.<sup>107</sup> However, the reestablishment of rights, in addition to the extension of the terms of protection,<sup>108</sup> has removed a significant number of works from the public domain for several decades. It is unclear why *Decision 351* adopted such a broad reestablishment of rights. It is hypothesized that there was some aversion to the public domain because of the underlying idea of the economic inefficiencies of public goods.<sup>109</sup> Whatever the explanation, the reestablishment of rights affects not only access to the works by the population in general but also the creativity of authors and prevents the advancement of cultural industries.<sup>110</sup> In cas-

<sup>103</sup> *Decision 351*, *supra* note 7, art. 60 (reestablishing copyright on works deprived of protection because of the omission of registration required by previous domestic laws).

<sup>104</sup> The U.S. became party to the Berne Convention in 1988; before its ratification and implementation of law, the U.S. provided federal copyright protection only to works that have fulfilled all the formalities provided by law, including its registration before the Library of Congress. See Berne Convention Implementation Act of 1988, Pub. L. No. 100-568, 102 Stat. 2853.

<sup>105</sup> See also *Decision 351*, *supra* note 7, art. 2 (“Each [AC] member shall grant the nationals of other countries protection non less favorable than that accorded to its own nationals in matter of copyright and neighboring rights.”).

<sup>106</sup> See 17 U.S.C. § 104 (2002) (adopting a narrow system of restoration of copyright limited to works of foreign authors that have not entered into public domain in their country of origin, which is an eligible country, and adopting safeguards in favor of a reliance party using a system of actual or constructive notice). In spite of being significantly narrower than the reestablishment of right adopted by the Andean Community, the system of restoration of copyright has been challenged in the U.S. on the grounds that it would affect the freedom of speech by obstructing public performances of restored musical works. See *Golan v. Holder*, 132 S. Ct. 873, 877 (2012).

<sup>107</sup> Berne Convention, *supra* note 18, art. 5.2 (“The enjoyment and the exercise of these rights shall not be subject to any formality.”) and TRIPS Agreement, *supra* note 42, art. 9 (referring to the Berne Convention).

<sup>108</sup> Compare Berne Convention, *supra* note 18, art. 7 (providing protection for life of author plus 50 years) and *Decision 351*, *supra* note 7, art. 18 (adopting a minimum term of protection equal to author’s life plus fifty years *post mortem auctoris*), with Ley 23 de 1982 sobre derechos de autor [Copyright Act], art. 21 (Colom.) [*hereinafter* Copyright Act–Colombia] (extending copyright protection up to eighty years *post mortem auctoris*); Intellectual Property Act–Ecuador, *supra* note 65, arts. 80–81 (extending the copyright protection up to seventy years *post mortem auctoris*); and Copyright Act–Peru, *supra* note 71, art. 52 (extending the copyright protection up to seventy years *post mortem auctoris*). See also Ley sobre el Derecho de Autor [Copyright Act], art. 25 (Venez.) (extending the copyright protection up to sixty years *post mortem auctoris*).

<sup>109</sup> World Intellectual Property Organization [WIPO], *Scoping Study on Copyright and Related Rights and the Public Domain* at 21 CDIP/7/3/INF/2 (May 7, 2010).

<sup>110</sup> *Id.* at 13–15.

es where the law freely authorized the use of the works, it is now necessary to get authorization from the copyright holder whose rights have been reestablished.

Naturally, *Decision 351* adopted a safeguard measure for those affected by the reestablishment of rights. It sets forth that the reestablishment of rights could not affect those who relied on works in the public domain before the Decision entered in force, such as those who published content or created derivative works.<sup>111</sup> The only limitation to that safeguard is that uses must refer to activities already carried out or in progress by the time *Decision 351* entered into force; thus, it does not benefit subsequent uses after rights were reestablished. Even though the safeguard adopted by *Decision 351* mitigates the effects of passing public domain works back to the private domain, it does not address the higher social and economic cost that implies the reestablishment of the intellectual property rights.<sup>112</sup>

Adopting a broad concept of national treatment by protecting works originating in countries not parties to the Berne Convention and by reestablishing the rights of works in the public domain, the Andean Community common regime provides competitive advantages to authors and right holders of other countries to the detriment of users, creators, and publishers of AC members. While users, creators, and cultural industries must accept licensing and payment of copyright fees to enjoy some works in the AC member countries, those in third world countries need not assume those costs. It may not affect the proper functioning of the internal market, but instead can affect the competitiveness of AC members in international markets and undermine the opportunities for the development of their population.

### C. The Andean Community Common Regime Generates Obstacles for the Free Flow of Copyrighted Works: Exhaustion of Rights.

The common regime was designed as a first step in the process of legal convergence between AC members.<sup>113</sup> Therefore, it was foreseeable that the regime would not solve all the legal issues and would leave some for the AC members' domestic laws. Different domestic approaches to those issues were tolerated or underestimated by the common regime.<sup>114</sup> However, as was noted earlier, significant differences between countries in addressing those issues has raised obstacles to the free flow of copyrighted goods and services. Moreover, *Decision 351* not only left unsolved some of those issues, in certain cases it aggravated the obstacles to the free flow of copyrighted goods and services in both the internal and the international markets.

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<sup>111</sup> *Decision 351*, *supra* note 7, art. 60 (providing reestablishment of copyright, without prejudice of acquired rights by third parties before *Decision 351* came into force, if uses are completed or ongoing by that time).

<sup>112</sup> See *supra* notes 107–108 and accompanying text.

<sup>113</sup> See *supra* note 29 and accompanying text.

<sup>114</sup> See *supra* notes 32–41 and accompanying text.

Two decisions adopted by the common regime increased the obstacles to the free flow of copyrighted works: the establishment of national exhaustion of rights and the recognition of a broad exclusive right to authorize or prohibit the importation of copyrighted works.<sup>115</sup>

According to the exhaustion of rights, also known as the first sale doctrine in the U.S., once a work or copies of it have been legally distributed by the rights holder, any subsequent transfer of the ownership over that work or copy does not require either authorization or payment to the copyright holder.<sup>116</sup> The exhaustion of rights is a limitation to the exclusive right of distribution and is an exception to the monopoly for the commercialization of the work.<sup>117</sup> At the domestic level, the exhaustion of rights allows for reselling works; therefore, selling second-hand books does not require any additional authorization or payment.<sup>118</sup> At the international level, exhaustion of rights allows for so-called “parallel importations,” which occur when goods are provided simultaneously through two or more legitimate channels of distribution.<sup>119</sup> By facilitating the circulation of goods, the exhaustion of rights allows for more intense competition among providers and, eventually, more accessible prices for consumers.<sup>120</sup>

The TRIPS Agreement reserves for the domestic law of the WTO-members the handling of exhaustion of intellectual property rights.<sup>121</sup> Exhaustion can be limited to the domestic market (national), to the market of a series of countries with integrated economies (regional), or it can be extended without limitations to any other country (international). Each of the aforementioned choices implies a lower or a higher degree of freedom in the flow of goods from one country to another.

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<sup>115</sup> *Decision 351*, *supra* note 7, art. 13 (granting to right holder exclusive rights for “(c) the distribution of copies of the work to the public by means of sale, lending, or hiring; (d) the importation into the territory of any Member of copies made without the authorization of the owner of rights”).

<sup>116</sup> See Juan David Castro García, *El Agotamiento de los Derechos de Propiedad Intelectual*, in *REVISTA LA PROPIEDAD INMATERIAL*, 253, 256–58 (2009) (Colom.) (referring to exhaustion of rights, first sale doctrine, and other related legal doctrines).

<sup>117</sup> See Alfredo Vega Jaramillo, *Manual de Derecho de Autor* 42 (Dirección Nacional de Derecho de Autor 2010) (Colom.).

<sup>118</sup> *Id.*

<sup>119</sup> *Id.*

<sup>120</sup> *Id.* (referring as the purpose of the exhaustion the free flow of works and cultural interchange).

<sup>121</sup> TRIPS Agreement, *supra* note 42, art. 6 (noting that the purpose of the exhaustion is “nothing in [the] Agreement shall be used to address the issue of the exhaustion of intellectual property rights.”); see UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT (UNCTAD) THE INTERNATIONAL CENTRE FOR TRADE AND SUSTAINABLE DEVELOPMENT (ICTSD), *RESOURCE BOOK ON TRIPS AND DEVELOPMENT* 104–07 (Cambridge University Press, 2005) (analyzing competing interpretations of article 6, and concluding that the TRIPS Agreement does not preclude WTO members from adopting their own policies and rules on exhaustion).

There is no worldwide consensus on whether the exhaustion of rights has to be implemented in the domestic law of countries.<sup>122</sup> Some countries, including Australia,<sup>123</sup> Chile,<sup>124</sup> and New Zealand,<sup>125</sup> have opted to free the international flow of goods without any copyright limitation. Several decisions of the European Court of Justice<sup>126</sup>—based on constitutive treaties of the European Union<sup>127</sup>—support at least the regional exhaustion of rights within the Union. Consequently, intellectual property rights cannot be used to fragment the EU common market.<sup>128</sup> In the United States, the first sale doctrine seems to exhaust rights only domestically.<sup>129</sup> In fact, recently the American retail chain Costco tried unsuccessfully to appeal a federal court's adverse decision<sup>130</sup> that restricted the importation of copyrighted goods for commercialization in the domestic market without authorization from the right

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<sup>122</sup> See *id.* at 92–117 (providing analysis about the drafting of the provision on exhaustion of right in the TRIPS Agreement, its interpretation, and its application in different domestic laws).

<sup>123</sup> ANNE FITZGERALD & BRIAN FITZGERALD, *INTELLECTUAL PROPERTY IN PRINCIPLE* 152–56 (Lawbook Co., 2004) (arguing that even when a provision on parallel importation remains the law, after several legal modifications, it does not longer apply to some of the most valuable categories of works); Thomas Dreier, *Shaping a Fair International IPR-Regime in a Globalized World: Some Parameters for Public Policy*, in *INTELLECTUAL PROPERTY, PUBLIC POLICY, AND INTERNATIONAL TRADE* 43, 56 (Inge Govaere & Hanns Ullrich eds., Peter Land 2007).

<sup>124</sup> Ley 17.336 sobre Propiedad Intelectual [Intellectual Property Act], as amended, art. 18 (Chile).

<sup>125</sup> See *Copyright Act 1994 No. 143, as at July 07, 2010, §§ 9(1)(d) and 16(1)(d)* (New Zealand).

<sup>126</sup> See Case 78/70, *Deutsche Grammophon Gesellschaft v. Metro*, 1971 E.C.R. 147 (ruling that free movement of goods within the common market is in conflict with prohibiting in one EU member the selling of copyrighted goods initially distributed within the territory of another member). *But see* Case 341/87, *EMI Electrola v Patricia*, 1989 E.C.R. 79 (ruling that EU law does not precluding the application of domestic law that allows right holders to prohibit marketing works imported from another EU member “in which they were lawfully marketed without the consent of the aforesaid owner or his licensee and in which the producer of those recordings had enjoyed protection which has in the mean time expired.”). See also Case 55/80457/80, *Musik-Vertrieb membran GmbH and K-tel International v. GEMA*, 1981 E.C.R. 147 (ruling that EU law precluding applying domestic law that empowers a copyright management society respect to recordings distributed in the national market after being put into circulation within the territory of another EU member county by or with the right holder's consent).

<sup>127</sup> See Consolidated Version of the Treaty on the Functioning of the European Union, *supra* note 51, arts. 34–35.

<sup>128</sup> Case 78/70, *supra* note 126 (arguing that “the isolation of national markets, would be repugnant to the essential purpose of the treaty, which is to unite national markets into a single market”).

<sup>129</sup> See *Copyright Act*, 17 U.S.C. §109(a) (2006) (codifying the first sale doctrine).

<sup>130</sup> *Costco Wholesale Corp. v. Omega, S.A.*, 131 S. Ct. 565 (Dec. 13, 2010) (issuing a split decision on whether copyrighted goods legally made abroad can be imported into the U.S. and sold without the express authorization of the right holder).

holder.<sup>131</sup> The Costco case still left open the door for a subsequent decision by the Supreme Court on the matter.<sup>132</sup>

The Andean Community imposed the most restrictive modality of exhaustion of rights for its members on copyright: the national exhaustion of rights.<sup>133</sup> Unlike the pristine terms of the common regime on industrial property,<sup>134</sup> *Decision 351*

<sup>131</sup> *Omega S.A. v. Costco Wholesale Corp.*, 541 F.3d 982, 983 (9th Cir. 2008) (ruling that copyrighted goods made abroad cannot be imported into the U.S. and sold without the express authorization of the right holder). *But see* *Quality King Distribs. Inc. v. L'anza Research Int'l.*, 523 U.S. 135, 145 (1998) (ruling that rights are exhausted when goods made in the U.S. and exported abroad by right holder are eventually re-imported into the U.S. without right holder's authorization).

<sup>132</sup> A tie-vote decision by the Supreme Court in the Costco case resolved it by "*Affirmance by an Equally Divided Court*", which left the previous decision of the lower appellate federal court standing without resolving the raised constitutional issue.

<sup>133</sup> *See* *Policy Review Body, Review by the Secretariat—Revision: Trade Policy Review—Ecuador*, ¶24, WT/TPR/S/148/Rev.1 (25 July 2005) ("While Ecuador permits parallel imports of patented or trademarked goods, among others, the same does not apply to goods protected by copyright"), and ¶209 ("a copyright holder . . . is authorized to prohibit the import of protected goods into Ecuador"); *Trade Policy Review Body, Report by the Secretariat: Trade Policy Review—Bolivia*, ¶22, ¶221, WT/TPR/S/154 (Oct. 4 2005) (explaining that parallel importations are allowed on patented products, but not copyrighted goods). *See also* *Trade Policy Review Body, Report by the Secretariat: Trade Policy Review—Colombia*, ¶23, WT/TPR/S/172 (Oct. 18, 2006) (mentioning that "Colombia allows the parallel importation of patented products", but omitting any comment on copyright). *But see* *Trade Policy Review Body, Report by the Secretariat: Trade Policy Review—Peru*, ¶230, WT/TPR/S/189 (Sep. 12, 2007) (stating that the common regime and domestic law establish specific provisions on the exhaustion of copyright and referring a case law of the Andean Court of Justice that ruled that "parallel imports of products protected by copyright are not prohibited, unless any injury could be caused to the authors"). *See also* *Dirección Nacional de Derecho de Autor, Legal Opinion 2-2005-6647* (Jul. 14, 2005) (Colom.) (concluding that "the exhaustion of rights is not recognized expressly neither in the domestic nor in the communitarian law . . . therefore, right holder has broad and general power for controlling any distribution of his work or copies of it."); *Vega, supra* note 117, at 42–43 (suggesting that the exclusive right to importation granted by *Decision 351* allows for the controlling the flow of copyrighted works from one country to another); *Instituto Ecuatoriano de la Propiedad Intelectual, Subdirección Regional IEPI—Guayaquil, Decision No. 005–2010–G–TA–DA–IEPI*, ¶ 21 (Dec. 28, 2010) (Ecuador) (stating that only the right holder has the power to authorize importation of works into the country, even if those are authorized copies in another country); *ANTEQUERA, supra* note 41, at 28–29 (referring to the consistency of an AC proposal of national exhaustion of copyright to be included in one of the drafts of the Free Trade of Americas Agreement).

<sup>134</sup> *Andean Community, Régimen Común sobre Propiedad Industrial [Common Regime on Industrial Property, Decision 486]* Official Gazette of the Andean Community No. 600, art. 54 (Sep. 19, 2000) (adopting international exhaustion for patented products) and art. 158 (adopting international exhaustion for trademarked products); *see also* *Clara Isabel Cordero Álvarez, El Agotamiento de los Derechos de Propiedad Intelectual de Patentes y Marcas en material de Salud Pública a la luz de la OMC y la UE: Especial Referencia a la Jurisprudencia del TJCE sobre el Reenvasado*, in 3 *SABAERES* 1, 12 (Universidad Adolfo X El Sabio 2005) (Spain) (referring to the adoption of international exhaustion within the Andean Community in the context of patent and trademark); *Jorge Eduardo Vásquez Santamaría, El Agotamiento del Derecho de Marca*, in 6/12 *Opinión Jurídica* 123, 123–37 (Universidad de Medellín 2007) (Colom.) (analyzing the international exhaustion of trademark rights adopted by the Andean Community and comparing with the European Union); *Seminario de la OMPI para los Países Andinos sobre la Observancia de los Derechos de Propiedad Intelectual en Frontera*, Jul. 10–11, 2002, *Alcance y Limitaciones de los Derechos de Propiedad Industrial*, OMPI/PI/SEM/BOG/02/1, ¶¶ 44–46 (recognizing international



does not go beyond stating that the rights holder has the exclusive right to prohibit or authorize the importation of copies made without authorization into any AC member.<sup>135</sup> This clause does not grant either regional or international exhaustion. This is especially true in light of the doctrine of the comprehensive scope of copyright, which, based on provisions of *Decision 351* and domestic law, states that holders have rights over any use of the work.<sup>136</sup> As a result, in AC members there is only national exhaustion of copyright and rights holders have the exclusive right to control importation of works through the countries. This determination is not free of criticism,<sup>137</sup> particularly because it undermines the free flow of copyrighted goods and services through the Andean Community.<sup>138</sup> For instance, Ecuadorian authorities require retailers of foreign copyrighted works to prove not only the legitimate acquisition of goods they commercialize, but also that those retailers have a license for importing the goods into the domestic market.<sup>139</sup>

Still more impressive is the way the Andean Community adopted the national exhaustion of rights by granting to the copyright holders an unlimited exclusive right to authorize or prohibit the importation of works into the territory of any AC member<sup>140</sup> without any exception for the exclusive right of exportation. This implies a real *capiti diminutio* of the AC members who deprive themselves of the

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exhaustion of right on patents within the Andean Community) and ¶¶ 59–66 (recognizing international exhaustion of right on trademarks within the Andean Community).

<sup>135</sup> *Decision 351*, *supra* note 7, art. 13(d) (“[T]he author, or his successors in title where applicable have the exclusive right to carry out authorize or prohibit: (d) the importation into the territory of any Member country of copies made without authorization of the owner of rights.”).

<sup>136</sup> See *supra* notes 64–65 and accompanying text.

<sup>137</sup> See Luis Ángel Madrid, *Importaciones Paralelas (Agotamiento de los Derecho de Propiedad Intelectual)*, Centro Colombiano del Derecho de Autor, (Oct. 2005), available at [http://www.cecolda.org.co/index.php?option=com\\_content&task=view&id=42&Itemid=40](http://www.cecolda.org.co/index.php?option=com_content&task=view&id=42&Itemid=40) (last visited May 15, 2011) (supporting international exhaustion in *Decision 351* because it allows controlling importation of “copies made without right holder’s authorization,” and rejecting a contrary legal opinion of the Colombian National Directorate of Copyright on the matter). But see Castro García, *supra* note 116, at 276 (rejecting the just mentioned interpretation because of the principle *in dubio pro auctoris* set forth by article 257 of the Copyright Act of Colombia). See also FERNANDO CHARRIA GARCÍA, *DERECHO DE AUTOR EN COLOMBIA*, 41–42 (Instituto Departamental de Bellas Artes 2001) (Colom.) (complaining because of the reluctance of AC members to apply the right to importation and arguing that the author, and not the market, must be able to determine how to profit from its work and sets forth legal conditions for that exploitation); ANTEQUERA, *supra* note 8, at 920 (lamenting the lack of consensus within the Andean Community in order to include an “express” exclusive right to prohibit or authorize parallel importations); FERNANDO FUENTES, *MANUAL DE LOS DERECHOS INTELECTUALES*, 243 n.288 (Vadell Hermanos ed., 2006) (Venez.).

<sup>138</sup> Pacón, *supra* note 11, at 319–20 (calling the attention about the lack of agreement around exhaustion of right among the experts who drafted *Decision 351*, particularly for its effects on free flow of goods within the internal market, and arguing *Decision 351* left determination on exhaustion to domestic law, which may adopt national exhaustion as, in fact, has happened).

<sup>139</sup> See *supra* note 68.

<sup>140</sup> *Decision 351*, *supra* note 7, art. 13(d).

right to determine the degree of exhaustion of rights and transferring that decision to the copyright holders.

Unlike other countries,<sup>141</sup> the Andean Community grants copyright holders greater rights by giving not only the right to control the reproduction, communication, and distribution of a work, but also a monopoly on the importation of a work or its copies.<sup>142</sup> This implies that the mere acquisition of a work in a different market does not authorize its owner to import it, even among members of the Andean Community.<sup>143</sup> In those cases, the owner of the work or copies will also need special authorization by the copyright holder and possibly the payment of an additional fee.

The national exhaustion of rights and the exclusive right of importation create obstacles for the internal market within the Andean Community. Beyond the efficacy of the national exhaustion regime in the digital economy,<sup>144</sup> these rules raise additional restrictions to the free flow of copyrighted goods and services, fragment the internal market, and allow price discrimination towards consumers.<sup>145</sup>

#### D. The Andean Community Common Regime has been Unable to Serve Public Interest Needs: Public Domain and Copyright Exceptions and Limitations.

*Decision 351* is an accurate and clear reflection of copyright excesses because it focuses on providing protection to copyright holders and underestimates the public interest involved in the regulation. *Decision 351* provides rights beyond the requirements of international agreements, such as the control on the importation of works, the national exhaustion of rights<sup>146</sup> and the adoption of a broad national treatment that provides protection even for creations that lack copyright protection

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<sup>141</sup> See Berne Convention, *supra* note 18, arts., 8–9, 11–12, and 14 (setting forth the exclusive rights to translation, reproduction, public communication, adaptation, and *droit de suite*), and TRIPS Agreement, *supra* note 42, arts. 9 and 11 (referring to the Berne Convention and adopting a limited exclusive rental rights).

<sup>142</sup> *Decision 351*, *supra* note 7, art. 13(d).

<sup>143</sup> *But see* Pacón, *supra* note 11, at 320 (arguing that exportations are allowed by *Decision 351*, but later commercialization of exported goods is not); *see also* Instituto Nacional, *supra* note 67 (recognizing the exhaustion of rights for purpose of introducing a software from one country to another for use it, but not for commercializing). Rather than denying the exhaustion of rights, this interpretation is limited to introducing a work for personal. Therefore, this interpretation produces similar results, by obstructing the free flow of goods even within the internal market.

<sup>144</sup> Grijalva, *supra* note 89, at 316, 320 (stating the non-sense of importing rights in online environment, because of its borderless and “de-territorialization”).

<sup>145</sup> See UNCTAD & ICTSD, *supra* note 121, at 116–17 (referring to the social and economic impact of exhaustion of rights, and raising doubts about the copyright holders’ argument that price discrimination benefit developing countries).

<sup>146</sup> See *supra* notes 133–138 and accompanying text.

in their own countries of origin.<sup>147</sup> Additionally, *Decision 351* authorized the AC members to provide higher levels of protection through domestic law by recognizing more moral and economic rights than those available in the common regime<sup>148</sup> and by extending the term of protection beyond.<sup>149</sup> However, the Decision made limited progress in harmonizing the rules on public domain and was notoriously insufficient in adopting copyright exceptions and limitations. The following paragraphs refer to the latter issues and show how the regulation through domestic law has affected the proper functioning of the Andean Community internal market.

### 1. Public domain regulation

Conceptualizing the public domain may be a difficult task, but for the purposes of this paper, it is enough to say that the public domain includes all content that is not under the private domain; in other words, all content that is not controlled by the exclusive rights of a given person. Contrary to the private domain, everybody may benefit from the public domain, but nobody may claim exclusive rights over it.<sup>150</sup> As was mentioned previously, the public domain improves the access to works by removing copyright authorizations and royalties.<sup>151</sup> It also permits creators to create derivative works and provide new meanings to preexisting materials. Additionally, materials available in the public domain can lead to the creation of new businesses. Therefore, the public domain provides numerous opportunities for users, authors, and intermediaries.

The public domain, consists of three basic categories of content:<sup>152</sup> i) content that does not qualify for copyright protection; ii) copyrighted works whose terms of protection have expired; and iii) other works unprotected for idiosyncratic reasons that vary from one country to another. According to *Decision 351*, the first group includes mere ideas, the technical content of scientific works, and their commercial

<sup>147</sup> *Decision 351*, *supra* note 7, art. 2 (providing that each AC member shall grant to nationals of other countries no less favorable protection than the one provided to its own nationals).

<sup>148</sup> Compare *Decision 351*, *supra* note 7, arts. 11–12 (recognizing as moral rights the right of attribution, the right to publish, and the right to the integrity of the work, but allowing other moral rights by domestic law) with Copyright Act–Bolivia, *supra* note 69, art. 14 (recognizing the right to have a work published anonymously); Intellectual Property Act–Ecuador, *supra* note 65, art. 18 (recognizing the right to have a work published anonymously or pseudonymously, and the right for accessing to the unique copy of the work); Copyright Act–Peru, *supra* note 71, arts. 23, 27–28 (recognizing the right to have a work published anonymously or pseudonymously, the right to remove the work from the commerce, and the right for access to the unique copy of the work, respectively); and Copyright Act–Colombia, *supra* note 108, art. 30 (recognizing the right to have a work published anonymously or pseudonymously, and the right to remove the work from circulating). See also *Decision 351*, *supra* note 7, arts. 13–17 (recognizing some exclusive economic rights but allowing others by domestic law).

<sup>149</sup> *Decision 351*, *supra* note 7, arts. 18, 59.

<sup>150</sup> See LIPSZYC, *supra* note 17, at 269 (explaining public domain works as those that “may be used . . . and transformed . . . by any person but no one may acquire exclusive rights in the work”).

<sup>151</sup> But see WIPO, *supra* note 109, at 40–42 (reporting exceptional cases of paid public domain).

<sup>152</sup> *Id.* at 23–37 (providing a lightly extensive categorization of public domain contents).

or industrial exploitation.<sup>153</sup> It also includes those creations that do not satisfy the requirements for receiving copyright protection mainly because they lack originality and fixation.<sup>154</sup> Originality and fixation are required by the common regime in a work to get copyright protection,<sup>155</sup> but *Decision 351* does not specify the meaning of those requirements, leaving their precise determination to judicial criteria.

The second and significant category of content in public domain is those works with expired terms of protection. The Andean Community common regime adopted the general rule that copyright protection extends for the life of the author plus fifty years post mortem.<sup>156</sup> In spite of some disappointment,<sup>157</sup> *Decision 351* respected the progress already made by some of the AC members that had recently extended their terms in order to comply with the Berne Convention, which also requires the same term.<sup>158</sup> The Decision helped standardize the term of protection, particularly with respect to those AC members that still had shorter terms in their domestic law.<sup>159</sup> However, like the Berne Convention, *Decision 351* only sets forth a minimum term and expressly allows AC members to provide for a longer term of protection.<sup>160</sup>

The term of copyright protection varies significantly within the Andean Community, which creates another obstacle for the internal market. Currently, Bolivia is the only AC member with a term of protection of life of the author plus fifty years post-mortem.<sup>161</sup> Ecuador and Peru have extended the term to life plus seven-

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<sup>153</sup> *Decision 351*, *supra* note 7, art. 7.

<sup>154</sup> *Id.* arts. 3 and 4; see Andean Community Tribunal of Justice, Case 10-IP-99 at ¶3 (Jun. 11, 1999) (requiring originality in the “selection” and “arrangement” of contents for providing protection to databases), and Case 150-IP-2006 (Dec. 12, 2006) (referring to an originality requirement for granting protection to compilations of works).

<sup>155</sup> *But see* ANTEQUERA, *supra* note 8, at 136–37 (arguing that *Decision 351* does not make fixation a general requirement for copyrighted work, but an exceptional one).

<sup>156</sup> *Decision 351*, *supra* note 7, arts. 18–20 (adopting rules on copyright term of protection, its extension and computing).

<sup>157</sup> ANTEQUERA, *supra* note 8, at 921–22 (arguing in favor of harmonizing according to the longest term of the Colombian law, thus is, life plus eighty years post-mortem); Gineli Gómez Muci, *El Derecho de Autor y los Derechos Conexos en el Marco del “Acuerdo sobre los Aspectos de los Derechos de Propiedad Intelectual relacionados con el Comercio, Acuerdo sobre los ADPIC, in LEGISLACIÓN SOBRE DERECHO DE AUTOR Y DERECHOS CONEXOS*, 105, 121 (Judidica Venezolana, 1999) (suggesting the adoption of longer term of protection at regional or sub regional level, because the difference among countries may create market distortions by concentrating both production and distribution of works).

<sup>158</sup> Berne Convention, *supra* note 18, art. 7.1 (“The term of protection granted by this Convention shall be the life of the author and fifty years after his death.”).

<sup>159</sup> *Decision 351*, *supra* note 7, at art. 59(1) (extending automatically ongoing term of protection provided by domestic law, if it was shorter than the one adopted by *Decision 351*); see also ANTEQUERA, *supra* note 8, at 922 (referring to some shorter terms then in force in the Peruvian copyright law that were extended as a result of the adoption of *Decision 351*).

<sup>160</sup> *Decision 351*, *supra* note 7, arts. 18, 59(2).

<sup>161</sup> Copyright Act–Bolivia, *supra* note 69, arts. 18–19.

ty years.<sup>162</sup> Colombia still preserves the longest term, life of the author plus eighty years.<sup>163</sup> This means that a significant number of works may be available in the public domain in some countries but may still be in the private domain in others, which obviously blocks the free flow of goods and services from one country to another. It is advisable that the Andean Community should adopt a uniform maximum term of protection in order to overcome the above-mentioned obstacle.<sup>164</sup> This should also stop any additional unilateral extensions, particularly considering possible new international agreements.<sup>165</sup>

In addition to the differences in the term of protection among the AC members' domestic laws, there are two other issues that have undermined the public domain in the Andean Community: the reestablishment of the rights for those works that failed to comply with registration and the adoption of a special term of protection for unpublished works. The first issue was analyzed previously<sup>166</sup> and the second is briefly mentioned below.

Domestic copyright law provides a special term of protection for unpublished works in order to promote making them publicly available.<sup>167</sup> This is the case in Ecuador and Peru, which have awarded exclusive rights for twenty-five and ten years, respectively, not to the author but to whoever publishes an unpublished public domain work for the first time.<sup>168</sup> Such practice affects reliance on the public domain by increasing the transactional cost of determining the legal status of a given work. In addition, this rule also increases costs in other countries where the work is in the public domain because the work cannot be exported to markets like

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<sup>162</sup> Intellectual Property Act–Ecuador, *supra* note 65, arts. 80–81; Copyright Act–Peru, *supra* note 71, arts. 52–56.

<sup>163</sup> Copyright Act–Colombia, *supra* note 108, arts. 11, 21–26, 28.

<sup>164</sup> Right holders may attempt to harmonize the copyright term based on the Colombian rules (eighty years *post mortem auctoris*), but it may be suggested to harmonize around the term of seventy years *post mortem auctoris*, because doing so is more generally accepted, has been committed in bilateral instrument by some AC members, and there is not evidence that a longer term of protection for work from both domestic and foreign origin, benefits AC members overall.

<sup>165</sup> See Trans-Pacific Partnership, *Intellectual Property Rights Chapter, Draft*, art. 4.5(b) (Feb 10, 2011) [hereinafter TPP] (proposing to increase term of protection beyond the current standard of seventy years for work which term of protection is calculated on a basis other than the life of a natural person).

<sup>166</sup> See *supra* notes 102–106 and accompanying text.

<sup>167</sup> ANTEQUERA & FERREYROS, *supra* note 27, at 427 (referring to this as a “stimulus for publishing creations that otherwise would stay unknown”).

<sup>168</sup> Intellectual Property Act–Ecuador, *supra* note 65, art. 104; Copyright Act–Peru, *supra* note 108, art. 145.

Ecuador and Peru without a previous analysis of the legal status of the work independent of the country of origin.<sup>169</sup>

The third category of works that are part of the public domain are those unprotected for idiosyncratic reasons that vary significantly from one country to another. The public domain in Ecuador includes works that are an act of government,<sup>170</sup> in Peru, works that are acts of government and folklore,<sup>171</sup> in both Bolivia and Colombia, folklore, traditional works by unknown authors, or works by authors who die without heirs or have waived their rights.<sup>172</sup> This miscellaneous list of works provides additional opportunities to add to the public domain, but the extreme peculiarities makes it difficult to state with legal certainty a particular work's legal status, thereby increasing the transactional cost for its beneficiaries, which may defeat the very purpose of the public domain.

For the internal market of the Andean Community to function properly, it is necessary to build convergence not only in private domain regulation, but also in the public domain. The common regime has been unable to provide a clear understanding of what constitutes the public domain and domestic law shows significant differences among the Andean Community countries. For example, distinctive approaches have been adopted surrounding the commercial use of public domain<sup>173</sup> and its relation with moral rights.<sup>174</sup> Additionally, it may be appropriate to introduce some limitations of liability in cases of good-faith infringements as well as enforcement measures to avoid the re-enclosing and misappropriation of public domain works, which are absolutely absent in both the common regime and the domestic law.<sup>175</sup>

## 2. Copyright exceptions and limitations

Copyright does not grant absolute rights; instead, it grants only limited ones. Limitations provided by law balance the mere private interest of the copyright holder with the public interest of the society to allow everybody to participate freely in the cultural life of the community, to enjoy the arts, and to share in scien-

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<sup>169</sup> See *Decision 351*, *supra* note 7, art. 13(d) (conferring to right holder exclusive right to control importations of works made without his authorization, which may be the case of works in public domain made overseas).

<sup>170</sup> Intellectual Property Act–Ecuador, *supra* note 65, art. 10.

<sup>171</sup> Copyright Act–Peru, *supra* note 71, arts. 9, 57.

<sup>172</sup> Copyright Act–Bolivia, *supra* note 69, arts. 58–59; Copyright Act–Colombia, *supra* note 108, arts. 187–89.

<sup>173</sup> See Copyright Act–Bolivia, *supra* note 69, arts. 60–62 (setting forth payment for commercial use of public domain works).

<sup>174</sup> See Intellectual Property Act–Ecuador, *supra* note 65, arts. 10, 82; Copyright Act–Peru, *supra* note 71, art. 29 (setting forth special rules about moral rights on public domain works).

<sup>175</sup> WIPO, *supra* note 109, at 67–73 (providing examples of positive protection of the public domain and suggesting measures for strengthening the public domain).

tific advancement and its benefits.<sup>176</sup> In this sense, copyright protection is temporary because once the term of protection expires, the work becomes part of the public domain,<sup>177</sup> and everybody may benefit from it, but nobody may claim exclusive rights over it.<sup>178</sup> However, unlike what some have suggested,<sup>179</sup> the public interest is not only supervening to copyright expiration; rather, it may coexist with copyright protection. The copyright limitations and exceptions are set forth by law, allowing the use of works without authorization or payment to the right holder. Exceptions achieve different goals, such as realizing human rights commitments, overcoming market failures, and advancing other social interests.<sup>180</sup>

*Decision 351* sets forth a list of mandatory exceptions in the internal market,<sup>181</sup> but also allows the adoption of additional exceptions in the domestic law of AC members, as long as they comply with the international standards of the so-called *three-step test*.<sup>182</sup> As a result, throughout the Andean Community, two regimes of exceptions coexist: the communitarian and the domestic.<sup>183</sup> Curiously, two situations that raise increasing public interest—cases involving people with disabilities and cases involving libraries—were not recognized as exceptions in the common regime, leaving their regulation to domestic law.<sup>184</sup> Naturally, these omissions in the common regime and the differences of domestic laws create some inconveniences and severe asymmetries within the Andean Community.<sup>185</sup>

Accessing copyrighted works is particularly challenging for people with disabilities; thus, it is usual in comparative law to adopt a legal exception in favor of people with disabilities and the institutions that provide them with access to

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<sup>176</sup> Universal Declaration of Human Rights, G.A. Res. 217 (III) A, U.N. Doc. A/RES/217(III) (Dec. 10, 1948), art. 27.

<sup>177</sup> See *supra* note 152 and accompanying text.

<sup>178</sup> See *supra* note 150.

<sup>179</sup> ROBERT SHERWOOD, *INTELLECTUAL PROPERTY AND ECONOMIC DEVELOPMENT* 32 (Westview Press, 1990) (suggesting a mere supervening public interest on intellectual property).

<sup>180</sup> See LIPSZYC, *supra* note 17, at 223–25 (referring to different justifications that scholars give for adopting copyright exceptions); Carlos Villalba, *Duración de la Protección y Excepciones*, in ANAIS DO SEMINÁRIO INTERNACIONAL SOBRE DIREITOS AUTORAIS, 163, 168 (Editora da Universidade do Vale do Rio dos Sinos 1994) (Braz.) (referring to different public interest reasons to justify exceptions, such as educational, cultural and informative).

<sup>181</sup> *Decision 351*, *supra* note 7, art. 22 (setting forth a list of mandatory copyright exceptions for AC members).

<sup>182</sup> *Id.* art. 21 (exceptions shall be limited to cases that do not conflict with a normal exploitation of the work and do not unreasonably prejudice the legitimate interests of right holders); see also Berne Convention, *supra* note 18, art. 9(2); TRIPS Agreement, *supra* note 42, art. 13.

<sup>183</sup> Antequera, *supra* note 11, at 92–93.

<sup>184</sup> *Decision 351*, *supra* note 7, art. 21 (allowing the adoption of copyright exceptions and limitations by the AC members' domestic law).

<sup>185</sup> See ANTEQUERA, *supra* note 8, at 922–23 (explaining that full harmonization around exceptions and limitations in *Decision 351* was obstructed by differences in the scope of the exclusive rights).

works.<sup>186</sup> Unfortunately, neither *Decision 351* nor the domestic law of Bolivia, Colombia, and Ecuador has adopted a specific exception.<sup>187</sup> On the other hand, Peru has adopted a narrow exception by exempting payment of copyright fees for non-profit reproductions of works created for blind persons through Braille or another specific process.<sup>188</sup> However, because of the complexities and high cost of providing access to people with disabilities and the urgency of allowing some economies of scale for that purpose, a solution in the common regime, rather than in domestic law, is necessary. The proposal of a treaty to solve the problem of access for people with disabilities before the WIPO seems like an excellent starting point for the Andean Community.<sup>189</sup>

The second situation that may require a solution at the Andean Community level rather than the domestic level is the public lending of works by libraries. *Decision 351* recognizes limited exceptions for libraries,<sup>190</sup> but it does not cover the public lending of works,<sup>191</sup> which may be provided at the domestic level. As a result, Colombia has adopted a view in which copyright's exclusive rights include the right to publicly lend works with no exceptions in favor of libraries.<sup>192</sup> Ecuador seems to follow a similar approach.<sup>193</sup> Bolivia, to the contrary, has not granted an exclusive right of public lending and, therefore, libraries do not face copyright restrictions.<sup>194</sup> Peru adopted exclusive rights,<sup>195</sup> but set forth a specific exception for library public lending.<sup>196</sup>

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<sup>186</sup> See World Intellectual Property Organization [WIPO], *Study on Copyright Limitations and Exceptions for the Visually Impaired*, SCCR/15/7 (Feb. 20, 2007) (providing an extensive analysis of international and comparative copyright law on limitations and exceptions in favor of people with visual disabilities).

<sup>187</sup> See SOFÍA RODRÍGUEZ MORENO, *Era DIGITAL Y LAS EXCEPCIONES Y LIMITACIONES AL DERECHO DE AUTOR 266–68* (Universidad Externado de Colombia 2004) (arguing in favor of an exception for people with disabilities in the Colombian copyright law).

<sup>188</sup> Copyright Act–Peru, *supra* note 71, art. 43(g) (as amended by Ley 27.861 “que exceptúa el pago de derechos de autor por la reproducción de obras para invidentes” [Law that exempts copyright royalty payment for reproducing works for blind people]).

<sup>189</sup> World Intellectual Property Organization [WIPO], *Proposal by Brazil, Ecuador and Paraguay, relating to limitations and exceptions: Treaty proposed by the World Blind Union*, WIPO Doc. SCCR/18/5 (May 25, 2009).

<sup>190</sup> *Decision 351*, *supra* note 7, art. 22(c) (allowing individual reproduction of a work for purposes of preservation and substitution by not-for-profit libraries and archives).

<sup>191</sup> ANTEQUERA, *supra* note 11, at 86–87 (reporting that public lending was not even on the negotiating table of the Andean Community).

<sup>192</sup> See *supra* notes 62–63 and accompanying text.

<sup>193</sup> Intellectual Property Act–Ecuador, *supra* note 65, arts. 19 (granting to right holders the right to exploitation of the work in any manner and benefits from it), 23 (considering as public communication any communication that exceeds the strict domestic use), 83–84 (omitting any exception for public lending by libraries).

<sup>194</sup> Copyright Act–Bolivia, *supra* note 69, art. 15 (omitting any recognition to an exclusive right on public leading of works).

<sup>195</sup> Copyright Act–Peru, *supra* note 71, art. 34 (setting forth that distribution includes selling, ex-



Just like in the public domain situation, the Andean Community has not converged enough with respect to copyright exceptions and limitations. The Andean Community is in debt to libraries and museums, educational institutions, people with disabilities, book publishers, and software developers, among others. This debt not only undermines the proper functioning of the internal market but also compromises human rights, social inclusion, and other public interest issues.

E. The Andean Community Common Regime Requires an Urgent Update.

*Decision 351* was influenced by most of the discussion related to the interaction between new technologies and copyright by the time of its adoption. It addressed essential issues, such as the copyright protection of software and databases,<sup>197</sup> as well as the effects of making a work available online.<sup>198</sup> To some extent, it is fair to say that *Decision 351* reflected the state of the art in the early 1990s. However, as has been revealed, the Decision did not anticipate several issues and it has become progressively outdated. The two most significant issues are the regulation of technological protection measures and the regulation of online copyright infringement.

The changes of the copyright law to address the challenges of the new technologies have been undertaken in the AC members essentially through domestic law. In practice, every country has updated its domestic law according to its international commitments.<sup>199</sup> The WIPO Internet Treaties<sup>200</sup> and bilateral free trade agreements, particularly those signed with the United States, seem to be the main driving forces. As a result of international commitments, each AC member has its own regime for protecting copyright on digital environments each with important differences which vary from one country to another. Addressing the challenge of new technology, a new common regime should reduce differences between AC members. The following pages analyze some of those challenges in the light of the negotiations of free trade agreements.

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changing or any way to transferring property, renting, public leading or any other manner of using or exploiting the work).

<sup>196</sup> *Id.* art. 43(f) (setting forth an exception for public lending of books by not-for-profit libraries and archives).

<sup>197</sup> *Decision 351*, *supra* note 7, art. 4 (providing copyright protection on computer programs and databases).

<sup>198</sup> *Id.* arts. 13(b) and 15 (providing protection on online environment through general clauses that provide a broad protection for works).

<sup>199</sup> See Table: Andean Community Nations, by international instruments on copyright to which they are parties.

<sup>200</sup> World Intellectual Property Organization Copyright Treaty, Dec. 20, 1996, S. Treaty Doc. No. 105-17, 36 I.L.M. 65 (1997) [hereinafter WCT]; World Intellectual Property Organization Performances and Phonograms Treaty, Dec. 20, 1996, S. Treaty Doc. No. 105-17, 36 I.L.M. 76 (1997) [hereinafter WPPT].

F. The Andean Community common regime has been unable to provide a common platform for negotiations with third countries: Effects of the free trade agreements.

Facing negotiations of bilateral agreements with other countries that include intellectual property issues, it was predictable that the Andean Community would work with a common agenda and that it would conduct processes in blocks. However, in 2004, *Decision 598* set forth that AC members could negotiate with other countries, prioritizing community or joint negotiations whenever possible, but individually in exceptional cases.<sup>201</sup> According to *Decision 598*, negotiating members must inform the Andean Community of their individual negotiations and preserve the common regime,<sup>202</sup> but neither the Andean Community nor country members have the right to object to those negotiations or agreements.<sup>203</sup>

*Decision 598* has facilitated the movement from multilateralism to bilateralism within the Andean Community, whose members have intensified their negotiations with third countries.<sup>204</sup> In the years subsequent to the adoption of *Decision 598*, Colombia has signed trade agreements with Chile, Canada, the European Union, and the United States;<sup>205</sup> Peru with the same countries plus China, Mexico, Singapore, and Thailand;<sup>206</sup> Ecuador only with Chile;<sup>207</sup> and Bolivia with no one.<sup>208</sup> All these agreements are comprehensive, and include several disciplines. Although some of them include intellectual property commitments, they generally refer to

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<sup>201</sup> Andean Community, *Relaciones Comerciales con Terceros Países [Trade Relations with Third Countries Decision 598]* Official Gazette of the Andean Community No. 1092, art. 1 [hereinafter *Decision 598*] (setting forth that AC members can negotiate trade agreements with third countries, by prioritizing common or joint negotiation and exceptionally individual negotiations).

<sup>202</sup> *Id.* art. 2 (adopting minimal obligations for AC members when negotiating individually).

<sup>203</sup> *Id.* art. 4 (setting forth that results of individual negotiations must be notified to the Andean Community, but they cannot be objected, excepting when AC member has failed in comply with the obligation to inform or with the obligation to consult with other AC members on any commitment on external tariff to third countries).

<sup>204</sup> See ORGANIZATION OF AMERICAN STATES, FOREIGN TRADE INFORMATION SYSTEM, *SICE: Trade Agreements in Force*, available at [http://www.sice.oas.org/agreements\\_e.asp](http://www.sice.oas.org/agreements_e.asp) 2004 (last visited May 31, 2011).

<sup>205</sup> See ORGANIZATION OF AMERICAN STATES, FOREIGN TRADE INFORMATION SYSTEM, *Information on Colombia*, available at [http://www.sice.oas.org/ctyindex/COL/COLAgreements\\_e.asp](http://www.sice.oas.org/ctyindex/COL/COLAgreements_e.asp) (last visited May 31, 2011).

<sup>206</sup> See ORGANIZATION OF AMERICAN STATES, FOREIGN TRADE INFORMATION SYSTEM, *Information on Peru*, available at [http://www.sice.oas.org/ctyindex/PER/PERAgreements\\_s.asp](http://www.sice.oas.org/ctyindex/PER/PERAgreements_s.asp) (last visited May 31, 2011).

<sup>207</sup> See ORGANIZATION OF AMERICAN STATES, FOREIGN TRADE INFORMATION SYSTEM, *Information on Ecuador*, available at [http://www.sice.oas.org/ctyindex/ECU/ECUAgreements\\_e.asp](http://www.sice.oas.org/ctyindex/ECU/ECUAgreements_e.asp) (last visited May 31, 2011).

<sup>208</sup> See ORGANIZATION OF AMERICAN STATES, FOREIGN TRADE INFORMATION SYSTEM, *Information on Bolivia*, available at [http://www.sice.oas.org/ctyindex/BOL/BOLAgreements\\_e.asp](http://www.sice.oas.org/ctyindex/BOL/BOLAgreements_e.asp) (last visited May 31, 2011).

well-set international standards.<sup>209</sup> However, from all the bilateral agreements signed by country members of the Andean Community, both the FTA U.S.-Peru and the FTA U.S.-Colombia are the agreements most relevant to understanding recent developments in the domestic law of those two AC members.<sup>210</sup>

In spite of being commenced as communitarian negotiations by the Andean Community,<sup>211</sup> in 2006, FTAs were concluded only in the case of Colombia and Peru.<sup>212</sup> Neither Ecuador nor Bolivia are parties to similar agreements; Venezuela not only did not, but also denounced the Andean Community Treaty because of the conclusion of negotiations by Peru and Colombia with the U.S.<sup>213</sup> Of those FTAs, only the Peruvian one is currently in force; the Colombian one is not in force yet because of the concerns raised by the U.S. Congress about the respect and enforcement of human and labor rights in that country.<sup>214</sup>

Through their respective FTAs, Colombia and Peru assumed several commitments that increase the protection and enforcement of intellectual property

<sup>209</sup> See *infra* notes 211–20 and accompanying text. In the case of the eight free trade agreements signed by Peru, after Decision 598, four do not include any provision on intellectual property (those signed with Canada, Chile, Singapore, and Thailand) and two include some provisions for intellectual property in general, but not for copyright (those signed with China and with Mexico). Therefore, only two free trade agreements include provisions on copyright, those signed with the European Free Trade Association and with the United States. The former basically requires parties to be in compliance with preexisting international instruments on copyright; instead, the latter adopt commitments beyond those set forth in these instruments. See also Pedro Roffe and Maximiliano Santa Cruz, *Los derechos de propiedad intelectual en los acuerdos de libre comercio celebrados por países de América Latina con países desarrollados*, (Serie Comercio Internacional, Comisión Económica para América Latina y el Caribe [CEPAL] 2006) (providing an extensive comparative analysis of free trade agreements signed by Latin American countries with developed and developing countries).

<sup>210</sup> United States-Colombia Trade Promotion Agreement, U.S.-Colom., Nov. 22, 2006, available at [http://www.ustr.gov/Trade\\_Agreements/Bilateral/Colombia\\_FTA/Final\\_Text/Section\\_Index.htm](http://www.ustr.gov/Trade_Agreements/Bilateral/Colombia_FTA/Final_Text/Section_Index.htm) [hereinafter FTA U.S.-Colombia]; United States-Peru Trade Promotion Agreement, U.S.-Peru, Apr. 12, 2006, available at [http://www.ustr.gov/Trade\\_Agreements/Bilateral/Peru\\_TPA/Final\\_Texts/Section\\_Index.html](http://www.ustr.gov/Trade_Agreements/Bilateral/Peru_TPA/Final_Texts/Section_Index.html) [hereinafter FTA U.S.-Peru].

<sup>211</sup> See Juan José Taccone and Uziel Nogueira, *Andean Report 2002-2004*, 38–40 (Institute for the Integration of Latin America and the Caribbean 2005) (describing first-step negotiations between the Andean Community and the United States).

<sup>212</sup> Roffe & Santa Cruz, *supra* note 209, at 44.

<sup>213</sup> Letter from Ali Rodríguez Araque, Minister of Foreign Affairs of Venezuela, to the President and the rest of members of the Commission of the Andean Community (Apr. 22, 2006), available at <http://www.bilaterals.org/spip.php?article4523> (denouncing the Cartagena Agreement and dropping the Andean Community).

<sup>214</sup> Letter from Charles B. Rangel, Chairman of the Committee on Ways and Means, and Sander M. Levin, Chairman of the Subcommittee on Trade, both from the U.S. House of Representatives, to Susan C. Schwab, U.S. Trade Representative (May 10, 2007), available at [http://mingas.info/files/mingas/wto2007\\_2208.pdf](http://mingas.info/files/mingas/wto2007_2208.pdf) (communicating the lack of agreement on the terms of the FTA with Colombia, because of its “special problems . . . including the systemic, persistent violence against trade unionists and other human rights defenders, the related problem of impunity, and the role of the paramilitaries in perpetuating these crimes”).

rights beyond any international standard, following U.S. domestic law.<sup>215</sup> On copyright, without the purpose of being exhaustive, the FTA parties committed to providing a term of protection of at least the author's life plus seventy years *post mortem auctoris*,<sup>216</sup> granting protection for technological protection measures and digital management information beyond the WIPO Internet Treaties,<sup>217</sup> regularizing software use within the governments,<sup>218</sup> empowering custom authorities and prosecutors for purpose of intellectual property enforcement;<sup>219</sup> and adopting special measures for enforcing copyright in the digital environment.<sup>220</sup> The following describes the effects of those agreements in the domestic law of the AC members on two key issues: the regulation of technological protection measures and the liability regime of online service providers.

### 1. *Technological protection measures*

Technological protection measures, also known as effective technological measures, are technical mechanisms used by right holders in connection with the exercise of their exclusive right to restrict unauthorized acts, such as DVD regionalization systems, copy protection systems of software, and limitations on PDF files.<sup>221</sup> Neither *Decision 351* nor the TRIPS Agreement includes special provisions on technological protection measures.<sup>222</sup> The 1996 WIPO Internet Treaties required parties to provide "adequate legal protection and effective legal remedies against the circumvention" of those measures.<sup>223</sup> Except for Bolivia, all AC members are party to the 1996 WIPO Internet Treaties and have implemented the commitments into domestic law<sup>224</sup> by adopting peculiar criminal provisions against the circumvention of technological protection measures.<sup>225</sup>

<sup>215</sup> Roffe & Santa Cruz, *supra* note 209, at 10, 38 (stating that free trade agreements signed by the United States are the most significant because their commitments to intellectual property exceed any other multilateral and bilateral agreement), 41–43 (describing the different copyright issues in which free trade agreements go beyond usual international standards).

<sup>216</sup> FTA U.S.-Colombia, *supra* note 210, art. 16.6.7; FTA U.S.-Peru, *supra* note 210, art. 16.6.7.

<sup>217</sup> Compare FTA U.S.-Colombia, *supra* note 210, arts. 16.7.4, 16.7.5; and, FTA U.S.-Peru, *supra* note 210, arts. 16.7.4, 16.7.5, with WCT, *supra* note 200, arts. 11–12; WPPT, *supra* note 200, arts. 18–19.

<sup>218</sup> FTA U.S.-Colombia, *supra* note 210, art. 16.7.6; FTA U.S.-Peru, *supra* note 210, art. 16.7.6.

<sup>219</sup> FTA U.S.-Colombia, *supra* note 210, arts. 16.11.23, 16.11.27(d); FTA U.S.-Peru, *supra* note 210, arts. 16.11.23, 16.11.27(d).

<sup>220</sup> FTA U.S.-Colombia, *supra* note 210, art. 16.11.29; FTA U.S.-Peru, *supra* note 210, art. 16.11.29.

<sup>221</sup> WCT, *supra* note 200, art. 11; WPPT, *supra* note 200, art. 18.

<sup>222</sup> Roffe & Santa Cruz, *supra* note 209, at 42 (stating that provisions on technological protective measures appear just in the 1996 WIPO Internet Treaties).

<sup>223</sup> WCT, *supra* note 200, art. 11; WPPT, *supra* note 200, art. 18.

<sup>224</sup> See Table: Andean Community Nations, by international instruments on copyright to which they are parties.

<sup>225</sup> Código Penal [Criminal Code] (Colom.), art. 272 Nos (punishing both circumventing technological protective measures and trafficking devices for that purpose, without exceptions). In Ecuador,

The FTA U.S.-Peru and the FTA U.S.-Colombia also include provisions on technological protection measures<sup>226</sup> that go beyond the standards of the WIPO Internet Treaties by adopting standards of the U.S. law,<sup>227</sup> which were developed under the highly controversial Digital Millennium Copyright Act.<sup>228</sup> In FTAs, parties are required to adopt not only “adequate legal protection” but also “criminal sanctions.”<sup>229</sup> In addition, these sanctions shall apply not only in cases of circumvention of technological protection measures, but also in commercializing devices that allow users to elude the technological measures (anti-trafficking provisions).<sup>230</sup> At this point, only Peru has passed an implementing law.<sup>231</sup>

As a result of singular implementation of international commitments by AC members, the current regulation of the technological protection measures within the Andean Community is completely different from one country to another. That differentiation may be increased by the Trans-Pacific Partnership Agreement—to which Peru is a negotiating party—if its negotiations progress based on the American draft of that agreement because it would set forth criminal sanctions in its anti-circumvention and anti-trafficking provisions, even if no copyright infringement takes place.<sup>232</sup> Meanwhile, the current situation already affects competition in the Andean Community, particularly in the technological sector, and undermines consumer protection. It may be suggested that the Andean Community needs to extend the common regime to this issue in order to preserve the proper functioning of the

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*see* Intellectual Property Act—Ecuador, *supra* note 65, arts. 25 (granting to right holders the right to adopt technological protective measures and assimilating the trafficking with copyright violations, without exceptions) and 325 (adopting criminal sanctions against trafficking of devices that allow circumventing technological protective measures without exceptions). In Peru, *see* Copyright Act—Peru, *supra* note 71, art. 187 and Código Penal [Criminal Code] (Peru), art. 218 (adopting criminal sanctions against trafficking of devices that allow circumventing technological protective measures without exceptions). *See* Delia Lipszyc, *La Protección Jurídica de las Medidas Tecnológicas-o de Autotutela-en las Legislaciones de los Países Latinoamericanos y de los Estados Unidos de América*, 1 *Revista Jurídica de Propiedad Intelectual* 73–105 (2009) (describing the different legal approach adopted by Latin American countries when regulating technological protection measures in domestic law).

<sup>226</sup> FTA U.S.-Colombia, *supra* note 210, art. 16.7.4; FTA U.S.-Peru, *supra* note 210, art. 16.7.4.

<sup>227</sup> 17 U.S.C. §§ 1201–1205 (2006).

<sup>228</sup> Digital Millennium Copyright Act, Pub. L. No. 105-304, 112 Stat. 2860 (Oct. 28, 1998) (codified in scattered sections of 17 U.S.C. §§ 1201–1205); Roffe & Santa Cruz, *supra* note 209, at 54–56 (summarizing main controversial issues raised by the regulation that the DMCA adopted for technological protective measures); *see also* Electronic Frontier Foundation, *Unintended Consequences: Twelve Years under the DMCA*, available at <http://www.eff.org/wp/unintended-consequences-under-dmca> (last visited Jun. 3, 2011) (documenting DMCA-related disputes).

<sup>229</sup> FTA U.S.-Colombia, *supra* note 210, art. 16.7.4(a); FTA U.S.-Peru, *supra* note 210, art. 16.7.4(a).

<sup>230</sup> FTA U.S.-Colombia, *supra* note 210, art. 16.7.4(a)(ii); FTA U.S.-Peru, *supra* note 210, art. 16.7.4(a)(ii).

<sup>231</sup> Copyright Act—Peru, *supra* note 71, art. 187; Código Penal [Criminal Code] (Peru), art. 218.

<sup>232</sup> TPP, *supra* note 165, art. 4.9(c).

internal market and, at the same time, get a common policy in case of future negotiations on the matter.

## 2. Online service provider liability

Unlike any other international instrument on intellectual property, the FTA U.S.-Peru and the FTA U.S.-Colombia have addressed the enforcement of copyright in the digital environment.<sup>233</sup> Following U.S. law,<sup>234</sup> FTAs include a detailed legal regime that regulates the liability of online service providers for copyright infringements committed online, including issuing and enforcing infringement notices, taking down infringing content, and identifying supposed infringers, among others.<sup>235</sup> In general terms, those provisions provide for a “safe harbor” for online service providers that contribute to enforcing copyright protection.<sup>236</sup> Scholars have said those provisions require providers to “police” the Internet.<sup>237</sup>

Currently, within the Andean Community there are different approaches to specific regulation about online service provider liability. Bolivia has neither committed to nor adopted any provision on the matter. Colombia has committed to an FTA that has not entered into force yet, but an extremely controversial implementing bill was recently introduced to legislative discussion.<sup>238</sup> Peru has delayed in implementing the FTA provisions on the matter.<sup>239</sup> Ecuador has adopted *motu proprio* as its regulation, which is more general and draconian than the FTAs mod-

<sup>233</sup> FTA U.S.-Colombia, *supra* note 210, art. 16.11.29; FTA U.S.-Peru, *supra* note 210, art. 16.11.29 (setting forth provisions on limitations on liability for service providers).

<sup>234</sup> See 17 U.S.C. § 512 (2010) (detailing limitations on liability for service providers).

<sup>235</sup> FTA U.S.-Colombia, *supra* note 210, art. 16.11.29; FTA U.S.-Peru, *supra* note 210, art. 16.11.29.

<sup>236</sup> It is called “safe harbor” because those ISPs that adopt the technical, organizational, and legal measures set forth by law are immunized from liability for copyright infringements committed by their users.

<sup>237</sup> See, e.g., Hong Xue, *Enforcement for Development: Why not an Agenda for the Developing World?*, in INTELLECTUAL PROPERTY ENFORCEMENT: INTERNATIONAL PERSPECTIVE 133, 144–45 (Xuan Li and Carlos Correa eds. 2009).

<sup>238</sup> See Ministerio del Interior y de Justicia de Colombia, *Proyecto de Ley por el cual se regula la responsabilidad por las infracciones al derecho de autor y los derechos conexos en Internet*, available at <http://www.senado.gov.co/az-legislativo/proyectos-de-ley?download=420%3Aderechos-de-autor-en-internet> (last visited June 6, 2011) (Even though the FTA U.S.-Colombia is not in force yet, because of the lack of approval by the U.S. Congress, the Colombian government has introduced to its Congress a bill to comply with the commitment on online service provider liability. The bill, which should be discussed in the ongoing legislative term, would set forth a regulation that applies not only to companies but to any person providing some online service, requires ISPs to shutdown content and identify users without judicial order, and authorizes disconnection of supposed infringers by court decisions adopted *in limini litis*).

<sup>239</sup> FTA U.S.-Peru, *supra* note 210, Annex 16.1 (setting forth a one-year term from its entry into force, which happened on February 1, 2009, for implementing the provisions on online service provider liability).

el.<sup>240</sup> This landscape may diversify even more if TPP negotiations progress based on the U.S. proposal, which extends the scope of the liability regime to trademark enforcement.<sup>241</sup>

The significant differences between the AC members' domestic regulations of Internet service providers (ISPs) for online copyright infringement creates a severe improper function in the internal market.<sup>242</sup> Operational costs of ISPs are higher in some countries than in others just because of their legal regime. In some cases, these costs may divest commerce by transferring services to less costly countries. This may be the case for online storage services. However, in the case of Internet access providers, the strong tie to local physical infrastructures—such as telephone and cable providers—forces them to tolerate the asymmetric functioning of the internal market.

Building an adequate liability regime for online service providers in case of copyright infringement is an extremely challenging task. It requires a delicate balancing of rights holders looking for protection for their intellectual property; users concerned with their fundamental and consumer rights; and online service providers waiting for an essential component of their business model, the legal framework. As the digital economy progresses to more complex services provided through the Internet—such as IP telephony, video on demand, cloud computing, and online conferences—the liability regulation of providers for intellectual property infringements becomes crucial. Here, a legal framework that varies from one country to another is inefficient because it raises technical, organizational, and legal transactional costs. Because the digital economy is global, it requires an international harmonization or, at the very least, a regional one, which, unfortunately, the common regime in force does not provide to the Andean Community.

#### IV. Working on Increasing Copyright Convergence within the Andean Community

As was mentioned earlier, *Decision 351* was conceived as a first step in the process of convergence within the Andean Community around the regulation of copyright and neighboring rights. This convergence was a remarkable and ambitious effort in the early 1990s that effectively contributed to some level of harmonization.<sup>243</sup> However, the effects of that first step have been undermined progressive-

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<sup>240</sup> Intellectual Property Act—Ecuador, *supra* note 65, art. 292 (setting forth joint and several liability for any person for any online intellectual property infringement, if he has reasonable knowledge of the infraction, including when right holders give him notice).

<sup>241</sup> TPP, *supra* note 165, art. 16.

<sup>242</sup> See Rosa Julià-Barceló, On-line Intermediary Liability Issues: Comparing E.U. and U.S. Legal Frameworks, in 22/3 EUROPEAN INTELLECTUAL PROPERTY REVIEW 106, 116 (2000) (criticizing negative effects on the functioning of the EU-internal market because of the differences between the domestic legal regimes on some online service providers).

<sup>243</sup> See *supra* notes 8, 29, and 42 and accompanying text.

ly as new issues, technologies, and international commitments arise. The lack of convergence on copyright law between AC members may become a serious obstacle for their integration, particularly in the context of the information economy, by obstructing the free flow of copyrighted goods and services and by creating artificial competitive advantages from one country to another based on the differences in their legal frameworks.

In the coming years, the Andean Community should increase its efforts to converge copyright law through the adoption of an updated common regime. A convergence would allow AC members to harmonize their domestic law, to advance their own agenda rather than non-members' agendas, and to overcome obstacles to future economic integration in the region, among other public policy goals. In this context, a new Decision should include at least four issues: copyright scope, limitations and exceptions, public domain framework, and copyright enforcement.

*Decision 351* made explicit the disagreement between AC members around the scope of copyright by allowing them to increase both moral and economic rights within domestic law.<sup>244</sup> As a result, important differences between countries have arisen, from Bolivia's limited scope to Colombia's comprehensive protection.<sup>245</sup> In the next step of copyright convergence, countries should agree about the scope of copyright, particularly regarding not-for-profit public lending and the exclusive right of importation into domestic markets. It seems recommendable to adjust the scope of copyright to a closed list of exclusive rights and to adopt, at the very least, regional exhaustion of rights.

Copyright limitations and exceptions require harmonization in the Andean Community. This paper has mentioned the need for at least three specific exceptions: developing software, proper functioning of libraries, and allowing people with disabilities access to works. This is by no way an exhaustive list. Several other exceptions that facilitate access to knowledge by communities and create business opportunities for countries require recognition in the common regime. Some of the exceptions are the common standard even in developed countries, such as for e-learning, orphan works, and Internet functioning.<sup>246</sup> Others are granted internationally to developing countries, like the system of compulsory licenses for translation and reproduction of works in foreign languages.<sup>247</sup> None has been

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<sup>244</sup> See *supra* notes 54–69 and accompanying text.

<sup>245</sup> *Id.*

<sup>246</sup> See DATABASE ON STUDIES AND PRESENTATIONS ON LIMITATIONS AND EXCEPTIONS, WORLD INTELLECTUAL PROPERTY ORGANIZATION, available at <http://www.wipo.int/copyright/en/limitations/studies.html> (last visited June 6, 2011) (providing several studies on international and comparative law about copyright limitations and exceptions for a variety of purposes).

<sup>247</sup> Berne Convention, *supra* note 18, Appendix: Special Provisions regarding Developing Countries (attempting to provide a solution for developing countries by authorizing them to issue non-exclusive and non-transferable compulsory licenses for translating and/or reproducing works published in printed or analogous forms for satisfying domestic educational and researching purposes,



adopted by *Decision 351*, but some AC members have adopted them into their domestic laws,<sup>248</sup> despite the fact that they may affect the internal market and the competitiveness of AC members in the global market.

The common regime contributed to harmonizing the copyright term of protection by bringing countries into compliance with minimum international standards. However, it failed to restrain the race for increasing those terms by domestic law, which has created artificial barriers to the free flow of works within the internal markets.<sup>249</sup> This has been aggravated because of the recognition by domestic law of public domain works other than those whose terms have expired.<sup>250</sup> On public domain, the common regime has several unresolved issues that should be addressed by an updated Decision. It should adopt uniform terms of protection and rules for computing them, converge on public domain composition in cases other than term expiration, and harmonize rules about commercial use, moral rights, and enforcement on public domain works. It is also highly recommendable to introduce flexibilities for good-faith infringements of public domain works, particularly to deal with the complexities of the reestablishment of rights.<sup>251</sup>

One issue that currently dominates the international agenda on intellectual property is the enforcement of copyright in both digital and analogous environments.<sup>252</sup> For analogous environments, the adoption of several provisions has been proposed, including *ex-officio* actions by custom authorities and prosecutors, broader border measures, judicial procedures, and pre-established damages.<sup>253</sup> For digital environments, the main issues remaining are the regulation of technological protection measures and the liability regime for online service providers.<sup>254</sup> Those

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under the payment of a just compensation for right holders).

<sup>248</sup> See, e.g., Copyright Act–Peru, *supra* note 71, arts. 41(c) and 43(f) (setting forth exceptions for public communication of works with educational purposes and public lending of works by libraries and archives); Copyright Act–Colombia, *supra* note 108, arts. 45–71 (setting forth a heavily regulated system of compulsory licenses for reproduction and translation of foreign works into Spanish).

<sup>249</sup> Different terms of protection raise the problem that legitimate goods available in public domain in some countries cannot enter in those markets where goods are still in private domain because of lacking right holder's authorization in the latter. Therefore, differences on term of protection pose an obstacle to the free movement of copyrighted goods as well as services.

<sup>250</sup> See *supra* note 152 and accompanying text.

<sup>251</sup> See, e.g., 17 U.S.C. § 104 (a) (2006) (adopting a procedure for restoring rights on foreign public domain works with more flexibilities and safeguards than the common regime for reliance third parties).

<sup>252</sup> Viviana Muñoz Tellez, *The Changing Global Governance of Intellectual Property Enforcement: A New Challenge for Developing Countries*, in *INTELLECTUAL PROPERTY ENFORCEMENT: INTERNATIONAL PERSPECTIVE* 3–13 (Xuan Li and Carlos Correa eds. 2009) (tracing the historical evolution of international intellectual property law and its recent swift to enforcement).

<sup>253</sup> See Roffe & Santa Cruz, *supra* note 209, at 43.

<sup>254</sup> *Id.*

topics have been included in bilateral agreements<sup>255</sup> and also incorporated in recent international initiatives, such as the Anti-Counterfeiting Trade Agreement<sup>256</sup> and the Trans-Pacific Partnership.<sup>257</sup> The Andean Community should adopt a more detailed common regime regarding copyright enforcement in order to define its commitments within the community and to other countries. A common legal framework on enforcement should not be limited to protecting right holders but should also protect users and intermediaries by, for example, adopting limitations to technological and contractual measures that undermine consumers' rights. Moreover, the common regime should commit to reasonable enforcement by tailoring the measures and its international commitments on copyright in general to the actual interest of the Andean Community and its population.<sup>258</sup>

In addition to the issues that should be included in an updated common regime for copyright in the Andean Community, it seems necessary to take advantage of the almost 20 years of experience with the current regime in order to define the policy of the next step.

*Decision 351* harmonized the domestic law of AC members by adopting minimum standards, but left to domestic law the option to increase those standards.<sup>259</sup> In recent years, as was noted above, AC members actually did build on the common regime by, for example, extending the terms of protection, exclusive rights, exceptions and limitations, hypothesis of public domain works, and online enforcement. As a result, after years in force, the challenges for harmonizing copyright law within the Andean Community have multiplied instead of reduced. A next step in the process of convergence on copyright law must adopt not only minimum but also maximum standards in order to avoid the fragmentation of the common regime by domestic laws. For example, it should adopt a unique regulation of copyright terms instead of allowing the range of terms currently in force in each country.

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<sup>255</sup> See, e.g., U.S. TRADE REPRESENTATIVE, Free Trade Agreements, available at <http://www.ustr.gov/trade-agreements/free-trade-agreements> (last visited June 6, 2011) (listing free trade agreements signed by the United States that include provisions on technological protective measures and liability of online service providers; these are the agreements signed with Singapore, Chile, Morocco, Australia, CAFTA and Dominican Republic, Bahrain, Oman, Peru, Colombia, Panama, and Korea).

<sup>256</sup> Anti-Counterfeiting Trade Agreement, art. 26.5, available at <http://trade.ec.europa.eu/doclib/html/147937.htm>.

<sup>257</sup> TPP, *supra* note 165.

<sup>258</sup> Xuan Li, Ten General Misconceptions about the Enforcement of Intellectual Property Rights, in INTELLECTUAL PROPERTY ENFORCEMENT: INTERNATIONAL PERSPECTIVE 14, 40–41 (Xuan Li and Carlos Correa eds. 2009) (concluding that the enforcement agenda has caused adverse effects on developing countries, which should work in maximizing pro-developing-countries policies).

<sup>259</sup> See *supra* notes 37–40 and accompanying text.

Does this mean that a new common regime has to prohibit any additional regulation on the domestic level? Currently, national legislatures are free to adopt new copyright law into the domestic law, as long as it is consistent with the common regime.<sup>260</sup> However, the common regime does not prevent the adoption of measures that, in spite of being consistent with the common regime, create or increase the obstacles to the proper functioning of the internal market. It does not suggest that the Andean Community should limit chances for domestic development—in fact, in some issues such as criminal enforcement and judicial procedure rules this is essential—but there should be a system of coordination between the domestic law making process and the common regime. This process has to introduce other factors to evaluate the convenience of a given modification of domestic law besides its consistency with the common regime, such as its economic effects in the functioning of the internal market and its political consistency with the policies of the Andean Community.

As discussed previously, the Andean Community has authorized its members to negotiate and conclude treaties with third countries in which intellectual property rules have been included.<sup>261</sup> This authorization has been a source of new commitments that goes beyond the standards adopted by *Decision 351* and may impede the adoption of a new common regime. In the future, in order to preserve its own convergence, as the European Union has been doing, AC members should negotiate jointly or, at the very least, submit their negotiation for the approval of a communitarian body so that it does neither exceed the common regime nor raise issues that may interfere the proper functioning of the internal market. It may provide some level of coordination within the Andean Community, particularly when facing negotiations with other countries.

The Andean Community should take full advantage of the flexibilities available in international law, like the above-mentioned provisions on compulsory licensing of the Berne Convention, when updating its common regime.<sup>262</sup> The aforesaid rules that provide broad national treatment and reestablishment of rights should be repealed by adopting more flexible provisions in accordance with the Berne Convention minimum standards.<sup>263</sup> It should also take advantage of more flexible mechanisms available in the domestic law of developed countries, such as the provisions on restored copyright and reverse engineering of software available in the

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<sup>260</sup> See *supra* note 27 and accompanying text.

<sup>261</sup> See *supra* notes 204–210 and accompanying text.

<sup>262</sup> See *supra* note 247.

<sup>263</sup> See Berne Convention, *supra* note 18, arts. 5.1 (setting forth national treatment for authors who are nationals of countries that are parties in the Union) and 18 (granting freedom to countries to decide possible retroactivity of copyright protection); World Intellectual Property Organization, *Guide to the Berne Convention for the Protection of Literary and Artistic Works (Paris Act, 1971)*, 100–01 (1978).

U.S. law.<sup>264</sup> Unfortunately, *Decision 351* did not do that; instead, it embraced an ultra-protectionist view of copyright that focuses on protecting rights holders and underestimates other competing interests.

### V. Conclusions and Remarks

In the process of economic integration of the Andean Community, AC members have adopted common regimes in several fields, such as transport, foreign investment, industry,<sup>265</sup> and intellectual property. The latter was attained through *Decision 351*, which provides a common regime for copyright and neighboring rights that contributed importantly to the convergence of copyright law among the AC-members. However, through the years, the efficacy of the common regime as an instrument of convergence has been undermined because of the differences between domestic laws of AC members, the challenges of new technologies, and the emerging of bilateralism, among other causes. Those circumstances are making explicit to the Andean Community the need for updating its common regime before the lack of convergence become a serious obstacle for its members' integration.

A new common regime for the Andean Community should advance the agenda of its members rather than the agenda other countries by overcoming and anticipating obstacles to future economic integration between its members. This new common regime, unlike *Decision 351*, should not have a merely protectionist approach, and should include provisions in favor of authors, users, and intermediaries. In particular, considering the issues that raise problems for the proper functioning of the internal market, the new common regime should set forth provisions on copyright scope, limitations and exceptions, public domain, and copyright enforcement.

In addition, if the Andean Community wants to preserve and emphasize the convergence of its internal market, country members must commit to uniform standards, adopt mechanisms of coordination within the Andean Community and between its members and third countries, and take advantage of both the flexibilities provided by international instruments to developing countries and the experience of other countries providing flexibilities within their domestic law. A new

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<sup>264</sup> See *supra* note 87.

<sup>265</sup> See Andean Community, *Decisión No. 486 Régimen Común sobre Propiedad Industrial [Decision 486 Common Intellectual Property Regime]*, Official Gazette of the Andean Community No. 600 (Sep. 19, 2000) (setting forth a common regime for patents, utility models, layout-design of integrated circuits, industrial design, trademarks, collective trademarks, certification marks, trade names, labels and emblems, geographical indications, and well-known distinctive sign). See also Andean Community, *Decisión No. 345 Régimen Común de Protección a los Derechos de Obtentores de Variedades Vegetales [Decision 345 Common Provisions on the Protection of the Rights of Breeders of New Plant Varieties]*, Official Gazette of the Andean Community No. 142 (Oct. 29, 1993); *Decisión No. 391 Régimen Común sobre Acceso a Recursos Genéticos [Decision 391 Common Regime on Access to Genetic Resources]*, Official Gazette of the Andean Community No. 213 (Jul. 17, 1996).

common regime must increase the convergence of the copyright regulation within not only the Andean Community, but also with other countries.

Table: Andean Community Nations, by international instruments on copyright to which they are parties.

	Inter-American Convention (1)	Universal Convention (2)	Berne Convention (3)	TRIPS Agreement	WIPO Copyright Treaty (4)	WIPO Performances and Phonograms Treaty (5)
Bolivia	1947	1989	1993	1995	-	-
Colombia	1976	1976	1987	1995	2000	2000
Ecuador	1947	1957	1991	1996	2000	2000
Peru	-	1963	1988	1995	2001	2002
Venezuela	-	1966	1982	1995	-	-

Notes: (1) Ratification, OAS; (2) Ratification, UNESCO; (3) Accession, WIPO; (4) Ratification/Accession, WIPO; (5) Ratification/Accession, WIPO.

# Patent Secrecy Orders: Fairness Issues in Application of Invention of Secrecy Act

James Maune\*

I. Introduction .....	472
II. The Government's Interest in Promoting Patent Rights .....	474
III. Governmental Procedures for Secrecy Orders .....	474
A. Procedures when the Government has Property Interest in the Invention .....	475
B. Procedures when the Government does not have a Property Interest in the Invention .....	476
C. Secrecy Order Effects .....	477
D. Contesting Orders of Secrecy .....	478
IV. Remedies for the Imposition of Secrecy Orders .....	479
A. Administrative Claim .....	479
B. Judicial Remedy .....	481
C. Damages .....	482
1. The Requirement for Actual Damages .....	484
2. The Government's Use of Delay to Deny Compensation .....	487
D. Patent Term Issue .....	489
V. Proposed Changes to Patent Secrecy Orders .....	490
A. Eliminate "75 per centum" Language from 35 U.S.C. §183 .....	490
B. Eliminate the Requirement for Proof of Actual Damages .....	491
C. Amend 35 U.S.C. §183 to Require Federal Agencies Imposing Secrecy Orders to Respond to Requests from Inventors within Two Years of the Date of Request .....	492
D. Amend the Patent Act to Allow an Extension Period Longer than Five Years .....	492
VI. Conclusion .....	492

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## I. Introduction

Patent applications are screened upon receipt in the United States Patent and Trademark Office (USPTO) for subject matter that, if disclosed, might impact national security.<sup>1</sup> The Invention Secrecy Act of 1951<sup>2</sup> provides that whenever “the publication or disclosure of the invention by . . . the granting of a patent therefore would be detrimental to national security . . . the Commissioner of Patents shall order that the invention be kept secret.”<sup>3</sup> This order prevents the patent from being issued until the secrecy order is lifted, and prohibits the inventor from publishing or disclosing any material information related to the invention.<sup>4</sup> According to government statistics obtained through the Freedom of Information Act, at the end of the 2010 fiscal year, more than 5,100 United States patents were subject to at least one secrecy order.<sup>5</sup> That represents a 1% increase from the previous year and a 5% rise since 2004.<sup>6</sup>

Analysis of the applicable statutes and judicial history reveals several issues regarding the administration of secrecy orders by the government. First, in resolving an administrative claim for imposition of secrecy orders, the statute requires that the federal agency compensate the inventor only 75% of what that agency evaluates the invention to be worth.<sup>7</sup> Inventors and some legal scholars may consider this a government taking of 25% of the invention’s worth.<sup>8</sup> Another barrier for the inventor is that judicial interpretation of the Invention Secrecy Act requires the inventor to prove actual damages in order to receive compensation by the government.<sup>9</sup> Actual damages may be difficult or impossible to prove when an inventor is barred from disclosing the invention to the public. In addition, the government may delay responding to an inventor’s administrative claim; if the inventor does sue for compensation, the government may contend that the inventor has failed to exhaust his or her administrative claim with the government prior to filing suit. Finally, after the changes to the U.S. patent system under the General Agreement on Tariffs and Trade (GATT) that changed the U.S. patent term from 17 years

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<sup>1</sup> 35 U.S.C. § 181 (2006).

<sup>2</sup> See 35 U.S.C. §§ 181–88 (2006).

<sup>3</sup> *Id.* § 181.

<sup>4</sup> *Id.* § 186.

<sup>5</sup> Steven Aftergood, *Invention Secrecy Still Going Strong*, FEDERATION OF AMERICAN SCIENTISTS, (March 25, 2011), [http://www.fas.org/blog/secrecy/2010/10/invention\\_secrecy\\_2010.html](http://www.fas.org/blog/secrecy/2010/10/invention_secrecy_2010.html).

<sup>6</sup> Letter from Traci Alexander, FOIA Specialist, to Steven Aftergood, Federation of American Scientists (Oct. 17, 2011) (on file with author).

<sup>7</sup> 35 U.S.C. § 183 (2006).

<sup>8</sup> Adam J. Citrin, *Are the Secrecy Order Compensation Provisions of the Patent Act Constitutional Under the Fifth Amendment?*, 1 AKRON INTELL. PROP. J. 275, 284–85 (2007).

<sup>9</sup> *Constant v. United States*, 617 F.2d 239, 244 (Ct. Cl. 1980) [hereinafter *Constant I*].



from date of issue to 20 years from date of filing, inventors may lose patent term for secrecy orders that last longer than five years.

Invention secrecy orders serve to protect the vital interest of national security. They accomplish this by preventing the disclosure of technology which may be harmful to our government, armed forces, or to the public in general. An essential element of the United States patent system is that the inventor publically discloses how to make or use an invention. Through publication of patent applications and issued patents this information becomes available worldwide to allies and foes alike. Information disclosed can be used against the United States to threaten our armed forces, critical infrastructure, and economic system. The governmental benefit of secrecy orders restricting information disclosure must be weighed against the value of the inventor's exclusive right, as defined in the Patent Act, to make and use the invention. This Comment does not suggest that patent secrecy orders are entirely without merit, but rather that administrative changes can be made that both maintain the benefit to the government and compensate the inventor for the loss of those rights.

The costs for the patent secrecy orders may be difficult to measure. These costs include the loss of commercial market for the inventor for some period of time and the loss of ability to recapture development costs through non-government sales. The cost to the government is the compensation to the inventor, especially when the damages may be considered speculative. The cost to society is the restriction of the knowledge of how to make and use the technology outside the government. When secrecy orders are placed on inventions with minimal utility outside government use, the cost to society and the inventor is low: the greater the utility of the invention to the commercial market, the greater the cost of secrecy orders to the inventor and to society. A balance must be maintained between compensating the inventor for the losses sustained by imposition of secrecy orders and over-compensating inventors whose damages are entirely speculative. If this balance is not maintained, the inventor may choose not to patent his invention and keep the knowledge a trade secret, denying the government and society of benefit to be gained from his disclosure.

To maintain proper incentive for U.S. inventors to continue to patent their ideas, the following changes are proposed: First, the "75%" language should be removed from the statute, allowing the inventor to be compensated the full amount that the federal agency believes the invention is worth. Second, the requirement for actual damages should be eliminated and a Patent Compensation Board should be created. This measure would provide an impartial method to determine the value of an invention and the losses sustained by the inventor due to the government imposition of secrecy orders. Third, 35 U.S.C. §183 should be amended to require federal agencies to resolve administrative claims within two years of filing an administrative claim by the inventor. Finally, the Patent Act should be amended to allow extensions for longer than five years to enable patent owners to use the full terms of their patents. These changes to the Patent Act and the Invention Secrecy Act are

justified by concerns surrounding fairness to the inventor and promotion of the utilitarian view of the U.S. intellectual property law system.

This Comment will discuss fairness issues in the imposition of invention secrecy orders. Part II will briefly discuss the government's interest in promoting patent rights. Part III will discuss governmental procedures for the imposition of secrecy orders. Part IV discusses the current remedies available to the inventor for the government's imposition of secrecy orders. Part V proposes changes to the current system and discusses the cost of these changes. Although recognizing the difficulties inherent in addressing this problem, this Comment will suggest changes that would balance the benefits of secrecy orders with their costs to the inventor, the government, and society.

## II. The Government's Interest in Promoting Patent Rights

Aside from the basic issue of fairness, the government maintains an interest in promoting patent rights that exist under U.S. intellectual property law. If inventors perceive that they will not be adequately compensated for the imposition of secrecy orders, they may choose to keep their inventions as trade secrets as opposed to disclosing them in patent applications. Under the utilitarian view of patent law, society may give an exclusive right to the profits arising from inventions as an encouragement for people to pursue ideas that may produce utility.<sup>10</sup> The economic philosophy behind the clause empowering Congress to grant patents and copyrights is "the conviction that encouragement of individual effort by personal gain is the best way to advance public welfare through the talents and authors and inventors in Science and Useful Arts."<sup>11</sup> If the government fails to maintain this privilege, inventors may become disinclined to patent their inventions and society would lose the benefits of fostering innovation and the public knowledge gained by the inventor disclosing how to make and use the technology.

## III. Governmental Procedures for Secrecy Orders

The procedures for implementing secrecy orders depend on whether or not the government holds a property interest in the invention. Government property interests include inventions "made by government employees either as part of their normal duties or on their own behalf, on which patent applications have been filed by the government, and inventions made by government contractors during performance of their contractual duties."<sup>12</sup> All government-owned or government-controlled interests in patent applications are required to be registered in the Patent

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<sup>10</sup> ROBERT P. MERGES & JANE C. GINSBURG, FOUNDATIONS OF INTELLECTUAL PROPERTY 21 (2004).

<sup>11</sup> *Mazer v. Stein*, 347 U.S. 201, 219 (1954) (internal quotation marks omitted).

<sup>12</sup> Sabing H. Lee, *Protecting the Private Inventor under the Peacetime Provisions of the Invention Secrecy Act*, 12 BERKELEY TECH. L.J. 345, 359 (1997) (quoting The Government's Classification of Private Ideas: Hearings before a Subcommittee of the House Committee on Government Operations, 96th Cong., 2d. Sess. (1980) (prepared statement of the Armed Services Patent Advisory Board, Department of Defense)) (internal quotation marks omitted).

Office's Government Register.<sup>13</sup> One can simply refer to the register to determine if a government property interest exists.<sup>14</sup> If an appropriate government interest is found, the issuance of a secrecy order is governed by the first paragraph of section 181 of the statute.<sup>15</sup> In cases where the government has no such property interest, secrecy orders are issued pursuant to paragraphs two and three of section 181.<sup>16</sup>

A. Procedures when the Government has Property Interest in the Invention

The government agency having an interest in the invention determines whether to issue a secrecy order. The statute's only limitation on this discretion is that the agency must find that publication or disclosure of a patent "might" create a threat to national security.<sup>17</sup> If the government has a property interest and in the opinion of the head of the interested government agency disclosure would be detrimental to national security, the Commissioner of Patents shall order that the invention be kept secret and shall withhold the publication of the application or the grant of a patent until conditions permit.<sup>18</sup>

The classification of the information contained in the application in part determines if disclosure would create a national security threat. In cases where the government agency files an application for in-house research, a secrecy order may issue only if the application is properly classified under the provisions of the Executive Order delineating National Security classification.<sup>19</sup> Applications classified under the provisions discussed previously are those that can reasonably be expected to cause identifiable damage to national security.<sup>20</sup> The government agency would file a classified application with the appropriate security markings, thereby notifying the Patent Office to handle the application in accordance with the appropriate security requirements.<sup>21</sup> The Patent Office then waits for the filing agency to request imposition of the secrecy order.<sup>22</sup>

Once the government agency decides to issue a secrecy order, it requests the Commissioner of Patents to impose the order.<sup>23</sup> For the Department of Defense, the

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<sup>13</sup> 37 C.F.R. § 3.58 (West 2012).

<sup>14</sup> See 37 C.F.R. § 1.12 (West 2012) ("The records are open to public inspection").

<sup>15</sup> 35 U.S.C. § 181 (2006).

<sup>16</sup> *Id.*

<sup>17</sup> *Id.*

<sup>18</sup> *Id.*

<sup>19</sup> Exec. Order No. 12958, 3 C.F.R. 19825 (1995), as amended by Exec. Order No. 13292 (2003).

<sup>20</sup> *Id.*

<sup>21</sup> 37 C.F.R. § 5.1 (2005).

<sup>22</sup> *Id.*

<sup>23</sup> U.S. PAT. & TRADEMARK OFFICE, U.S. DEPT. OF COMMERCE, MANUAL FOR PATENT EXAMINING PROCEDURE §115 (8th ed. 2010) [hereinafter *MPEP*].

request is made by the Armed Service Patent Advisory Board (ASPAB), which acts as a clearinghouse for military patent applications.<sup>24</sup> The Commissioner of Patents must issue a secrecy order when it is requested by the ASPAB.<sup>25</sup> Secrecy orders on patent applications in which the government has an interest do not create the fairness and disincentive issues discussed in this article.

#### B. Procedures when the Government does not have a Property Interest in the Invention

Congress has determined separate procedures for inventions in which the government does not have a property interest. All provisional and non-provisional patent applications are reviewed upon receipt at the patent office for subject matter that, if disclosed, might be detrimental to national security.<sup>26</sup> When an application contains such material, even if the U.S. Government does not have a property interest, the Commissioner of Patents will issue a secrecy order in accordance with the Invention Secrecy Act and publication and grant of patent will be withheld for such period as national security requires.<sup>27</sup>

The ASPAB uses the Patent Security Category Review List to aid in screening applications.<sup>28</sup> This list contains twenty-two categories of inventions that are currently of security interest to different defense agencies.<sup>29</sup> Items on the list include military devices as well as items with commercial applications that would not normally be associated with the defense industry.<sup>30</sup> Gyroscopes, batteries, efficient solar voltaic generators and titanium alloys are all on the list.<sup>31</sup> The unsuspecting inventor may find out that his invention is subject to secrecy orders, even if he was not planning to market the invention to the Department of Defense. If the subject matter of the application corresponds to an item on the list, the USPTO informs the agency, which can then review the application.<sup>32</sup>

Patents identified as containing subject matter deemed a possible national security threat are forwarded to interested defense agencies.<sup>33</sup> The defense agency then conducts a review of the application to decide whether to impose secrecy or-

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<sup>24</sup> Lee, *supra* note 12, at 361.

<sup>25</sup> 37 C.F.R. § 5.2 (2005).

<sup>26</sup> 35 U.S.C. § 181 (2006).

<sup>27</sup> *Id.*

<sup>28</sup> ARMED SERVICES PATENT ADVISORY BOARD, PATENT SECURITY CATEGORY REVIEW LIST (1971). This list was declassified in 1994 under the Freedom of Information Act request of Michael Ravnitzky.

<sup>29</sup> *Id.*

<sup>30</sup> *Id.*

<sup>31</sup> *Id.*

<sup>32</sup> Lee, *supra* note 12, at 362.

<sup>33</sup> *Id.* at 363.

ders. The inspection of the application must be performed “only by responsible representatives authorized by the agency to review applications.”<sup>34</sup> In its decision whether to recommend secrecy orders, the agency must determine if “the publication or disclosure of the invention by the publication of an application or by the granting of a patent . . . *would* be detrimental to the national security.”<sup>35</sup> After making its decision, the agency informs the ASPAB that it wants a secrecy order, and the ASPAB instructs the Commissioner of Patents to issue the order.<sup>36</sup> Non-Defense Department agencies requesting a secrecy order notify the Commissioner directly.<sup>37</sup>

### C. Secrecy Order Effects

“A secrecy order restricts disclosure of the invention or dissemination of information in the patent application.”<sup>38</sup> As a result of the secrecy order, the Commissioner orders that the invention be kept secret by sending the inventor a notice of the order.<sup>39</sup> The notice instructs the inventor that “the subject matter or any material information relevant to this application, including unpublished details of the invention, shall not be published or disclosed to any person not aware of the invention prior to the date of this order, including any employee of the principals.”<sup>40</sup>

A peacetime secrecy order lasts only for one year.<sup>41</sup> The government agency sponsoring the order may petition the Commissioner to renew the order for additional periods of up to one year upon notice to the USPTO “that an affirmative determination has been made that the national interest continues so to require.”<sup>42</sup> Thus, a secrecy order may continue indefinitely. Some secrecy orders have lasted over 20 years, and, although rare occurrences, some have lasted over 40 years.<sup>43</sup> A secrecy order ends when it is not renewed or when the Commissioner is notified by the sponsoring agency that the publication or disclosure of the invention is no longer deemed “detrimental to the national security.”<sup>44</sup> Secrecy orders authorized by the ASPAB in particular, must be reviewed by its members prior to the order being

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<sup>34</sup> *Id.*

<sup>35</sup> 35 U.S.C. § 181 (2006) (emphasis added).

<sup>36</sup> Lee, *supra* note 12, at 363.

<sup>37</sup> *MPEP*, *supra* note 23, at § 115.

<sup>38</sup> Lee, *supra* note 12, at 364.

<sup>39</sup> 35 U.S.C. § 181.

<sup>40</sup> Lee, *supra* note 12, at 364.

<sup>41</sup> 35 U.S.C. § 181 (2006).

<sup>42</sup> *Id.*

<sup>43</sup> Lee, *supra* note 12, at 371; Citrin, *supra* note 8, at 279.

<sup>44</sup> Lee, *supra* note 12, at 371.

rescinded.<sup>45</sup> Once a secrecy order is rescinded, the USPTO issues a notice of allowance.<sup>46</sup>

All patent applications with secrecy orders are examined for patentability like any other application.<sup>47</sup> Once the application meets the conditions for allowance, the USPTO issues a notice of allowability.<sup>48</sup> The patent will not issue until the government rescinds the secrecy order.<sup>49</sup> An interference will not be declared if one or more of the conflicting cases is classified or under secrecy orders.<sup>50</sup> In the case of a final rejection, an appeal before the Board of Patent Appeals and Interferences will not be heard until the secrecy order is lifted, unless otherwise specifically ordered by the Commissioner.<sup>51</sup>

There are stiff penalties for violations of a secrecy order. Should the inventor publish or disclose the invention subject to the secrecy order, or file for a patent on that invention in a foreign country without the consent of the Commissioner, the invention may be held abandoned.<sup>52</sup> An inventor who, without due authorization willfully publishes or discloses the invention, or who willfully files a foreign patent application, "shall, upon conviction, be fined not more than \$10,000 or imprisoned for not more than two years, or both."<sup>53</sup>

#### D. Contesting Orders of Secrecy

An inventor may contest that a secrecy order is either erroneous or overly broad.<sup>54</sup> The Manual of Patent Examining Procedures (MPEP) recommends that the applicant directly contact the agency sponsoring the secrecy order to discuss changes that would render it unnecessary.<sup>55</sup> Alternatively, the application can petition the Commissioner of Patents for rescission.<sup>56</sup> Such a petition "must recite any and all facts that purport to render the order ineffectual or futile if this is the basis of the petition."<sup>57</sup> Finally, the applicant may appeal to the Secretary of Commerce to rescind the secrecy order.<sup>58</sup> An appeal to the Secretary of Commerce cannot be

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<sup>45</sup> *Id.* at 365.

<sup>46</sup> 37 C.F.R. § 5.3(c) (2004).

<sup>47</sup> *MPEP*, *supra* note 23, at § 130.

<sup>48</sup> *Id.*

<sup>49</sup> *Id.*

<sup>50</sup> *Id.*

<sup>51</sup> *Id.*

<sup>52</sup> 35 U.S.C. § 182 (2006).

<sup>53</sup> 35 U.S.C. § 186 (2006).

<sup>54</sup> Lee, *supra* note 12, at 366.

<sup>55</sup> *MPEP*, *supra* note 23, at § 120.

<sup>56</sup> 37 C.F.R. § 5.4 (1997).

<sup>57</sup> *Id.*

<sup>58</sup> *Id.*

made until a petition for rescission has been denied by the Commissioner, and must be made within sixty days of the denial.<sup>59</sup>

#### IV. Remedies for the Imposition of Secrecy Orders

Compensation is the remedy provided for an inventor whose invention is subject to secrecy orders. The Invention Secrecy Act gives an inventor the right to “compensation for the damage caused by the order of secrecy and/or for the use of the invention by the Government, resulting from his disclosure.”<sup>60</sup> The inventor has two avenues to pursue compensation: the administrative claim or judicial remedy in federal court.

##### A. Administrative Claim

A claimant may submit an application for a settlement agreement to the ordering agency after the inventor is notified that the application is “in condition for allowance.”<sup>61</sup> The statute is silent and there is no case law on point as to how “just compensation” should be calculated for an administrative claim, but the statute implies that such a determination is made solely by the department or agency that was responsible for the secrecy orders in the first place.<sup>62</sup>

Administrative claims must be filed after the date of first use of the invention by the government.<sup>63</sup> One typical way that an inventor will become suspicious that the government is using his invention is through ties to the industry where the invention is being used. Technical fields can be fairly small and people often learn information about who is using what through their contacts within this industry. Also, an inventor may become aware that the government is using his invention based on a government publication, such as the details of a government request for proposals for a certain technology. When an invention is subject to a secrecy order, government use is more difficult to detect since it is unlikely that the government will publish anything related to that technology, even within government circles. The inventor may have to wait until documents become unclassified or something is revealed later—perhaps through contacts with competitors with government contracts or at defense or government trade shows—to get any idea as to whether the government is utilizing his invention.

Once the administrative claim is filed, the head of the agency that requested the secrecy order may enter into a settlement agreement with the inventor to resolve all claims for damages and for government use of the invention.<sup>64</sup> A settlement

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<sup>59</sup> *Id.*

<sup>60</sup> Lee, *supra* note 12, at 367.

<sup>61</sup> 35 U.S.C. § 183 (2006).

<sup>62</sup> Citrin, *supra* note 8, at 285.

<sup>63</sup> 35 U.S.C. § 183.

<sup>64</sup> *Id.*

agreement is “conclusive for all purposes.”<sup>65</sup> After the agreed upon amount is paid, the inventor will not be allowed to renegotiate a settlement even if he or she later learns that the invention was worth a great deal more than previously believed.<sup>66</sup>

If a settlement agreement cannot be reached, the head of the agency may award the applicant a sum “not exceeding 75 per centum of the sum which the head of the department or agency considers just compensation for the damage and/or use.”<sup>67</sup> The claimant then has the right to bring suit against the United States in the United States Court of Federal Claims or in the district court in which the claimant resides for an amount that when added to the settlement award results in “just compensation.”<sup>68</sup> However, even if no settlement is reached, the claimant may still bring suit.<sup>69</sup>

Several publications address whether the issuance of secrecy orders violates the Fifth Amendment.<sup>70</sup> While some courts and scholars suggest that the imposition of secrecy orders alone does not cause a taking, several provisions of the Invention Secrecy Act arguably rise to such a result. That type of taking would be in direct violation of the Fifth Amendment to the United States Constitution—“[N]or shall private property be taken for public use, without just compensation.”<sup>71</sup>

The bar to filing a foreign patent application and the loss of commercial gain from the invention due to the secrecy order can be considered losses to the inventor.<sup>72</sup>

Notwithstanding the method for determining what constitutes “just compensation”...and assuming that the compensation owed [to the] Inventor as determined by the department or agency is just, § 183 authorizes the agency to pay “a sum not exceeding 75 per centum,” i.e., to withhold 25 per centum of the figure. Not only is this taking possible, it is mandated by the statute! Without reading any further, 35 U.S.C. § 183, on its face, allows for a taking of personal property without just compensation in direct violation of the Fifth Amendment. Congress worked around this by allowing a dissatisfied claimant to “bring [a post-deprivation] suit against the United States...for an amount which *when added to the award shall constitute just compensation.*”<sup>73</sup>

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<sup>65</sup> *Id.*

<sup>66</sup> *Id.*

<sup>67</sup> *Id.*

<sup>68</sup> 35 U.S.C. § 183 (2006).

<sup>69</sup> *Id.*

<sup>70</sup> Citrin, *supra* note 8, at 283–91; Lee Ann Gilbert, *Patent Secrecy Orders: The Unconstitutionality of Interference in Civilian Cryptography Under Present Procedures*, 22 SANTA CLARA L. REV. 325, 346–47 (1982); Gary Hausken, *The Value of a Secret: Compensation for Imposition of Secrecy Orders under the Invention Secrecy Act*, 119 MIL. L. REV. 201, 240–43 (1988); Lee, *supra* note 12, at 399.

<sup>71</sup> Citrin, *supra* note 8, at 284.

<sup>72</sup> *Id.* at 291.

<sup>73</sup> Citrin, *supra* note 8, at 292–93.



Filing a suit forces the claimant, in pursuing the balance of what is statutorily recognized as just compensation, to spend a considerable amount of time and money in the courts.

The administrative claim approach may seem advantageous to the inventor since the inventor does not have to wait until the patent issues to seek compensation.<sup>74</sup> But only when the inventor has exhausted his administrative remedies—accepting an award from the government agency, receiving no answer from it, or being told that there will be no settlement offered by the agency—may he file a claim to obtain just compensation.<sup>75</sup> Inventors have fared poorly as plaintiffs in pursuing judicial review of administrative handling of compensation claims filed under this approach, often meeting dismissal under Fed. R. Civ. P. 12(b)(6) for failure to state a claim for which relief could be granted or under Fed. R. Civ. P. 12(b)(1) for lack of subject-matter jurisdiction.<sup>76</sup> In *Hornback v. United States*<sup>77</sup> the government denied the inventors' claims for compensation for the imposition of secrecy orders after the courts determined that the inventors did not exhaust administrative remedies prior to filing suit. A delay or failure to negotiate in good faith for compensation by the federal agency responsible for the secrecy orders resulted in the claims being dismissed by the federal courts.<sup>78</sup>

#### B. Judicial Remedy

The second method by which an inventor can obtain compensation is to wait until the secrecy order expires and the patent issues.<sup>79</sup> Provided that the inventor did not apply for compensation under an administrative claim, the inventor can bring suit in the United States Court of Federal Claims for infringement by the government.<sup>80</sup> An inventor seeking compensation under this approach risks that the secrecy orders will be in place for an extended period of time<sup>81</sup>, or even indefinitely.<sup>82</sup> Furthermore, the applicant has only six years after a patent issues to apply for compensation.<sup>83</sup>

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<sup>74</sup> *Id.*

<sup>75</sup> *Id.* at 283.

<sup>76</sup> *Id.*

<sup>77</sup> *Hornback v. United States*, 40 Fed. Cl. 524, 527–28 (Fed. Cl. 1998).

<sup>78</sup> *Stein v. United States*, 41 F. Supp. 2d 68 (1999).

<sup>79</sup> 35 U.S.C. § 183 (2006).

<sup>80</sup> *Id.* § 183. Third-party infringement would be pursued in a normal district court.

<sup>81</sup> *Id.* § 181.

<sup>82</sup> *See also Stein v. United States*, 135 F. Supp. 2d 265, 276 (D. Mass. 2001) (involving a patent application under secrecy orders for over twenty-seven years); *Citrin*, *supra* note 8, at 283.

<sup>83</sup> 35 U.S.C. § 183 (2006).

Under either method of remedy, section 183 specifies that the inventor shall be entitled to “just compensation.”<sup>84</sup> Courts have found that compensation must be supported by “real concrete evidence of damage.”<sup>85</sup> For claims based on use by the government, courts have awarded compensation on a reasonable royalty basis.<sup>86</sup> Thus, in situations when damages are claimed only for the orders of secrecy, compensation for the use by the government is based on a wide variety of factors.<sup>87</sup> Both remedies provide claimants the potential to recover substantial compensation awards. However, if damages are too speculative, the courts may not grant any compensation at all.<sup>88</sup>

### C. Damages

In the Court of Federal Claims, 28 U.S.C. § 1498 authorizes a cause of action for government infringement on an inventor’s patent.<sup>89</sup> Section 1498 “is essentially an Act to authorize the eminent domain taking of a patent license, and to provide just compensation for the patentee.”<sup>90</sup> In these cases, recovery should be “reasonable and entire compensation” for the use and manufacture of the invention.<sup>91</sup> *Farrand Optical v. United States* was one of the first court cases to establish compensation damages under the Invention Secrecy Act. The *Farrand* court considered several factors to determine damages:

In the determination of a reasonable royalty rate for the computation of a fair award of damages, such factors as the limited marketability of the product (thus requiring that the entire compensation be obtained from the Government) must be equated with assumption of risk in providing capital for the production of the invention and other similar variables (which factors would tend to depress the allowable royalty rate).<sup>92</sup>

*Farrand*<sup>93</sup> involved the development of a bombsight during World War II. Development of the sight was initiated after an Army Air Corps employee explained the bombsight problem to a Farrand Optical employee named Tripp.<sup>94</sup> After presenting Tripp’s mock up to various Air Corps officials during 1943, Farrand

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<sup>84</sup> *Id.*

<sup>85</sup> *Constant I*, 617 F.2d at 239–44.

<sup>86</sup> *Farrand Optical Co. v. United States*, 197 F. Supp. 756, 773 (S.D.N.Y. 1961) [hereinafter *Farrand I*].

<sup>87</sup> Lee, *supra* note 12, at 368.

<sup>88</sup> *Id.*

<sup>89</sup> 28 U.S.C. § 1498 (2006).

<sup>90</sup> *Leesona Corp. v. United States*, 599 F.2d 958, 966 (Ct. Cl. 1979).

<sup>91</sup> 28 U.S.C. § 1498.

<sup>92</sup> *Farrand I*, 197 F. Supp. at 758 n.2.

<sup>93</sup> *Farrand Optical Co. vs. United States*, 133 F. Supp. 555 (S.D.N.Y. 1955), *aff’d on reh’g en banc by an equally divided court*, 317 F.2d 875 (2d Cir. 1962) (motion to dismiss for lack of jurisdiction denied) [hereinafter *Farrand II*].

<sup>94</sup> Hausken, *supra* note 70, at 236.

Optical received a contract to develop the sight.<sup>95</sup> In 1949 the government learned that Tripp had applied for a patent on the bombsight; Farrand Optical cooperated in obtaining a secrecy order on the Tripp invention by sending a letter to the patent office.<sup>96</sup> The secrecy order was issued in 1949, and immediately thereafter, Farrand Optical made a claim for compensation from the U.S. government.<sup>97</sup> The secrecy order was removed in 1954, and the patent issued.<sup>98</sup> Farrand Optical sought unsuccessfully, since March 1949, via negotiation with the Department of the Army and the Department of Defense, to obtain compensation under the provisions of section 183.<sup>99</sup> On March 2, 1954, the Department of Defense offered \$30,000 “in full settlement,” but this offer was rejected by the plaintiff as “grossly inadequate;” thereafter, negotiations continued without result and without any award being made to the plaintiff or any payment on account of such award being made to the plaintiff.<sup>100</sup> Shortly before the patent issued, Farrand Optical filed suit in district court under the Invention Security Act’s resolution of administrative claim provision.<sup>101</sup> The Government moved to dismiss the claim contending that Farrand Optical had failed to exhaust its administrative remedies.<sup>102</sup> In effect, the Government suggested that no claimant could bring a suit for additional compensation until some award had been made to him or her by the department or agency of the government to which the claim was made. However, this would give that department or agency a means to deny a claimant his day in court.<sup>103</sup> “Such a holding would deprive a claimant of his constitutional right to apply to the court for just compensation for property taken from him.”<sup>104</sup> The U.S. District Court for the Southern District of New York held that Farrand Optical had exhausted their administrative claims and was entitled to receive royalties as compensation for use of the invention until the date the patent was issued.<sup>105</sup>

### 1. *The Requirement for Actual Damages*

In *Constant v. United States*, the ASPAB recommended a secrecy order on the plaintiff’s patent application concerning an automatic vehicle identification

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<sup>95</sup> *Id.* at 237.

<sup>96</sup> *Id.*

<sup>97</sup> *Id.*

<sup>98</sup> *Id.*

<sup>99</sup> *Farrand II*, 133 F. Supp. at 557.

<sup>100</sup> *Id.* Hausken, *supra* note 70, at 236.

<sup>101</sup> Hausken, *supra* note 70, at 237.

<sup>102</sup> *Id.*

<sup>103</sup> *Farrand II*, 133 F. Supp. at 559.

<sup>104</sup> *Id.*

<sup>105</sup> *Farrand II*, 133 F. Supp. at 560.

(AVI) system.<sup>106</sup> The secrecy order remained in effect for 15 months, from May 1970 until August 1971.<sup>107</sup> Upon rescission of the secrecy order, prosecution of the patent application continued and a patent ('557) was ultimately issued.<sup>108</sup>

The plaintiff filed a petition in the Court of Claims (now the U.S. Court of Federal Claims) under 35 U.S.C. § 183 seeking compensation for damages allegedly caused by the imposition of the secrecy order.<sup>109</sup> According to the plaintiff's theory of the case, the time period during which the secrecy order was in force was a critical time in the development of AVI systems.<sup>110</sup> The plaintiff contended that the secrecy order put him at a competitive disadvantage relative to other AVI developers.<sup>111</sup>

The plaintiff sought damages for: (1) lost profits as a result of interference with business opportunities; (2) expenses incurred in attempts to obtain rescission of the secrecy order; (3) interference with his right to compete in the AVI market; and (4) resultant delays in filing foreign patent applications.<sup>112</sup>

The government moved to dismiss, contending that the plaintiff had failed to prove "actual damages" required for recovery under section 183.<sup>113</sup> The plaintiff argued that he had submitted a number of unsolicited proposals to various companies, even though no contracts resulted from his efforts.<sup>114</sup> Judge Seto determined that factors other than the imposition of the secrecy order were responsible for the plaintiff's failure to find buyers for the '557 invention.<sup>115</sup> The court noted that no market for AVI systems ever developed in this country and that the plaintiff had never constructed nor tested the actual system prior to rescission of the secrecy order.<sup>116</sup>

The *Constant* court concluded that the plaintiff failed to demonstrate "actual damages" or to present the concrete evidence of damages required under section 183.<sup>117</sup> Judge Seto also found that the plaintiff's compensation for the expenses incurred in obtaining rescission of the secrecy order should not be allowed since "at-

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<sup>106</sup> *Constant v. United States*, 1 Cl. Ct. 600, 601-02 (Cl. Ct. 1982) [hereinafter *Constant II*].

<sup>107</sup> *Id.* at 602.

<sup>108</sup> *Id.*

<sup>109</sup> *Id.*

<sup>110</sup> *Id.*

<sup>111</sup> *Constant II*, 1 Cl. Ct. at 602.

<sup>112</sup> *Id.*

<sup>113</sup> *Constant I*, 617 F.2d at 244.

<sup>114</sup> *Constant II*, 1 Cl. Ct. at 604.

<sup>115</sup> *Id.* at 607.

<sup>116</sup> *Id.*

<sup>117</sup> *Id.*

torney's fees and other expenses incurred in contesting the imposition of the secrecy order are not recoverable under section 183."<sup>118</sup> He noted that "this court has repeatedly held that litigation expenses, regardless of allocation, may not be awarded against the United States in absence of specific statutory authorization."<sup>119</sup> Section 183 does not provide for such reimbursement of expenses in contesting secrecy orders.<sup>120</sup>

The plaintiff received patents from his British and French applications, and his West German application was expressly abandoned. His Japanese application was still pending at the time of the trial.<sup>121</sup> Therefore, he was not entitled to damages for the delay caused by the secrecy order in the filing of foreign patent applications.<sup>122</sup> The vast commercial market for AVI technology never materialized and this fact alone rendered the plaintiffs' emphases upon the timing of the secrecy order irrelevant.<sup>123</sup> On the basis of a credible and competent evidence of record, the court concluded that the plaintiff failed to prove the "actual damages" required for recovery under 35 U.S.C. § 183.<sup>124</sup>

In order to receive compensation under 35 U.S.C. § 183 courts have required that the patentee must establish "actual damages" or "concrete evidence of damages."<sup>125</sup> The U.S. Patent Act's text concerning right to compensation only requires "compensation for the damage caused by the order of secrecy and/or for the use of the invention by the government, resulting from this disclosure."<sup>126</sup> The term "actual damages" is not contained within the text of the statute.

Some concern was expressed at the House of Representatives committee hearings on the Invention Secrecy Act of 1951 (the predecessor of section 183) as to the proper proof of damages under the statute.<sup>127</sup> The *Constant* court believed that the consensus at the hearings was that neither the courts nor the administrative agencies would permit purely speculative damages, but that there would have to be "real concrete evidence of damage,"<sup>128</sup> "actual damages,"<sup>129</sup> proven damages,<sup>130</sup> or

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<sup>118</sup> *Id.* at 608.

<sup>119</sup> *Constant II*, 1 Cl. Ct. at 608.

<sup>120</sup> 35 U.S.C. § 183 (2006).

<sup>121</sup> *Constant II*, 1 Cl. Ct. at 609.

<sup>122</sup> *Id.*

<sup>123</sup> *Id.*

<sup>124</sup> *Id.*

<sup>125</sup> *Constant I*, 617 F.2d at 244.

<sup>126</sup> 35 U.S.C. § 183 (2006).

<sup>127</sup> See Hearings on H.R. 4687 Before Subcommittee No. 3, Committee on the Judiciary, 82d Cong., 1st Sess. 17, 18, 21, 22-23, 28, 32 (August 21, 1951).

<sup>128</sup> *Id.* at 32 (statement of P.J. Federico, Examiner-in-Chief, U.S. Patent Office).

<sup>129</sup> *Id.* at 28 (statement of H. Brown, Chief, Patent Section, Dep't of Justice).

"perhaps a greater degree of proof or ability to prove damages."<sup>131</sup> Several subsequent cases have relied on the *Constant* decision, specifically, the requirement to prove actual damages to deny inventors compensation for the imposition of secrecy orders.<sup>132</sup>

Compensation damages are divided into two categories: (1) termination of efforts to market an invention, and (2) losses associated with the loss of future markets.<sup>133</sup> Termination damages can be easier to prove than actual damages, since expenditures made, costs incurred, and the cost of terminating the activity can be predicted.<sup>134</sup> Loss of future market damages are much more difficult to define and prove in court.<sup>135</sup> How can the size and duration of the market be predicted when the inventor has not been allowed to establish whether the market exists or not?<sup>136</sup> Expert testimony may be used, but accurate data to define a market is difficult while secrecy orders are in force.<sup>137</sup> Therefore, testimony as to the size of the lost market borders on speculation.<sup>138</sup>

In *Weiss v. United States* the inventor sued the United States for damages caused by application of secrecy orders on "smart wing skins" that can provide real-time information about the forces on the airplane wing without impeding its normal use.<sup>139</sup> In *Hayes v. United States* the inventor sued for damages caused by implementation of secrecy orders covering a stealth bow thruster.<sup>140</sup> In each case the *Constant* requirement for actual damages was cited and the inventor's claims for compensation were dismissed.

The requirement for actual damages continues to pose a major barrier to compensating inventors for imposition of secrecy orders. The plaintiff in *Constant* maintained that this requirement would "have a 'chilling effect' upon inventorship in this country, and further, would render section 183 meaningless by making it a cause of action without a remedy."<sup>141</sup> The inherent difficulty in determining the

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<sup>130</sup> *Id.* at 18, 21, 23 (statement of P.A. Rose, representative of the American Patent Law Association).

<sup>131</sup> *Id.* at 21 (statement of Congressman Willis).

<sup>132</sup> See *Weiss v. United States*, 146 F. Supp. 2d 113 (D. Mass. 2001), *aff'd* 37 F. App'x 518 (Fed. Cir. 2002); see also *Hayes v. United States*, 335 F. App'x 45 (Fed. Cir. 2009).

<sup>133</sup> Hausken, *supra* note 70, at 250.

<sup>134</sup> *Id.*

<sup>135</sup> *Id.*

<sup>136</sup> *Id.*

<sup>137</sup> *Id.*

<sup>138</sup> *Id.* at 251.

<sup>139</sup> *Weiss v. United States*, 146 F. Supp. 2d 113, 115 (D. Mass. 2001), *aff'd* 37 F. App'x 518 (Fed. Cir. 2002).

<sup>140</sup> *Hayes v. United States*, 335 F. App'x 45 (Fed. Cir. 2009).

<sup>141</sup> Lee, *supra* note 12, at 375.

market value of an invention that is maintained in secret inclines federal agencies to minimize compensation awarded to an inventor for a secrecy order.<sup>142</sup>

In cases where the inventor is not able to prove actual damages, the government cannot claim that the invention is without value; such a claim effectively states that it was inappropriate to implement the secrecy orders. A method to determine adequate compensation is required; one that is fair to the public and the inventor. One such method could be based on guidance from the Internal Revenue Service's engineering and valuation branch that appraises patents and other property for gift and income tax purposes.<sup>143</sup> A better approach, which would maintain the secrecy required, might be to establish a Patent Compensation Board to determine proper compensation for a patent. This Board can be established at the USPTO in coordination with the ASPAB. It should adopt the standards used by the Atomic Energy Act of 1954 for compensation on nuclear material, atomic energy, or atomic weapons inventions.<sup>144</sup> This board would determine inventor compensation on a reasonable royalty fee based on the degree of utility, novelty, and importance of the invention or discovery. Additionally, the board would consider the costs to the owner of the patent for developing, discovering, or acquiring such an invention or patent. These costs would be paid regardless of use of the invention by the government. At minimum, the inventor needs to be compensated for the patent application filing fees to the USPTO and any attorney's fees paid for the preparation and prosecution of the application.

## 2. *The Government's Use of Delay to Deny Compensation*

In *Linick v. United States*, the court examined the issue of how long the federal agency responsible should have to make a determination of compensation for imposition of secrecy orders.<sup>145</sup> Mr. Linick developed an improvement to his Trajectory Correctable Munitions technology and filed patent application serial number 10/071,215 on February 11, 2002. Pursuant to 35 U.S.C. §181, the USPTO issued a secrecy order on August 14, 2002 covering Mr. Linick's patent application.<sup>146</sup> The U.S. Army Armament Research Development and Engineering Command (ARDEC) sponsored the secrecy order.<sup>147</sup> On December 11, 2007, the USPTO issued a Notice of Allowability on Mr. Linick's patent application, but indicated that the patent would be withheld pursuant to the secrecy order so long as national interests required.<sup>148</sup> The patent remains under secrecy orders today. Despite Mr.

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<sup>142</sup> *Id.*

<sup>143</sup> *Id.* at 376.

<sup>144</sup> *Id.*

<sup>145</sup> *Linick v. United States*, 96 Fed. Cl. 78, 83 (Fed. Cl. 2011).

<sup>146</sup> *Id.* at 80.

<sup>147</sup> *Id.*

<sup>148</sup> *Id.*

Linick's periodic requests to the Army for a final disposition on his application for compensation, Mr. Linick did not receive any substantive response from the Army for nearly three years.<sup>149</sup>

The government argued that Mr. Linick failed to exhaust his administrative remedy as required by *Constant*. Here, the agency failed for nearly three years to make any determination on Mr. Linick's claim.<sup>150</sup> As the Court suggested in *Constant*, it takes two parties to make a settlement as contemplated by the administrative remedy in section 183.<sup>151</sup> Because it was the agency that refused to act on the claim, the court found that Mr. Linick had exhausted his administrative remedies and that jurisdiction in the court was proper.<sup>152</sup> It defies logic to hold that an agency can block any judicial review simply by refusing to act upon an administrative claim.<sup>153</sup>

Section 183 places no time limit on the agency to act.<sup>154</sup> However, the court was equally mindful that section 183 also places no time limit on how long a claimant must wait for the agency to act. Few judicial decisions have addressed this issue, but a common theme appearing in the case law is a standard of reasonableness. In *Farrand Optical*, the claimant filed his judicial action after more than five years of failed negotiations with the agency.<sup>155</sup> The government argued that, because a final settlement had not been reached, the Court lacked jurisdiction and the case should be dismissed.<sup>156</sup> The Court in *Farrand Optical* denied the Government's motion to dismiss.<sup>157</sup>

In *Stein v. United States*, the claimant waited nine months before filing a judicial action.<sup>158</sup> The Court found it plausible that the Army simply had insufficient time to assess the claim, and ruled that the claimant had failed to exhaust his administrative remedies.<sup>159</sup> The Court in *Stein* distinguished the facts of that case from *Farrand Optical*, noting that the defendant only had a fraction of the time to adjudicate the claim and that "given the vast number of government uses alleged in

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<sup>149</sup> *Id.*

<sup>150</sup> *Linick v. United States*, 96 Fed. Cl. 78, 83 (Fed. Cl. 2011).

<sup>151</sup> *Constant v. United States*, 16 Cl. Ct. 629, 633 (Fed. Cir. 1989).

<sup>152</sup> *Linick*, 96 Fed. Cl. at 83.

<sup>153</sup> *Id.*

<sup>154</sup> 35 U.S.C. § 183 (2006).

<sup>155</sup> *Farrand II*, 133 F. Supp. at 557.

<sup>156</sup> *Id.* at 559.

<sup>157</sup> *Id.* at 560.

<sup>158</sup> *Stein*, 41 F. Supp. 2d. at 69.

<sup>159</sup> *Id.* at 70.



Stein's complaint, nine months [was] hardly an unreasonable amount of time for the Army to investigate the claim."<sup>160</sup>

The questions in *Linick* were whether the Army had a reasonable amount of time to act on Mr. Linick's claim, and whether Mr. Linick could have been said to have exhausted his administrative remedies.<sup>161</sup> Both *Farrand Optical* and *Stein* provide guidance in answering these questions and both rulings dictate the same answers.<sup>162</sup> The *Linick* Court found the facts of *Farrand Optical* to be more analogous, and that Mr. Linick had complied with the requirements of 35 U.S.C. § 183 to avail himself of the Court's jurisdiction over his application for just compensation.<sup>163</sup> The *Linick* Court dismissed the government's motion to dismiss and remanded to the United States Army pursuant to the Rules of the United States Court of Federal Claims 52.2 for a period of 60 days.<sup>164</sup> During the remand period, the parties were encouraged to engage in the process contemplated by section 183.<sup>165</sup> The Army, through Defendant's counsel, was due to furnish its proposed disposition to the Court on or before March 8, 2011.<sup>166</sup>

These cases clarify that the time period for the federal agency to adjudicate a claim needs to be defined in 35 U.S.C. § 183. Failure to do so will lead to inconsistent results on what different federal district courts believe is a reasonable timeline for agencies to respond to inventors' administrative claims for relief. A proposed two year time limitation is consistent with the *Farrand*, *Stein*, and *Linick* cases.<sup>167</sup> If the federal agency fails to respond to claims by an inventor within two years from request for compensation, that inventor is free to seek compensation via litigation in a federal district court without the limitation of his or her claim being dismissed for failure to exhaust administrative remedies.

#### D. Patent Term Issue

One major effect of GATT and NAFTA on U.S. patent practice is that the term of a patent is twenty years from the filing date of the patent application.<sup>168</sup> This is the same term provided to patents issued by most countries of the world.<sup>169</sup> Before GATT, once a secrecy order was removed from an otherwise allowable patent application, a patent would issue with a seventeen-year term from date of is-

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<sup>160</sup> *Id.*

<sup>161</sup> *Linick*, 96 Fed. Cl. at 83.

<sup>162</sup> *Id.*

<sup>163</sup> *Id.*

<sup>164</sup> *Id.*

<sup>165</sup> *Id.*

<sup>166</sup> *Id.*

<sup>167</sup> *Farrand II*, 133 F. Supp. 2d at 557; *Linick*, 96 Fed. Cl. at 83; *Stein*, 41 F. Supp. 2d at 70.

<sup>168</sup> 35 U.S.C. § 154(a)(2) (2006).

<sup>169</sup> Lee, *supra* note 12, at 372.

sue.<sup>170</sup> After GATT, inventors were limited to the same length of their patent term (20 years from date of filing), even though patent issuance was delayed while the secrecy order was in effect.<sup>171</sup> This creates the problem that secrecy orders effectively shorten the length of the patent term.<sup>172</sup>

Congress attempted to resolve this issue by permitting an extension of patent term for the period of the delay, but in not for more than five years.<sup>173</sup> In effect, for any patent application with secrecy orders in force for more than five years, the inventor loses time to exploit their patent. Congress has not justified limiting this extension to a five year period.<sup>174</sup> Additionally, Congress has not addressed secrecy orders that extend beyond the twenty year life of the patent application.<sup>175</sup>

## V. Proposed Changes to Patent Secrecy Orders

### A. Eliminate "75 per centum" language from 35 U.S.C. §183

This change would allow the inventor to recover one hundred percent of the damages incurred without having to resort to litigation to recover the remaining twenty-five percent. The benefit of this change is that it would eliminate the claim by an inventor that the mere imposition of secrecy orders results in a per se taking of at least twenty-five percent of the value of the invention. An additional benefit is that this change should greatly reduce the number of lawsuits filed promoting the public policy goal of reducing case loads in the federal district courts.

This change may initially result in higher monetary costs for federal agencies responsible for compensating inventors during settlement of administrative claims. However, this burden may be offset by saving the government time and money in litigating the case in federal court. The 1980 Report from the House hearings on the Invention Secrecy Act stated that between 1945 and 1979, only twenty-nine administrative claims for compensation were filed with the Department of Defense.<sup>176</sup> Of these twenty-nine, only nine claims led to receipt of any amount of compensation.<sup>177</sup> Therefore, the number of inventors who receive administrative claim compensation is few, and it is unlikely that the twenty-five percent increased compensation will significantly burden federal agencies which currently compensate inventors. This change would not significantly increase the number of administrative claims filed, but would possibly reduce the number of lawsuits filed for full compensation.

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<sup>170</sup> *Id.*

<sup>171</sup> *Id.*

<sup>172</sup> *Id.*

<sup>173</sup> *Id.*

<sup>174</sup> S. REP. NO. 103-412 (1994).

<sup>175</sup> *Id.*

<sup>176</sup> Lee, *supra* note 12, at 375.

<sup>177</sup> *Id.*

This change will not, however, correct the problem that the federal agency responsible for payment to the inventor is the same agency calculating the value of the invention. Third party validation of the damages would be the preferred.

B. Eliminate the requirement for proof of actual damages.

The USPTO should create a Patent Compensation Board and adopt the standards used by the Atomic Energy Act of 1954 for compensation of nuclear material, atomic energy or atomic weapons inventions.<sup>178</sup> This board would determine inventor compensation with a reasonable royalty fee based on the degree of utility, novelty, and importance of the invention or discovery. The Board would also assess the costs to the owner of the patent of developing and discovering the invention or acquiring the patent. This additional value should be paid regardless of use of the invention by the government. At minimum, the inventor needs to be compensated for the patent application filing fees to the USPTO and any attorney's fees paid for the preparation and prosecution of the application. The inventor would benefit through the recovery of costs expended to prosecute an application which he is not able to recover through commercial sales or licensing while secrecy orders are in effect. The government and society at large would benefit from the public disclosure of the technology when patented, and the government use while secrecy orders are in effect.

Although removing the requirement for actual damages would increase costs to the government, the promotion of public disclosure under the patent system would benefit society as a whole. As discussed previously, claims for compensation are rare, and therefore would not substantially increase the burden on the federal government by requiring proof of actual damages. There would also be administrative costs for establishing a Patent Compensation Board. It is likely that the number of claims may increase, but this may be offset by the social good of promoting innovation and public disclosure. The Patent Compensation Board could be established as part of the USPTO. If the USPTO were allowed to keep all of the fees it collected, the office could afford to manage a board of examiners, attorneys, and economists to determine the worth of the few patents kept secret for national security reasons. The relatively few secrecy orders imposed on the more than 500,000 applications annually received by the USPTO would not require a full-time organization. Creation of a compensation board would result in a more accurate compensation determination and encourage inventors to disclose their inventions through the patent process as opposed to keeping them trade secrets.

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<sup>178</sup> 42 U.S.C. § 2221 (2006).

C. Amend 35 U.S.C §183 to Require Federal Agencies Imposing Secrecy Orders to Respond to Requests from Inventors within Two Years of the Date of Request.

This change would force federal agencies to expedite the adjudication of administrative claims made by inventors. If the federal agency fails to respond, the inventor will be cleared to file suit in federal court for compensation without having the suit dismissed for failure to exhaust administrative remedies.

Currently, no timeline exists for the deadline government agencies to respond to claims by the inventors. This forces inventors into federal courts, wasting valuable judicial resources in attempts to obtain compensation. The benefit of this change is that it would give the federal agencies sufficient time to analyze the technology and determine the appropriate compensation to the inventor or remove the secrecy orders. Delay by the government in adjudicating administrative claims can have catastrophic consequences for small inventors looking to recoup expenses from the development of an invention. This solution would benefit inventors and force the government to make a timely decision. Further, this change would only result in direct cost to the government and would provide guidance to courts in federal cases for compensation when the courts are forced to determine if the federal agency had "sufficient time" to resolve a federal claim. The solution proposed would also be in alignment with previous court decisions in the *Farrand*, *Stein*, and *Linick* cases.

D. Amend the Patent Act to Allow an Extension Period Longer than Five Years

This change would enable patent owners to use the full term of patent protection. Because secrecy orders have no special review required for extension beyond five years, continuation of secrecy orders beyond this time result in loss of some patent-term life, without adequate remedy.

Amending the Patent Act to extend patent terms beyond five years, if required, would not add additional cost to the government. The social burden would be minimal as well, since the monopoly period awarded to the inventors affected by secrecy orders would not exceed those for other patented inventions. In effect, amending the Patent Act would make its administration consistent with the pre-GATT terms. The inventor would not lose any patent term due to imposition of secrecy orders lasting longer than five years.

## VI. Conclusion

Secrecy orders may be considered a taking for the twenty-five per centum not recoverable through administrative claims, or the loss of enforceable time of some patent-term life if secrecy orders are in effect for more than five years. Further, the government may delay responses to administrative claims, frustrating attempts by inventors to receive just compensation. Finally, if an inventor chooses to initiate litigation to recover for damages incurred by the imposition of secrecy orders, a high bar is set, requiring the inventor to prove actual concrete damages

when secrecy orders prevent the inventor from disclosing the invention. Hence, he or she will be unable to negotiate contracts or licensing agreements.

While the imposition of secrecy orders is rare, they may significantly affect the rights of the inventor and current remedies do not provide a method for rapid, equitable relief. The proposed changes outlined in this comment may be imperfect, but they should make the law more equitable to both the inventor and the public, and should maintain the utilitarian purpose of the U.S. patent system.



# The Challenge of Protecting Industrial Design in a Global Economy

Susanna Monseau\*

Introduction.....	496
I. Industrial Design .....	498
A. What is Industrial Design? .....	498
B. Industrial Design and Legal Protection .....	499
C. The Importance of Industrial Design and the Global Economy .....	501
1. Industrial Design and Modern Consumer Culture .....	501
2. The Link between Industrial Design and Global Competitiveness.....	502
3. Government Policy and Design .....	503
4. Current U.S. Focus on Protecting Fashion Design .....	504
D. The Problem is Counterfeiting .....	506
1. Reasons for Rise in Counterfeiting .....	507
2. Harms of Counterfeit Goods.....	508
a. The OECD Report .....	508
b. Department of Justice Report .....	510
c. EU Custom Report.....	512
II. The Development of Legal Protection for Industrial Design	
Internationally .....	513
A. Different Theories of Protection.....	513
1. Type of Legal Protection for Industrial Design .....	514
2. The Creativity Standard .....	516
3. The Aspects of Design which Deserve Protection.....	517
4. The Intersection between Design and Copyright Law .....	518
B. A Brief Chronology of the Legal Recognition of Industrial	
Design Rights Internationally .....	520
1. International Recognition of Industrial Design Rights .....	520
a. The Hague Agreement.....	520
b. The Berne Convention Recognizes Applied Art .....	521
c. The Paris Convention Adopts Industrial Design Article .....	522
d. The World Intellectual Property Organization .....	522
e. World Trade Organization .....	522
C. The European Union Attempts to Harmonize Design Protection.....	524
1. The Difficulty of Harmonizing European Design Law .....	524
2. The Community Design Directive .....	525
3. The Community Design Regulation .....	526

a. Unregistered Design Patents.....	526
III. Legal Protections for Industrial Design under U.S. Law .....	528
A. U.S. Copyright, Patent and Trademark Law.....	529
1. Design Patents.....	529
2. Copyright Law .....	531
a. Mazer v. Stein.....	531
b. Copyright Act of 1976.....	532
3. Trademark Law Protections.....	533
a. Trademarks .....	533
b. Trade Dress.....	533
B. Laws Specific to Design Industries .....	534
1. Architectural Works, Semiconductors and Vessel Hulls .....	534
2. Proposed Legal Protections for Fashion Design.....	536
IV. Redesigning U.S. Law to Properly Protect Industrial Design.....	537
A. The Issues .....	537
1. Design Piracy Affects All Designers .....	537
2. Current U.S. Legal Protections for Design Lack Coherence .....	538
B. Goals of a Redesign of the Law.....	539
1. Balance and Limited Protection.....	539
2. No Registration Requirement .....	541
3. Flexible Types of Protection.....	541
4. Originality and Remedies .....	542
V. Conclusion .....	543

### Introduction

Empirical research tells us that “[d]esign-led companies have produced dramatically better share-price performance for their investors.”<sup>1</sup> Outside the U.S., there is starting to be an appreciation of the importance of design to the economy with a variety of scholarly articles and government reports noting the link between economic performance and good design.<sup>2</sup> “There is little doubt that design is a vital

<sup>1</sup> Design Council, *The Impact of Design on Stock Market Performance*, DESIGN COUNCIL (July 2005), [http://www.designcouncil.org.uk/documents/documents/publications/design%20Index%202005\\_Design\\_council.pdf](http://www.designcouncil.org.uk/documents/documents/publications/design%20Index%202005_Design_council.pdf); see also Julie H. Hertenstein, Majorie B. Platt & Robert W. Veryzer, *The Impact of Industrial Design Effectiveness on Corporate Financial Performance*, 22 J. PROD. INNOV. MGMT. 3-21 (2005) (finding that firms rated as having “good” design were stronger on all measures except growth rate).

<sup>2</sup> See, e.g., Design Council, *supra* note 1, at 5 (reporting the relationship between the use of design and share price performance of UK–FTSE quoted companies); Hertenstein et al., *supra* note 1, at 4 (introducing research conducted by Dutch authors on relationship between industrial design and company performance).



component for economic prosperity.”<sup>3</sup> In the U.S., in contrast to all European and the majority of other countries around the world, the legal system provides no specific protection for market entry design.<sup>4</sup> A few, very innovative, designs may qualify for patent protection, trademarks can sometimes be used to protect the shape of a design that has acquired secondary meaning, and—under certain conditions—the creative portions of a design, if separable from its functional aspects, may qualify for copyright protection, but there is no legal protection for design *per se*.<sup>5</sup> Critics have suggested that the U.S. system is hostile to design innovation and that this is one of the reasons why American companies have often ceded innovation, and relinquished customers, to better European-designed products.<sup>6</sup> Part of this hostility to design is seen in the legal system’s lack of recognition of design as worthy of protection on its own merits.

In the U.S., the lack of legal protection for market-entry design does not stem from the fact that Congress has never considered providing legal protection for design. There have been numerous attempts over the years to pass a design law.<sup>7</sup> Most recently, fashion designers have taken up the cause, claiming that fashion design piracy has become a “blight that affects all who depend on the U.S. fashion industry.”<sup>8</sup> The Council of Fashion Designers of America (CFDA) has lobbied actively for several years now for the passage of U.S. legislation that would provide a copyright-like protection for fashion designs.<sup>9</sup> Fashion designers argue that such legislation is essential to protect their industry from rampant copying.<sup>10</sup> However, thus far fashion designers have not enjoyed any more success than earlier designers

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<sup>3</sup> James Moultrie & Finbarr Livesey, *International Design Scoreboard: Initial Indicators of International Design Capabilities*, DESIGN COUNCIL (2009), [http://www.designcouncil.org.uk/Documents/Documents/Publicaitons/Research/InternationalDesign Scoreboard.pdf](http://www.designcouncil.org.uk/Documents/Documents/Publicaitons/Research/InternationalDesign%20Scoreboard.pdf)

<sup>4</sup> See, e.g., David Goldenberg, *The Long and Winding Road: A History of the Fight Over Industrial Design Protection in the United States*, 45 J. COPYRIGHT SOC’Y U.S.A. 21–22 (1997) (stating that good American design generally goes unrewarded).

<sup>5</sup> *Infra* Section IIIA.

<sup>6</sup> JOHN HESKETT, *TOOTHPICKS AND LOGOS: DESIGN IN EVERYDAY LIFE* 32 (Oxford University Press 2002).

<sup>7</sup> See Goldenberg, *supra* note 4, at 25 (stating that designers have sought legislation protecting design since 1898).

<sup>8</sup> *Design Piracy Prohibition Act: A Bill to Provide Protection for Fashion Design: Hearing on H.R. 5055 Before the Subcomm. on Courts, the Internet, and Intellectual Property of the H. Common the Judiciary*, 109th Cong. 9 (2006) [hereinafter *H.R. 5055 Hearings*] (statement of Jeffrey Banks, Designer).

<sup>9</sup> See, e.g., Innovative Design Protection and Piracy Prohibition Act, H.R. 2511, 112th Cong. (2011) [hereinafter IDPPPA] (a bill to amend Title 17, United States Code, to extend protection to fashion design and for other purposes); S. 3728, 111th Cong. (2010) [hereinafter S. 3728] (a bill for the same purposes); H.R. 2196, 111th Cong. (2009) [hereinafter H.R. 2196] (a bill for the same purposes).

<sup>10</sup> Ben Winograd & Cheryl Lu-Lien Tan, *Style & Substance: Can Fashion Be Copyrighted?—Designers Want to Halt Knockoffs But Some Say They Spur Sales; Few People Can Spend \$4,000*, WALL ST. J., Sept. 11, 2006, at B1.

in securing legal protection for their designs.<sup>11</sup> Most recently, on July 15, 2011, the Subcommittee on Intellectual Property, Competition and the Internet held a hearing on the newly reintroduced IDPPPA.<sup>12</sup>

This paper discusses the growing importance of industrial design to the global economy and reviews the development of legal protection for industrial design since the early twentieth century in order to put forward three arguments. First, the rise in counterfeiting and design piracy is detrimental to both designers and consumers and requires a legislative response from Congress. Second, a review of international design laws shows some clear areas of agreement emerging in international agreements on the legal principles that should govern the protection of industrial design. Third, a U.S. design protection law can be constructed in the way that will fit comfortably within existing U.S. legal principles and be consistent with the obligations of the U.S. under international design laws.

Part I of the paper evaluates the growing evidence of the importance of industrial design to the global economy. It identifies counterfeiting as the greatest threat for innovative design-intensive industries, which leads to the argument that to provide protection for designers against counterfeiters there is a need for short-term legal protection from copying. Part II focuses on the history and development of the various concepts underpinning legal protections for industrial design. It briefly traces the chronology of international efforts to define and protect industrial design and considers in more depth the relatively recent EU attempts to harmonize design laws in Europe, especially the adoption of the unregistered design right. It demonstrates that there is, in fact, a slowly developing international consensus on several aspects of legal protection for industrial design. Part III explores the unsatisfactory and piecemeal manner in which protection for industrial design is currently provided by U.S. law. It explains the shortcomings of each type of legal protection and briefly addresses some of the problems with the fashion lobby's various fashion design law proposals. Part IV of the article proposes that the U.S. provide an unregistered limited protection against copying for all market-entry industrial design following the principles of protection found in international law, and especially in key aspects of the European unregistered design right. The paper argues that this new law would benefit society, consumers and designers.

## I. Industrial Design

### A. What is Industrial Design?

Industrial design as a term originated in the early 20th Century with German architect Peter Behrens, credited as being the first industrial designer.<sup>13</sup> The Patent

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<sup>11</sup> See Goldenberg, *supra* note 4, at 26 (stating that designers have never managed to secure the passage of any major design protection reform).

<sup>12</sup> IDPPPA: *Hearing on H.R. 2511 Before the Subcomm. On Intellectual Property, Competition, and the Internet of the H. Comm. on the Judiciary*, 112th Cong. (2011).

Office first used the term industrial designer in 1913.<sup>14</sup> “A design is hard to define but is easily described.”<sup>15</sup> According to the International Council of Societies of Industrial Design (ICSID) “[d]esign is a creative activity whose aim is to establish the multi-faceted qualities of objects, processes, services and their systems in whole life cycles.”<sup>16</sup> More simply, design is about “shaping products . . . to serve [people’s] needs.”<sup>17</sup> In this article I will refer to the people who shape products in this way as designers, with industrial designers as those who shape all types of mass-produced products.

Before the First World War, manufacturers paid less attention to manipulating the look of a product to attract consumers and more to developing its functional aspects and enhancing its performance.<sup>18</sup> French-born, Raymond Loewy, a fashion illustrator by training, was one of the first people to convince American manufacturers that the appearance of their products mattered; by the transformation of various products, he was able to show that changes to the outward appearance could result in products that were easier to manufacture, cheaper to produce, and more pleasurable to use.<sup>19</sup>

#### B. Industrial Design and Legal Protection

Traditionally, systems of intellectual property protection recognize a split between the different types of protection provided to different creative endeavors.<sup>20</sup> In the simplest terms, patents protect innovation whereas copyright protects creative expression. This divisive view of the major intellectual property rights has been criticized.<sup>21</sup> The criticism is especially valid for design. A 2005 Report on creativity in Britain for the U.K. government described design as the process that

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<sup>13</sup> TERENCE CONRAN, *TERENCE CONRAN ON DESIGN* 197 (Overlook Press 1996).

<sup>14</sup> *IDSIA Overview*, IDSIA, <http://www.idsa.org/idsa-overview> (last visited Mar. 2, 2012).

<sup>15</sup> Orit Fischman Afori, *Reconceptualizing Property in Designs*, *CARDOZO ARTS & ENT. L.J.* 1105, 1107 (2008).

<sup>16</sup> *Definition of Design*, INT’L COUNCIL OF SOCIETIES OF INDUS. DESIGN, <http://www.icsid.org/about/about/articles31.htm> (last visited Mar. 2, 2012).

<sup>17</sup> *CARNEGIE MELLON SCHOOL OF DESIGN*, [http://www.design.cmu.edu/show\\_program.php?s=1](http://www.design.cmu.edu/show_program.php?s=1) (last visited Mar. 2, 2012) (“[W]e believe design to be a humanistic discipline: the art of conceiving, planning and shaping products that are made to serve people in answer to their individual and collective needs and desires.”).

<sup>18</sup> Richard G. Frenkel, *Intellectual Property in the Balance: Proposals for Improving Industrial Design Protection in the Post-TRIPS Era*, 32 *LOY. L.A. L. REV.* 531, 531 (1999).

<sup>19</sup> CONRAN, *supra* note 13, at 195.

<sup>20</sup> *See* Afori, *supra* note 15, at 1117 (describing the division of intellectual property law into pigeonholes).

<sup>21</sup> *See* Gideon Parchomovsky & Peter Siegelman, *Towards an Integrated Theory of Intellectual Property*, 88 *VA. L. REV.* 1455, 1455 (2002) (analogizing the current intellectual property theory as six blind persons discerning the shape of an elephant).

“links creativity and innovation.”<sup>22</sup> This definition helps explain why the underpinnings of legal protection for industrial design are so complicated.

As an industrial process that concerns the creativity and the aesthetics of utilitarian objects, industrial design is particularly hard to categorize under either a patent or copyright scheme of protection. Whether design is primarily about aesthetics, technical function, or both, causes dispute even among industrial designers themselves.<sup>23</sup> The design of an object can also be used by the designer to indicate a particular source of manufacture, traditionally the subject of yet another intellectual property regiment, trademark protection. The design of iPod® and Coke® bottles both illustrate this use of design.

In the U.S., design is primarily protected as a sub-category of patent law.<sup>24</sup> However, because of the high standard of novelty required to obtain a design patent, the majority of new market-entry designs are not protected by the U.S. legal system. In most other legal regimes, design is now treated as a species of copyright and provided with a limited copyright-like protection.<sup>25</sup> Over time, the positions taken by some countries on how and what industrial design to protect have shifted.<sup>26</sup> Despite the lack of international consensus on the type and standards of protection most suited for design, some commonalities in approach are developing which, it is argued later in this paper, could be used to inform a clearer and more conceptually consistent protection for market-entry industrial design under U.S. law.<sup>27</sup>

Apart from the question of where designs fits on the patent, copyright, and trademark paradigm,<sup>28</sup> legal systems have also struggled with several other important questions concerning the protection of designs. These include the standard of creativity required for a design to be protected, whether both the functional and artistic features of a design deserve protection, and where the legal protection for industrial design should intersect with the protection provided to fine art and other

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<sup>22</sup> George Cox, *The Cox Review of Creativity in Business: Building on the UK's Strengths*, LONDON: HM TREASURY (2005), [http://www.hm-treasury.gov.uk/coxreview\\_index.htm](http://www.hm-treasury.gov.uk/coxreview_index.htm).

<sup>23</sup> Eric Setliff, *Copyright and Industrial Design: An "Alternative Design" Alternative*, 30 COLUM. J. L. & ARTS 49, 51–52 (2006).

<sup>24</sup> See J. H. Reichman, *Past and Current Trends in the Evolution of Design Protection Law*, 4 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 387, 388 (1993) (stating that the United States adheres to a full patent approach with protecting design).

<sup>25</sup> Daniel H. Brean, *Enough is Enough: Time to Eliminate Design Patents and Rely on More Appropriate Copyright and Trademark Protection for Product Designs*, 16 TEXAS INTELL. PROP. L.J. 325, 372 (2008).

<sup>26</sup> J. H. Reichman, *Design Protection in Domestic and Foreign Copyright Law: From the Berne Revision of 1948 to the Copyright Act of 1976*, 1983 DUKE L.J. 1143, 1169 (1983).

<sup>27</sup> *Infra* Section II.

<sup>28</sup> Afori, *supra* note 15, at 1116.

artistic works by copyright law. These questions will be developed and addressed in Part II.

### C. The Importance of Industrial Design and the Global Economy

#### 1. *Industrial Design and Modern Consumer Culture*

Design is becoming increasingly important in modern life.<sup>29</sup> It is no accident that the top global companies are also design leaders in their respective fields.<sup>30</sup> In the crowded modern consumer culture, “[d]esign is the only thing that differentiates one product from another in the marketplace.”<sup>31</sup>

Industrial design allows a company to distinguish its goods and services from the competition in an interconnected global market where many different products constantly compete for the consumers’ attention. There is strong evidence that good design can achieve goals as varied as improving health, creating environmental benefits and even affecting the results of elections.<sup>32</sup>

Designers are now employed in virtually every industry to create “eye-appeal” for products and to differentiate between the many products in a crowded market to attract consumers. One only has to consider the success of design icons like the iPod® and related products to conclude that the process of design is important in selling products. There are other MP3 players on the market, yet the iPod® continues to be a top seller, at least in part because of its eye-pleasing and functional design. Good, well-constructed design benefits consumers by making products aesthetically pleasing and often of higher quality.<sup>33</sup> The economic argument in favor of a company expending resources on design is that market efficiency is increased when design improvement sparks competition between manufacturers of goods.<sup>34</sup>

In a consumer society where the consumption of goods is no longer based on necessity alone, but on a whole host of sociological and psychological factors,<sup>35</sup> design provides many less-quantifiable benefits to both the consumer and the market as a whole. Designs allow a consumer to differentiate himself from others in his design choices. The design not only serves as a communicator of the objective attributes of the product (what it can do), but it also communicates information like cultural values (e.g., taste, style), and even social values (e.g. environmentally sus-

<sup>29</sup> See DANIEL H. PINK, *A WHOLE NEW MIND* 84 (2005) (arguing that better design of the ballots could have changed the result of the presidential election in 2000).

<sup>30</sup> Ravi Sawhney & Deepa Prahalad, *The Role of Design in Business*, BUSINESSWEEK, Feb. 1, 2010, available at [http://www.businessweek.com/innovate/content/jan2010/id20100127\\_743970.htm](http://www.businessweek.com/innovate/content/jan2010/id20100127_743970.htm).

<sup>31</sup> TOM PETERS, *RE-IMAGINE! BUSINESS EXCELLENCE IN A DISRUPTIVE AGE* 134 (2003).

<sup>32</sup> PINK, *supra* note 29, at 82–83.

<sup>33</sup> Afori, *supra* note 15, at 1111.

<sup>34</sup> *Id.*

<sup>35</sup> *Id.* at 1112.

tainable design). In addition to providing these indicators of choice to consumers, the attributes of design allow producers to segment the market and potentially increase profits.<sup>36</sup> Automobiles, for example, are primarily useful objects to move people and their possessions, but they tend to have significance and meaning imputed to them which goes far beyond their utility. Cars act as a symbol of their owner's lifestyle and aspirations.<sup>37</sup> These are all reasons for providing legal protection to encourage the investment required to create good industrial design.

## 2. *The Link between Industrial Design and Global Competitiveness*

According to a variety of studies, “[d]esign is increasingly being recognized as important for national competitiveness” in the global economy.<sup>38</sup> Certainly governments, particularly in Europe and Asia,<sup>39</sup> as well as some corporations,<sup>40</sup> are becoming considerably more aware of the effects of design on market performance. Although comparable data on national design industries are relatively hard to collect, thus making reliable comparisons between nations difficult, several studies have linked business success to the use of design.<sup>41</sup> Design can create new markets, providing consumers with something they did not know was missing, from ring tones to medical devices.<sup>42</sup> Companies like GE and P&G are trying to transform their processes so that design-led innovation helps them create new products and new markets.<sup>43</sup>

In a study by the U.K. Design Council, companies that were “effective users of design” outperformed the U.K. stock market (FTSE 500 index) by more than 200% between 1994 and 2004.<sup>44</sup> The study selected companies for inclusion in the “design portfolio” primarily on the basis of their being nominated for and winning design-related awards.<sup>45</sup> The study concluded that companies which focused on product design not only substantially outperformed their competitors during good economic times, they also fared significantly better during economic downturns and recovered market share more quickly.<sup>46</sup> A U.S. study published in 2005 confirmed

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<sup>36</sup> *Id.* at 1112–13.

<sup>37</sup> HESKETT, *supra* note 6, at 44–45.

<sup>38</sup> Moultrie & Livesey, *supra* note 3, at 14.

<sup>39</sup> See, e.g., DESIGN COUNCIL, *supra* note 1, at 5 (finding effects of design on market performance for UK companies).

<sup>40</sup> Venessa Wong, *How Business Is Adopting Design Thinking*, BUSINESSWEEK, Nov. 3, 2009, available at [http://www.businessweek.com/innovate/content/sep2009/id20090930\\_853305.htm](http://www.businessweek.com/innovate/content/sep2009/id20090930_853305.htm).

<sup>41</sup> *Id.*

<sup>42</sup> PINK, *supra* note 29, at 79–81.

<sup>43</sup> Wong, *supra* note 40.

<sup>44</sup> DESIGN COUNCIL, *supra* note 1, at 5.

<sup>45</sup> *Id.*

<sup>46</sup> *Id.*

that “good industrial design is related to corporate financial performance and stock market performance even after considering expenditures on industrial design”.<sup>47</sup> In other words, design pays for itself.

Some critics have suggested that the hostility of the U.S. legal environment to protecting design innovation explains why American companies like GM have focused comparatively little on design.<sup>48</sup> U.S. car companies have lost market share to car companies from Germany and Japan because, although American automakers employ designers to style the outward appearance of their cars, they do not pay the same close attention as German and Japanese manufacturers to a holistic notion of design and product quality.<sup>49</sup> BMW understands the importance of design. A representative of that company has described its automobiles not as cars but as “moving works of art that express the driver’s love of quality.”<sup>50</sup>

### 3. Government Policy and Design

The effect of government policy on industrial design has not been lost on newly industrialized countries. These countries—particularly those in Asia—which have long competed globally on the basis of low cost manufacturing, have started to compete with the advanced industrialized nations increasingly on the basis of design and innovation.<sup>51</sup> “China, for example, is putting a huge amount of effort and resources into building an indigenous design capability.”<sup>52</sup> At the 2008 International Design Excellence Awards (IDEA) for the best global designs, although the U.S. came in first overall in number of awards, its lead was narrowed; designers from South Korea, China, Europe and Latin America all increased their shares.<sup>53</sup> South Korea was also highlighted by the U.K. Treasury’s Cox Review as a nation whose government has determined to increase its competitiveness in industrial design by aggressively committing resources towards establishing the country as a design hub within East Asia.<sup>54</sup> As if to confirm this commitment, at the 2009 IDEA awards Samsung Electronic (a Korean company) was the top corporate winner of design awards—ousting Apple from that position.<sup>55</sup> The IDEA awards for 2010

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<sup>47</sup> Hertenstein et al., *supra* note 1, at 3.

<sup>48</sup> Goldenberg, *supra* note 4, at 21–22.

<sup>49</sup> HESKETT, *supra* note 6, at 32.

<sup>50</sup> PINK, *supra* note 29, at 79.

<sup>51</sup> Cox, *supra* note 22, at 6.

<sup>52</sup> *Id.* at 7.

<sup>53</sup> Bruce Nussbaum, *The Best Global Design of 2008*, BUSINESSWEEK, July 17, 2008, available at [http://www.businessweek.com/magazine/content/08\\_30/b4093044731823.htm?](http://www.businessweek.com/magazine/content/08_30/b4093044731823.htm?)

<sup>54</sup> Moultrie & Livesey, *supra* note 3, at 48.

<sup>55</sup> Helen Walters, *IDEA 2009: Designing a Better World*, BUSINESSWEEK, July 29, 2009, available at [http://www.businessweek.com/innovate/content/jul2009/id20090727\\_885997.htm](http://www.businessweek.com/innovate/content/jul2009/id20090727_885997.htm).

and 2011 show many design schools, companies, and consultants from outside the U.S. winning increasing numbers of awards.<sup>56</sup>

In Europe, governments have had design policies for decades.<sup>57</sup> European countries have endeavored, by various means and with varying degrees of success, to promote design and emphasize its economic and cultural role in modern society.<sup>58</sup> These governments have become particularly concerned recently about the impact of competition from the newly industrializing countries in the area of creativity and innovation (which are viewed as traditional areas of European strength) and various reports have suggested solutions to assist European businesses in improving their design capabilities to become more competitive globally.<sup>59</sup> Even in the U.S., which has never had a specific design policy or a focus on design as a competitive strength in the global economy,<sup>60</sup> the private sector clearly recognizes the importance of branding and the design services sector to the economy.<sup>61</sup> This is a particularly important lesson for European and American firms which cannot compete with the labor costs of their Asian rivals.

#### 4. *Current U.S. Focus on Protecting Fashion Design*

This article looks beyond the current narrow focus, in the U.S. at least, of lobbyists, legislators, and academics on the legal protection of fashion design. It concurs with the fashion design lobby that U.S. law has significant shortcomings when it comes to the protection of design, but it does not agree with the fashion lobbyists' limited suggestions for fixing the problem. The U.S. legal regime on design already lacks coherence and clarity. Additionally, the fashion proposals are examples of self-interested legislation which, while they may benefit some members of the fashion industry, will do nothing to ensure the law balances the needs of industrial designers and their customers.

The author believes that useful lessons could be learned from the treatment of design protection in international treaties like the World Trade Organization's Trade Related Aspects of Intellectual Property Agreement<sup>62</sup> and other efforts to

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<sup>56</sup> See generally, IDEA Awards, IDSA, <http://www.idsa.org/awards> (last visited Mar. 2, 2012) (giving American companies such as Boeing and Windows the coveted "Best in Show" title at the 2011 awards ceremony).

<sup>57</sup> HESKETT, *supra* note 6, at 180.

<sup>58</sup> *Id.* at 181.

<sup>59</sup> See Cox, *supra* note 22, at 9 (mentioning the Dutch and Finnish approach).

<sup>60</sup> HESKETT, *supra* note 6, at 184.

<sup>61</sup> Moultrie & Livesey, *supra* note 3, at 3. Hertenstein, *supra* note 1.

<sup>62</sup> Agreement on Trade-Related Aspects of Intellectual Property Rights, Apr. 15, 1994, Annex IC, Legal Instruments—Results of the Uruguay Round vol. 31 (1994), arts. 25-26, 33 I.L.M. 1197, 1207 (1994) [hereinafter TRIPS].



harmonize laws on design, such as the European Union's recent experience with its member states' industrial design laws.<sup>63</sup>

An analysis of the development of industrial design protection internationally will demonstrate that Congress should not focus on protecting a single industry—such as fashion—from design copying; rather, it should create a coherent, unified approach to the protection of all industrial design. Discussing the lack of legal protections for industrial designs, Register Fischer of the U.S. Copyright Office stated prophetically over fifty years ago, “if nothing is done the problem will increase in complexity . . . the matter has become so urgent that we should deal with it promptly before we find vested interests in different industries involved . . . .”<sup>64</sup>

The discussion concerning whether fashion design merits special legal protection has generated a vast amount of debate among legal scholars in recent years.<sup>65</sup> On the one hand, there are arguments that the industry shows little sign of blight,<sup>66</sup> and has thrived, at least in part, because of the lack of legal protections, or “low-IP equilibrium.”<sup>67</sup> On the other hand are the arguments that the new technologies of copying and the effects of various other changes in the fashion business mean that the original designers are being denied the economic fruits of their creative labors.<sup>68</sup>

<sup>63</sup> Susanna Monseau, *European Design Rights: A Model for Protection of All Designers from Piracy*, 48 AM. BUS. L.J. 27 (56-66) (2011).

<sup>64</sup> See Reichman, *supra* note 26, at 1200 (quoting testimony of Arthur Fisher, Register of Copyright, Hearings on S. 2075 and S. 2852 before the Subcomm. on Patents, Judiciary, 86th Cong., 2d Sess. 56) (1960).

<sup>65</sup> See, e.g., Kal Raustiala & Christopher Sprigman, *The Piracy Paradox: Innovation and Intellectual Property in Fashion Design*, 92 VA. L. REV. 1687 (2006) (discussing the apparel fashion industry's low-IP equilibrium); Lynsey Blackmon, *The Devil Wears Prado: A look at the Design Piracy Prohibition Act and the Extension of Copyright Protection to the World of Fashion*, 35 PEPP. L. REV. 107 (2007) (discussing the current state of protection for fashion design and the possible effects of enacting copyright legislation); Lisa J. Hendrick, *Tearing Fashion Design Protection Apart at the Seams*, 65 WASH. & LEE L. REV. 215 (2008) (cautioning against additional protections for fashion designs due to the potential of the protections to harm, rather than help, fashion designers); Matthew S. Miller, *Piracy in Our Backyard: A Comparative Analysis of the Implications of Fashion Copying in the United States for the International Copyright Community*, 2 J. INT'L MEDIA & ENT. L. J. 133 (2008) (discussing the impact of the current status of copyright protection for fashion designers in the U. S. has on the international copyright community); C. Scott Hemphill & Jeannie Suk, *The Law, Culture and Economics of Fashion*, 61 STAN. L. REV. 1147 (2009) (discussing a new model of consumer and producer behavior that leads the authors to favor greater protection against close copying of fashion designs).

<sup>66</sup> See Raustiala & Sprigman, *supra* note 65, at 1734 (discussing theory that fashion practices derive from IP law allowing open appropriation of design).

<sup>67</sup> *Id.* at 1698–99.

<sup>68</sup> See, e.g., Erika Myers, *Justice in Fashion: Cheap Chic and the IP Equilibrium in the United Kingdom and the United States*, 37 AIPLA Q.J. 47, 55-57 (2009) (detailing the changes in the dynamics of the industry including the change in the business model of high-end designers and the overlap in customer base between high-end designers and cheap chic).

Another group of scholars has concentrated on the protection of industrial design, or applied art, generally under American law.<sup>69</sup> Orit Fischmann Afori argues that industrial design enhances market efficiency<sup>70</sup> and is under-protected by U.S. law.<sup>71</sup> Design law has certainly been updated much less frequently than other areas of intellectual property law, following a cyclical pattern without undertaking any significant change since the 1950s.<sup>72</sup> Various legal scholars have argued that the piecemeal legal protection for design under U.S. law has significant shortcomings.<sup>73</sup> This paper focuses on explaining the changing dynamics of industrial design to argue that all market-entry industrial design should have a limited protection under U.S. law.

#### D. The Problem is Counterfeiting

Commentators have been warning for years that “counterfeiting is endemic” in the field of design.<sup>74</sup> The boost to earnings which companies gain from well-designed products is a lead which is very vulnerable to copying and may be lost to sales of counterfeit goods.<sup>75</sup> Counterfeit activity has actually risen dramatically in recent years.<sup>76</sup> Several government and international reports have recognized that one of the biggest threats to the creativity and innovation advantage that industrial design can provide to a corporation is the increasing ease with which counterfeit goods can be quickly and cheaply produced—often in the newly industrializing countries such as China—and traded all over the world.<sup>77</sup>

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<sup>69</sup> See generally Afori, *supra* note 15 (describing industrial design as a situated at a crossroads of “art, technology, and the entire industry dedicated to attracting the consumer’s attention”); Goldenberg, *supra* note 4 (discussing the “breadth of impact that the lack of effective design protection has had on American industry”); Perry J. Saidman, *The Crisis in the Law of Designs*, 89 J. PAT. & TRADEMARK OFF. SOC’Y 301 (2007) (arguing that the law of designs is in a state of crisis); Breaun, *supra* note 25 (arguing that patents on designs “should be phased out of existence”); Setliff, *supra* note 23 (arguing for a new method for determining the copyrightability of industrial design).

<sup>70</sup> Afori, *supra* note 15, at 1111.

<sup>71</sup> *Id.* at 1118.

<sup>72</sup> See Reichman, *supra* note 24, at 388–9 (describing the cyclical pattern of periods of under-protection followed by periods of over-protection).

<sup>73</sup> See, e.g., Afori, *supra* note 15 (discussing how the major legal paths for protecting industrial design in the U.S. actually leads to only partial protections for some designs and no protection for other designs); Saidman, *supra* note 69 (arguing that current copyright law fails to protect against the copying of industrial designs); Setliff, *supra* note 23 (discussing the ambiguity within the legislative history of the Copyright Act and the uneven application of the Act by the courts).

<sup>74</sup> Reichman, *supra* note 26, at 1164.

<sup>75</sup> *The Economic Impact of Counterfeiting and Piracy: Executive Summary (2008)*, OECD, <http://www.oecd.org/dataoecd/57/27/44088872.pdf> (“Counterfeit and pirated products crowd genuine products out of the market, lowering the market share of the rights holder, putting downward pressures on prices.”).

<sup>76</sup> See *id.* (using the term for multiple purposes throughout the report).

<sup>77</sup> EU Customs, Report on Community Customs Activities on Counterfeit and Piracy 2 (2007) [http://ec.europa.eu/taxation\\_customs/resources/documents/customs/customs\\_controls/counterfeit\\_piracy/statistics2007.pdf](http://ec.europa.eu/taxation_customs/resources/documents/customs/customs_controls/counterfeit_piracy/statistics2007.pdf). [hereinafter EU Customs Report on Counterfeit and Piracy].

The term “counterfeit” is often used in the U.S. to denote goods which infringe the trademark of another; however, the Organisation for Economic Co-operation and Development (OECD) Report on the Economic Impact of Counterfeiting uses the term for a range of activities which infringe trademarks, copyrights, patents and design rights, as well as a bundle of other intellectual property rights.<sup>78</sup> For the purposes of our discussion, the term will be used in the same way as in the OECD Report.

### 1. *Reasons for Rise in Counterfeiting*

Counterfeit producers are greatly assisted today by instantaneous global communication and ready access to well-equipped modern factories in China and other newly-industrialized Asian countries.<sup>79</sup> China’s rate of increase in R&D is the highest in the world.<sup>80</sup> Its leaders are building China as a high investment, high level of skills, low cost base economy.<sup>81</sup> According to the Design Business Association, “[t]he new economies have fantastic factories but don’t know what to make.”<sup>82</sup> While IPR protection is improving in China, the command economic model has traditionally placed little importance on legal rights, especially intellectual property protections. These conditions have caused China to become the largest single source economy for counterfeit goods.<sup>83</sup> Asia produces a staggering two-thirds of all counterfeit goods seized in international trade.<sup>84</sup>

In one other indication of the counterfeiting trend and its legal impact, the last few years have seen numerous lawsuits in many jurisdictions against the online marketplace eBay by luxury goods manufacturers (common targets of design piracy). eBay’s own estimates, in defending a lawsuit by Tiffany, put the percentage of goods sold on eBay labeled as originals of designer goods which were, in fact, counterfeits, at 30%.<sup>85</sup> All of the lawsuits claimed that eBay had, by its practices, enabled the global counterfeit industry to flourish,<sup>86</sup> and although these lawsuits

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<sup>78</sup> OECD, *Magnitude of Counterfeiting and Piracy of Tangible Products: An Update* (Nov 2009), [www.oecd.org/dataOecd/57/27/4408872.pdf](http://www.oecd.org/dataOecd/57/27/4408872.pdf).

<sup>79</sup> Cox, *supra* note 22.

<sup>80</sup> *Id.* at 6.

<sup>81</sup> *Id.*

<sup>82</sup> *Id.* at 8.

<sup>83</sup> See *The Economic Impact of Counterfeiting and Piracy*, *supra* note 75, at 13 (describing China as being the largest source economy in Asia, which is the largest source of counterfeit and pirated products).

<sup>84</sup> *Id.*

<sup>85</sup> *Tiffany v. eBay*, 576 F. Supp. 2d 463, 486 (S.D.N.Y. 2008).

<sup>86</sup> See Sofia H. Ahmed, *Life, Liberty, and the Pursuit of Luxury: eBay’s Liability for Contributory Trademark Infringement in the United States, Germany, and France*, 5 B.Y.U. INT’L L. & MGMT. REV. 247, 248 (2009).

have met with widely divergent results,<sup>87</sup> they do illustrate the extent of the global problem of counterfeiting, and the harm it causes to design-intensive industries.

The next section reviews the harms of counterfeiting as described in three recent reports on the topic by the OECD,<sup>88</sup> the Department of Justice Taskforce on Intellectual Property,<sup>89</sup> and European Union Customs.<sup>90</sup>

## 2. Harms of Counterfeit Goods

### a. The OECD Report

A comprehensive study prepared by the OECD, based on data from customs seizures of counterfeit goods in OECD countries, assesses the magnitude and effects of counterfeiting and piracy. It catalogs three types of harm produced by the sale of counterfeits: harms to society as a whole, harms to intellectual property rights holders, and harms to consumers and governments.<sup>91</sup> The report concludes that the effects of piracy are so significant “that they compel strong and sustained action from government, businesses and consumers”.<sup>92</sup>

According to the OECD, the socio-economic effects of counterfeiting on society are to decrease innovation, employment, foreign direct investment, and trade and economic growth, while simultaneously increasing criminal activity and harm to the environment.<sup>93</sup> In connection with these harms, the report notes differences in these economy-wide effects in different industrial sectors. The risks for innovators are particularly high, for example, where research and development costs are high.<sup>94</sup> For some industries, the level of counterfeit activity is relatively important, while for others it is a minor consideration. Foreign direct investment from the U.S., Germany, and Japan has been found to be higher generally in economies with lower rates of counterfeiting, although the report cautions that this analysis is based on a limited dataset.<sup>95</sup> The report notes a similar caution with regard to its finding that the types of product traded between countries are influenced by counterfeiting.<sup>96</sup> While counterfeiting and piracy transfer economic rents to all types of parties engaged in illegal activity, the effects of counterfeiting on the environment are

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<sup>87</sup> *Id.*

<sup>88</sup> *The Economic Impact of Counterfeiting and Piracy*, *supra* note 75.

<sup>89</sup> Department of Justice, Progress Report of Task Force on Intellectual Property (2006), [http://www.justice.gov/criminal/cybercrime/2006IPTFProgressReport\(6-19-06\).pdf](http://www.justice.gov/criminal/cybercrime/2006IPTFProgressReport(6-19-06).pdf). [hereinafter DOJ Report].

<sup>90</sup> EU Customs Report on Counterfeit and Piracy, *supra* note 77.

<sup>91</sup> *The Economic Impact of Counterfeiting and Piracy*, *supra* note 75, at 6.

<sup>92</sup> *Id.* at 4.

<sup>93</sup> *Id.* at 17.

<sup>94</sup> *Id.*

<sup>95</sup> *Id.* at 17–18.

<sup>96</sup> *Id.* at 18.

especially deleterious in industries like the chemical industry where many products can have environmentally damaging consequences.<sup>97</sup>

For rights holders and creators, counterfeit goods have a deleterious effect on sales volume and prices, royalties, brand value and firm reputation, investment and the cost to companies of combating piracy, the scope of operations, and consumer utility.<sup>98</sup> The report notes two types of sales lost to counterfeiters: those lost from consumers who believe that they are purchasing a genuine product, and those lost from consumers who are knowingly purchasing a lower-priced counterfeit.<sup>99</sup> Counterfeits damage the brand image and reputation, particularly where consumers believe they are buying a genuine product.<sup>100</sup> Counterfeits of luxury goods tend to make the goods less desirable.<sup>101</sup> Respondents to the OECD industry survey mentioned instances where “losses in brand value due to piracy had driven companies out of business or reduced their scale of operations”.<sup>102</sup>

The OECD Report notes that there are also effects of counterfeiting and piracy on government and consumers which come in the form of lost tax revenues and the cost of anti-counterfeit activities, including responding to public health and safety consequences and corruption.<sup>103</sup> Concerns over health and safety appear frequently in OECD survey responses, particularly in the automotive, food and drink, chemicals, pharmaceuticals and toiletry and household products industries.<sup>104</sup> Counterfeiters have little interest in ensuring quality, safety, or performance of their products.<sup>105</sup>

The OECD initially estimated cross border trade in counterfeit goods at \$200 billion, but it recently increased its estimate of the total cost to the world economy of international trade in counterfeit and pirated goods to \$250 billion.<sup>106</sup> The report concedes that there is little research and a lack of data on counterfeit activity.<sup>107</sup> The fragmentary nature of the information makes it difficult for “stakeholders to assess the situation in a comprehensive and coherent fashion”.<sup>108</sup> More and better

<sup>97</sup> *The Economic Impact of Counterfeiting and Piracy*, *supra* note 75, at 17.

<sup>98</sup> *Id.* at 18–19.

<sup>99</sup> *Id.* at 18.

<sup>100</sup> *Id.*

<sup>101</sup> *Id.*

<sup>102</sup> *Id.*

<sup>103</sup> *The Economic Impact of Counterfeiting and Piracy*, *supra* note 75, at 20.

<sup>104</sup> *Id.* at 19.

<sup>105</sup> *Id.*

<sup>106</sup> *Magnitude of Counterfeiting and Piracy of Tangible Products: An Update*, *supra* note 78, at 1.

<sup>107</sup> See *The Economic Impact of Counterfeiting & Piracy*, *supra* note 75, at 21 (“Information on counterfeiting and piracy falls far short of what is needed for rigorous analysis and for policymaking.”).

<sup>108</sup> *Id.* at 9.

information would help governments and businesses develop more effective practices to combat counterfeiting and piracy.<sup>109</sup>

The OECD surveys found that counterfeit goods were being sold in virtually all regional economies. The sales level of counterfeit goods appeared to be higher in less developed countries with these countries also tending to experience significant sales of more common products like automotive parts, tobacco products, and pharmaceuticals.<sup>110</sup> More developed countries tended to have more problems with sales of counterfeit luxury goods—such as designer clothing and upscale watches.<sup>111</sup> Counterfeit electrical goods, toiletries, and household products appeared in markets worldwide.<sup>112</sup> The report noted that the types of products being counterfeited were numerous and growing and that the counterfeiting of even the most common and lower priced products was increasing in developed countries partly because the liberalization of international trade has enabled the counterfeiters to infiltrate legitimate supply chains and partly due the rise of Internet as a place to sell products.<sup>113</sup>

Media reports of dangerous counterfeit consumer goods like toys, personal care products, medicines, and spare parts reaching the market in developed countries,<sup>114</sup> those with supposedly stronger regulatory systems and strong IP protections and enforcement,<sup>115</sup> have recently focused public attention on the increased threat to public health and safety from counterfeits of common consumer products.<sup>116</sup>

#### b. Department of Justice Report

The DOJ Report states that the Office of the United States Trade Representative puts the economic costs of what it describes as “intellectual property theft” to American corporations at \$250 billion per year.<sup>117</sup> This estimate is higher than the OECD estimate but includes domestic as well as international counterfeit activity. According to the Report, “[i]ntellectual property is America’s competitive ad-

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<sup>109</sup> *Id.* at 7.

<sup>110</sup> *Id.* at 13.

<sup>111</sup> *Id.* at 11.

<sup>112</sup> *Id.* at 13.

<sup>113</sup> *The Economic Impact of Counterfeiting and Piracy*, *supra* note 75, at 14.

<sup>114</sup> Goldirova Renata, *Counterfeit Goods Flood Europe*, BUSINESSWEEK, June 1, 2007, available [http://www.businessweek.com/globalbiz/content/jun2007/gb20070601\\_909719.htm](http://www.businessweek.com/globalbiz/content/jun2007/gb20070601_909719.htm).

<sup>115</sup> See *Design Awards: Knocking off the Knock-Offs*, BUSINESSWEEK, March 25, 2009, available at [http://www.businessweek.com/innovate/content/mar2009/id20090325\\_296592.htm](http://www.businessweek.com/innovate/content/mar2009/id20090325_296592.htm) (discussing counterfeit products in the German market).

<sup>116</sup> Renata, *supra* note 114.

<sup>117</sup> Matthew Benjamin, *A World of Fakes: Counterfeit goods threaten firms, consumers, and national security*, U.S. NEWS & WORLD REPORT, Jul. 6, 2003, available at <http://www.usnews.com/usnews/culture/articles/030714/14counterfeit.htm>.

vantage in the global economy of the 21st century”,<sup>118</sup> and the DOJ has made intellectual property enforcement a high priority.<sup>119</sup> The report is mainly focused on the DOJ’s achievements in increasing its criminal prosecutions of IP crime.<sup>120</sup>

The DOJ Report unwittingly demonstrates the lack of specific protection for design under U.S. law. As an example, it describes two types of counterfeit goods: those including the imitation of famous trademarks and those involving the imitation of patented drugs.<sup>121</sup> While the report notes that those buying products with counterfeit trademarks may pay more believing the trademark to be genuine, it is far more concerned with the sale of counterfeit drugs which “pose serious risks to consumers health and safety.”<sup>122</sup> The report makes no mention of the other dangers of sales of counterfeit products like the automotive parts, household products, toys and games mentioned in the OECD report, presumably since many of these products would infringe design rights rather than trademarks or patent rights and so are not caught by the DOJ enforcement efforts.

The DOJ Report describes intellectual property rights as being protected by four types of legal protection: patent, trademark, copyrights, and trade secrets.<sup>123</sup> It does not mention design patents or any type of design protection. It is difficult to know how much of the economic cost of design piracy is actually captured by the report’s figures on intellectual property theft. Design patents may be included in the patent category, and trademark infringing goods (which are counted) will often necessarily include the copying of a product’s design as well as any trademark or other rights, so that it is probable that at least some of the huge economic costs attributed by the DOJ Report to “intellectual property theft” would include losses to designers from the copying of their designs.

The DOJ Report attributes the same main types of direct harm to sales of counterfeit goods as does the OECD. It states that counterfeit goods decrease incentives to create new and innovative products, hurt the economically important, innovative sectors of the economy, as well as threaten public health and safety by persuading consumers to purchase cheaply-produced and sometimes dangerous counterfeits.<sup>124</sup> It also notes that counterfeiting can fund criminal activity and that improvements in technology have increased opportunities for intellectual property theft by making the creation and distribution of counterfeit goods “easier and more

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<sup>118</sup> DOJ REPORT, *supra* note 89, at i.

<sup>119</sup> *Id.* at 1.

<sup>120</sup> *Id.* at 2.

<sup>121</sup> *Id.* at 9–10.

<sup>122</sup> *Id.*

<sup>123</sup> *Id.* at 5.

<sup>124</sup> DOJ REPORT, *supra* note 89, at 13.

anonymous.”<sup>125</sup> After briefly mentioning the harms of counterfeit goods, the majority of the report focuses on the DOJ’s efforts to improve intellectual property enforcement and, particularly its efforts in increasing criminal prosecutions of all types of IP crime.<sup>126</sup> It notes some success in prosecuting of sellers of counterfeit luxury goods like handbags, presumably under trademark law.<sup>127</sup>

### c. EU Customs Report

The EU customs report’s aim is to track customs seizures of counterfeit and pirated goods at EU borders.<sup>128</sup> The customs report does not speculate on the harms produced to the economy by counterfeit activity; rather, it provides details each year of the seizure of goods at EU borders by customs officials. According to the 2008 figures, China continued to be the main source of all counterfeit goods with 54% of the total amount,<sup>129</sup> and the total number of seizures from 2007–2008 of counterfeit goods increased 126%.<sup>130</sup> Counterfeit clothing, CDs, DVDs, and cigarettes continue to head the list of the goods with the greatest number of large seizures.<sup>131</sup> However, seizures of other types of goods—including electronics and personal care goods—are increasing.<sup>132</sup> According to the EU Customs Report, most of these seizures were of trademark infringing goods (only 1.24% of goods seized infringing design rights)<sup>133</sup> but, of course, many goods which infringe a company’s trademarks will also copy its product designs in order to deceive the consumer into believing that they are buying a genuine product.

Most design infringements found by EU customs concerned shoes, but other products where designs were infringed included accessories for cell phones, toys, medicine, and tools.<sup>134</sup> Seizures in the toy’s category were up 136% on the previous year’s figures,<sup>135</sup> demonstrating the increasing problem of counterfeit activity for designers of all industrial products and also the move of counterfeit goods, noted by the OECD report, into common products as well as luxury goods.

Despite the difference in figures, all these recent reports on counterfeiting activity agree that the amount of and the economic costs of counterfeit goods are in-

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<sup>125</sup> *Id.*

<sup>126</sup> *Id.* at 17–35.

<sup>127</sup> *Id.* at 26.

<sup>128</sup> EU Customs Report on Counterfeit and Piracy, *supra* note 77, at 4.

<sup>129</sup> *Id.* at 7.

<sup>130</sup> *See id.* at 8 (reporting a slower increase than the 264% jump in 2006).

<sup>131</sup> *Id.* at 9.

<sup>132</sup> *Id.* at 11.

<sup>133</sup> *Id.* at 19.

<sup>134</sup> *Id.*

<sup>135</sup> *Id.* at 11.



creasing at an alarming rate and the effects of sales of counterfeit goods on the world economy is substantial and growing.<sup>136</sup>

To highlight the problem of design counterfeiting in a different way, a German group has been giving awards since 1977 to the most egregious design knock-offs sold in the German market each year.<sup>137</sup> The organizers of the Plagiarus Awards hope that the media coverage surrounding receipt of an award will deter producers and sellers of counterfeit products from infringing the designs of others.<sup>138</sup> The awards have sometimes achieved this aim, with those nominated often pulling their counterfeit products from the market.<sup>139</sup> However, the deterrent effects of such a venture are necessarily limited to a few infringers targeted in one market each year.

The next section of the paper reviews the theoretical underpinnings, and traces the development of legal protection for industrial design internationally—especially the relatively recent harmonization efforts undertaken by the European Union. Its aim is to show that despite the apparent muddle of laws, and lack of international consensus on the best methods for protecting design, there are some international standards emerging for the protection of industrial design, which, in turn, might guide the development of U.S. law.

## II. The Development of Legal Protection For Industrial Design Internationally

### A. Different Theories of Protection

The intellectual property triumvirate of patents, copyrights and trademarks were not created specifically to protect industrial design, and the extension of laws beyond their original purpose is often problematic and has unintended consequences.<sup>140</sup>

Patent law is designed to provide a relatively short term but very strong monopoly to encourage the development of industrially useful inventions. The strong monopoly it provides would have an anti-competitive effect if available to primarily aesthetic designs, but it is difficult for courts to distinguish the un-protectable functional aspects from the protectable ornamental aspects of a design that includes both.<sup>141</sup>

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<sup>136</sup> *The Economic Impact of Counterfeiting and Piracy*, *supra* note 75, at 14; DOJ REPORT, *supra* note 89, at 13.

<sup>137</sup> *Design Awards*, *supra* note 115.

<sup>138</sup> *Id.*

<sup>139</sup> *Id.*

<sup>140</sup> See Robert C. Denicola, *Freedom to Copy*, 108 YALE L.J. 1661, 1663 (1999) (discussing how trademark threatened the limited protections given to designs by patent and copyright laws).

<sup>141</sup> Afori, *supra* note 15, at 1123.

Copyright law provides a longer time period of protection for merely original—rather than innovative—creative works against copying. Arguably, its protection, while suited to the aesthetic nature of most design, is far longer in duration than necessary or desirable to protect industrial products, especially in fast moving industries that are characterized by lots of derivative works.

Trademark law protects consumers from being misled into buying counterfeit goods and also protects trademark owners from those who would free-ride on their goodwill. Trademarks protect the reputation, particularly of well-known brands, but they do not protect product design specifically. Therefore, to avoid providing monopoly awards for successful designs, trademarks should not provide any protection until a design is well-known and linked in the minds of consumers with a particular design source.<sup>142</sup>

To compound the problems inherent in attempting to squeeze design protection into existing intellectual property schemes, U.S. courts have unfortunately tended to view each type of intellectual property separately rather than part of a larger scheme to protect innovation generally.<sup>143</sup> As designers have tried to fit their requirements for protection into each of the traditional IP frameworks in turn, judges and legislators have found reason to limit the doctrinal expansion of the right, and designers have been frustrated in their attempts to protect their designs.<sup>144</sup>

### 1. *Type of Legal Protection for Industrial Design*

Both in the U.S. and other legal systems, the debate over whether to categorize industrial designs as either belonging to the copyright or industrial property and patent law paradigm has raged since industrial design was recognized as worthy of legal protection.<sup>145</sup>

Patents traditionally protect novelty and inventiveness and encourage the creation of new industrial processes. Industrial property protection is characterized by a short period of monopolistic protection and a registration scheme which is used to assess whether a particular invention is sufficiently novel to merit the monopoly protection and also to serve to provide notice to others of how to make the invention once the monopoly period is over. The view of those who advocate for a patent-like protection for industrial design is that industrial design is primarily about the engineering rather than the aesthetics of a product, so in order to avoid an anti-

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<sup>142</sup> See Denicola, *supra* note 140, at 1670–1672 (stating that “[d]esign features should be protected only when genuinely distinctive of a particular source”).

<sup>143</sup> See Parchomovsky & Siegelman, *supra* note 21, at 1457 (noting that the U.S. Supreme Court intellectual property jurisprudence treats the constituent fields “as discrete and insular”).

<sup>144</sup> See, e.g., Saidman, *supra* note 69, at 303–304 (summarizing the problem of design patent).

<sup>145</sup> Reichman, *supra* note 24, at 388–89.

competitive effect only novel advances in the product's functional features should be protected.<sup>146</sup>

However, much industrial design is about incremental or aesthetic improvement to existing products rather than the creation of completely new products. Designers are usually different than inventors. Their job can be seen as the creation of a better, more functional, aesthetically-pleasing mouse trap rather than the invention of a new mousetrap. It can be argued that design is more about aesthetic expression than function.<sup>147</sup> The obvious problem with using patent law to protect design is that it tends to under-protect new industrial design because few designers can claim to have created a truly new functional product.<sup>148</sup>

A copyright regime, by contrast, is concerned with protecting original expression rather than innovation. It tends to overprotect design because it protects the particular form of the expression of an idea from copying for a relatively long period.<sup>149</sup> Few, if any, formalities are required to obtain copyright protection, but the protection is more limited than the monopoly provided by a patent and can only be used to prohibit imitators and not independent creators. Since a copyright system protects artistic work, there is an argument that copyright is the best regime for protecting design because design “embodies aesthetic expression”.<sup>150</sup>

The main argument that design should be treated in exactly the same manner as other artistic works and protected by copyright law is that judges should not be arbiters of the level of creativity involved in an artistic work. This “unity of art” doctrine, most often strongly linked with French jurisprudence, holds that there “should be no discrimination between useful art and pure art.”<sup>151</sup> A well-designed salt cellar or chair should enjoy protection in the same manner as an object of fine art like a painting or a book. Any artificial distinction in protection based on where or how the product is used should be avoided. This broad approach has the merit of clarity and unambiguousness.<sup>152</sup> Under the “unity of art” doctrine, all designs—irrespective of their form, mode of production, level of creativity, or purpose—would qualify for protection by copyright law.

However, copyright protection provides long term protection: currently, life plus 70 years. If applied to design, it will protect the most mundane of everyday

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<sup>146</sup> *Id.* at 389.

<sup>147</sup> See Setliff, *supra* note 23, at 51 (“[I]ndustrial design actually embodies aesthetic expression to a much greater extent than function.”).

<sup>148</sup> Reichman, *supra* note 24, at 388.

<sup>149</sup> *Id.* at 398.

<sup>150</sup> Setliff, *supra* note 23, at 51.

<sup>151</sup> Afori, *supra* note 15, at 1156.

<sup>152</sup> See *id.* at 1158 (describing how “unity of design” will eliminate the impossible procedure of differentiating between designs).

objects that are only likely to have a shelf life of a few years—or in some cases, mere months—for the full life plus 70 years copyright term. In France, the birthplace of the “unity of art” doctrine, the courts have applied arbitrary rules to deny protection to utilitarian objects, much as the U.S. courts and Congress have done in limiting the application of copyright law for designs in the U.S.<sup>153</sup>

Even when the type of legal protection to be accorded to design is determined, at least three very important questions remain for the legal regime: the standard of creativity required for design protection; whether functional or merely ornamental aspects of the design should be protected; and, if design is to receive something less than full copyright protection, the intersection between the design protection law and copyright law.

## 2. *The Creativity Standard*

The question of the type of protection that the legal regime should provide for industrial design (i.e. protection against any acts inconsistent with ownership or just against copying) raises the related question of what level of creativity is required for industrial designs to be protected. Under a patent regime, the level of creativity required for protection is high; the patent standard is novelty. Only truly new and inventive designs (generally of functional features) are worthy of the protection. The U.S. design patent requires a design to be “new, original and ornamental.”<sup>154</sup>

Under a copyright regime, the level of creativity is lower than that required for patent protection, and there is less need for a pre-registration review of the design. Copyright law requires an “original” work for protections to apply. At the lowest level of originality, this can mean simply that a work originated with the author; that is, it was not copied.<sup>155</sup> Alternatively, originality can require more than “sweat of the brow,” some level of personal involvement of the author and a modicum of creativity. This is generally considered to be the U.S. standard. The judge will not enquire into the artistic merit of the work<sup>156</sup> and the Supreme Court has explained that “the requisite level of creativity is extremely low.”<sup>157</sup> Nothing is required beyond some creative spark, “no matter how crude, humble or obvious it might be.”<sup>158</sup> An even higher—and more subjective—standard of originality is possible. Some copyright regimes require a consideration of whether artistic crea-

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<sup>153</sup> See Reichman, *supra* note 24, at 388 (stating that “[h]istorically, many countries tried to rectify the underprotection characteristic of a full patent model by opening their copyright laws to industrial designs, and France remains the most prominent adherent to this “unity of art” approach”).

<sup>154</sup> 35 U.S.C. § 171 (2006).

<sup>155</sup> See Reichman, *supra* note 26, at n.132 (describing how before the introduction of the unregistered design right in the Copyright Designs and Patents Act 1988, U.K. law protected work without any artistic merit).

<sup>156</sup> *Feist Publ'ns., Inc. v. Rural Tel. Serv. Co.* 499 U.S. 340, 353–355 (1991).

<sup>157</sup> *Id.* at 345.

<sup>158</sup> *Id.* (citing 1 M. NIMMER & D. NIMMER, COPYRIGHT § 1.08 (1990)).

tivity is involved in the creation of the work.<sup>159</sup> Whatever standard of creativity is chosen, any copyright law standard of originality is going to be lower than a patent standard. Thus, more industrial designs will qualify for protection under a copyright standard than under a patent standard.

### 3. *The Aspects of Design which Deserve Protection*

The next important issue relating to whether design is protected by a patent-like or copyright-like regime is the question of whether protection should apply only to the aesthetic parts of the design or should also cover the functional parts of the design. Patent law protects functional aspects of an invention. It provides a monopoly protection which allows the patent owner to control all uses of his invention. Critics have argued that since industrial design concerns incremental and often aesthetic improvements to a product, it would be anticompetitive to provide designers with a protection of functional features.<sup>160</sup>

Copyright protection schemes protect artistic elements but generally exclude protection of purely functional features. Thus, the reproduction of a design affixed to a teacup will be protected by copyright law but not the reproduction of the teacup itself, even of an unusual design, because it is a functional object. The difficulty for most industrial designs—as opposed to art later applied to a useful object—is separating the form from the function of the object. For example, clothing, however creative, must fit the human form.

Fashions change in everything, and the philosophy of the function of industrial design has changed over time. A predominant modern philosophy of design is one of functionality; a product's features should dictate and be closely linked with its function. The philosophy is captured by the aphorism, "form follows function."<sup>161</sup> Non-functional, strictly ornamental flourishes—such as were common on 1950s automobiles or Victorian buildings—are out, and streamlined simple and functional designs are in.<sup>162</sup> The fact that many modern designers tend to emphasize the marriage of form and function makes it harder for them to obtain legal protection for their designs under current U.S. law because the functional and artistic aspects of the design cannot easily be separated.<sup>163</sup>

<sup>159</sup> See Reichman, *supra* note 26, at 1161 (describing how the German copyright regime protects some exceptional designs but rejects most industrial design as lacking the requisite degree of artistic intensity or value).

<sup>160</sup> Robert Denicola, *Applied Art and Industrial Design: A Suggested Approach to Copyright in Useful Articles*, 67 MINN. L. REV. 707, 718 (1983).

<sup>161</sup> Afori, *supra* note 15, at 1122.

<sup>162</sup> See *Project Runway: Sew Much Pressure* (Lifetime Network Television broadcast Apr. 1, 2010), available at <http://www.youtube.com/watch?v=aq2UswGQHSL8> (the catchphrase of the popular Bravo TV series (now on Lifetime Network) *Project Runway* is "[i]n fashion, one day you're in, and the next day you're out").

<sup>163</sup> Afori, *supra* note 15, at 1122.

In trying to solve the anticompetitive effect of the overprotection of functional features, Robert Denicola proposed a sliding scale between art and utility. His view was that the more a work is influenced by utilitarian considerations the less likely it ought to be to attract copyright protection.<sup>164</sup> In this way, mundane objects in which little design is evident will not attract protection but rather more creative objects will be protectable. This approach does not work well for functionalist design because in a functionalist design the functional and artistic portions of the design cannot be easily conceptually separated, and so, under Denicola's test, the design will not be protectable. Denicola's test was adopted by the Second Circuit in a case concerning a bike rack where the designer of the rack had reworked a sinuous metal sculpture to function as a bike rack.<sup>165</sup> The court held the rack design, although it had received much praise and won design awards, was not protectable under copyright law because the form was not conceptually separate from the function.<sup>166</sup> If all functional features are excluded from legal protection, then it is difficult to create a design law that will protect functionalist design.

#### 4. *The Intersection between Design and Copyright Law*

Unless all designs are protected by copyright law (the 'unity of art' doctrine), the legal system must address the intersection between the laws protecting industrial design and art. At least three approaches are possible. The legal system may cumulate protections for industrial design so that all and any rights are available to design and it does not matter whether the creative work is fine art or functional design.<sup>167</sup> One disadvantage of this type of system is that there may be little or no incentive to apply for a shorter duration of design protection, if the longer protection of copyright law will arise automatically on the creation of the artistic work. EU law specifically endorses the cumulation of all rights that EU member states' laws provide for design in order to avoid conflict between the different legal schemes of protection.

A second approach is non-cumulation; here, the legal system provides for the protection of some original industrial designs and denies copyright protection to those that fail or are unable to obtain design protection.<sup>168</sup> This approach will leave many designs unprotected. It is basically the current U.S. approach. There remains an area where even this approach will intersect with copyright and that is art later applied to a functional object, or applied art. If a design is artistically creative and separable from the functional aspects of a product it will constitute applied art and

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<sup>164</sup> See Denicola, *supra* note 140, at 739–743 (copyright “ultimately should depend on the extent to which the work reflects artistic expression uninhibited by functional considerations”).

<sup>165</sup> *Brandir Int'l Inc. v. Cascade Pac. Lumber* 834 F.2d 1142, 1145 (2d Cir. 1987).

<sup>166</sup> *Id.* at 1146–7.

<sup>167</sup> Council Regulation 6/2002, 2001 O.J. (L. 3/1) 1,4 (EC).

<sup>168</sup> Reichman, *supra* note 24, at 388–89.

protection will be available to the art under copyright law with its long duration and lack of formalities even though it is used in industry.

The third approach is partial cumulation. A design law protects all objects of original industrial design and copyright law protects art.<sup>169</sup> Copyright protection is not denied to original design but some test is used to keep most industrial design out of copyright protection. In her recent article, Professor Afori proposes a partial cumulation type approach which she calls “unity of design.”<sup>170</sup> Afori suggests that the borderline between copyright and design law is currently in the wrong place; it requires courts to determine whether an object is art or not and so protectable by copyright, which is a subjective judgment.<sup>171</sup> If industrial design was fully protected by a design law rather than copyright law, courts would not have to consider the question of whether an industrial design was art.<sup>172</sup> At the lower end of the design spectrum, design law would protect all and any original industrial design whether artistic or functional.<sup>173</sup> At the higher end of the spectrum, applied art, which might, in some legal systems, be protectable by copyright, would be protected by design law if it was manufactured on an industrial scale.<sup>174</sup> Essentially, Afori’s test as to whether an object is protectable by design law or copyright would shift to the industrial use of the object rather than focusing on its degree of artistic content. The merit of this approach is that the determination of how the design is used is more objective and easier to apply than the more subjective assessment of whether a design contains conceptually separable artistic elements.

Most commentators argue that there is no international consensus on these legal principles on which design should be protected.<sup>175</sup> In the next section the history of design protection internationally is reviewed to demonstrate that, while there is not complete agreement, there is a growing consensus on the important questions of what legal regime is best suited to protecting industrial design and what level of protection it should provide.

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<sup>169</sup> Afori, *supra* note 15, at 1108–09.

<sup>170</sup> *Id.* at 1158–60.

<sup>171</sup> *Id.*

<sup>172</sup> *Id.* at 1159.

<sup>173</sup> *Id.*

<sup>174</sup> *Id.* at 1160–62.

<sup>175</sup> Afori, *supra* note 15, at 1128.

## B. A Brief Chronology of the Legal Recognition of Industrial Design Rights Internationally

### 1. *International Recognition of Industrial Design Rights*

Patent rights were subject to the first international intellectual property treaty in 1883,<sup>176</sup> followed by copyrights in 1886.<sup>177</sup> Initially, these treaties attempted to define and harmonize the protection accorded to useful inventions and creative works respectively.<sup>178</sup> The newer field of industrial design did not figure into legal treaties or discussions until the 1920s at the earliest.<sup>179</sup>

There are now four agreements and two organizations at the international level that are relevant to the protection of industrial design. None of them provide a completely agreed-upon international standard for the protection of design and their history illustrates the continuing conflict on many issues related to industrial design. However, despite the confusion and points of disagreement, some tentative areas of emerging harmonization can be divined from the international efforts to protect industrial design.

#### a. The Hague Agreement

In 1925, The Hague Arrangement Concerning the International Registrations of Industrial Designs was the first treaty to specifically focus on the international protection of industrial design rights. The Hague Arrangement is not particularly important since it does not attempt to harmonize design laws or set any standards for the legal protection of industrial design. Its aim was to simplify the international legal procedure for obtaining protection for industrial designs by creating a centralized international deposit of industrial designs. This change would make it easier to register designs in multiple countries.<sup>180</sup> The original agreement had few contracting parties.<sup>181</sup> There have been three revisions to the Hague Arrangement and the treaty is now administered by the World Intellectual Property Organization (WIPO).<sup>182</sup> Even after three revisions, the Hague Arrangement has not added any clear theory of protection to the law of industrial design.<sup>183</sup> Although the revisions

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<sup>176</sup> Paris Convention for the Protection of Industrial Property of 1883 art. 4, July 4, 1967, 21 U.S.T. 1583 [hereinafter Paris Convention].

<sup>177</sup> Berne Convention for the Protection of Literary and Artistic Works art. 6bis, Sept. 9, 1886, *revised* July 24, 1971, *amended* Sept. 29, 1979, 828 U.N.T.S. 221 [hereinafter Berne Convention].

<sup>178</sup> Afori, *supra* note 15, at 1129.

<sup>179</sup> The Hague Arrangement on the International Deposit of Industrial Designs or Models, November 6, 1925, 74 L.N.T.S. 179 [hereinafter Hague Agreement].

<sup>180</sup> *The Hague System: A Useful Tool for Corporations & Individual Designers Alike*, WIPO MAGAZINE (May 2005), available at [http://www.wipo.int/wipo\\_magazine/en/2005/03/article\\_0006.html](http://www.wipo.int/wipo_magazine/en/2005/03/article_0006.html) (last visited Feb. 21, 2012).

<sup>181</sup> *Id.*

<sup>182</sup> *Id.*

<sup>183</sup> *Hague System for International Registration of Industrial Designs*, WIPO <http://www.wipo.int/hague/en/> (last visited Feb. 21, 2012).



have simplified procedures, membership in the Hague Agreement remains unappealing to countries—like the U.S.—which provide for a substantive review of design applications for originality, because the Hague mechanism gives countries a maximum of six months to refuse protection to a deposited design.<sup>184</sup> This short time limit clearly does not envisage a patent approach to protection but the agreement provides no harmonized standards for the type of protection members of Hague Arrangement should provide to industrial design.

b. The Berne Convention Recognizes Applied Art

The Berne Convention for the Protection of Literary and Artistic Works, signed in 1886 by a group of countries wishing to enshrine certain basic principles of copyright protection, has protected applied art since 1948.<sup>185</sup> For much of the earlier years of the Berne Convention, there was an ongoing debate about whether or not to include applied art (which could include some industrial design) as copyrightable subject matter.<sup>186</sup> The Berne Union countries first agreed to protect applied art as a separate category of work akin to copyright at the Brussels Conference to revise the convention in 1948.<sup>187</sup>

The French delegates managed to obtain the agreement of the other members on the concept that designers of all ornaments, whatever their merit or purpose, should be entitled to legal protection.<sup>188</sup> The delegates of many other countries including Italy and Germany were wary of this argument.<sup>189</sup> Their view was that since industrial design concerned industrial processes rather than art for art's sake, it would be anticompetitive to provide industrial designers with the long period of copyright protection afforded to creative works.<sup>190</sup> Ultimately, since neither side could agree, an awkward compromise was reached. They agreed to add works of applied art to the protectable subject matter of the Convention, but each country retained the right to define applied art, to limit the duration of copyright in applied art, and also to distinguish between protectable applied art and a category called “designs and models”—which could be subject to a more restrictive industrial property regime.<sup>191</sup>

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<sup>184</sup> *Common Regulations Under the 1999 Act and the 1960 Act of the Hague Agreement*, Rule 18: Notification of Refusal, WIPO, available at [http://www.wipo.int/export/sites/www/hague/en/legal\\_texts/pdf/hague\\_common\\_regulations.pdf](http://www.wipo.int/export/sites/www/hague/en/legal_texts/pdf/hague_common_regulations.pdf).

<sup>185</sup> Reichman, *supra* note 26, at 1161–1164.

<sup>186</sup> *Id.* at 1145–46.

<sup>187</sup> *Id.* at 1149–64.

<sup>188</sup> *Id.* at 1156–58.

<sup>189</sup> *Id.* at 1161.

<sup>190</sup> *Id.*

<sup>191</sup> Reichman, *supra* note 26, at 1162.

Thus, although it was agreed that applied art should be subject to copyright protection, the 1948 Brussels Conference did not require countries to protect all industrial design under copyright law. Countries could choose to write *sui generis* design laws to protect industrial design, and even if they used the copyright scheme as a basis for design protection, these countries could still limit the duration of protection of applied art as opposed to fine art.<sup>192</sup> The change to Berne in 1948 was probably the high point of the “unity of art” approach to design protection. This movement lost momentum after 1948—both inside and outside the Union—as countries sought to pass *sui generis* laws and protect design as a type of industrial property.<sup>193</sup> This trend was a rejection of the full copyright approach and perhaps a recognition of the growing importance of industrial designs with the need for more short-term protection.

c. The Paris Convention Adopts Industrial Design Article

In 1958, the Paris Convention on Industrial Property also extended its provisions to cover industrial design. It adopted a new article at its Lisbon Conference that provided that all member states should protect “industrial designs,” but, as at the 1948 Brussels Conference, it was agreed that each state could determine the nature, subject matter and conditions of such protection.<sup>194</sup> The tension between design as industrial or creative property remained unresolved. Two international conventions determined to add industrial design protection to their terms, but they specified neither the type of protection regime nor the standards for protection amongst copyright and industrial design.

d. The World Intellectual Property Organization

The next step in the protection of industrial design came in the 1960s when the World Intellectual Property Organization (WIPO) was created.<sup>195</sup> A worldwide effort also started to develop a model design law or agreed set of principles.<sup>196</sup> At this point, it seemed that many countries were interested in creating specific design protection laws. However, the reform movement fizzled out without setting a clear international standard.<sup>197</sup>

e. World Trade Organization

About thirty years later, in 1994, the Trade Related Aspects of Intellectual Property Agreement (TRIPS) was adopted, after nearly seven years of talks, as one

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<sup>192</sup> *Id.* at 1161–62.

<sup>193</sup> *Id.* at 1163–64.

<sup>194</sup> Paris Convention, *supra* note 176, at 1639.

<sup>195</sup> Convention Establishing the World Intellectual Property Organization, July 14, 1967, 2 U.S.T.1749, available at [http://www.wipo.int/export/sites/www/treaties/en/convention/pdf/trtdocs\\_wo029.pdf](http://www.wipo.int/export/sites/www/treaties/en/convention/pdf/trtdocs_wo029.pdf).

<sup>196</sup> Reichman, *supra* note 26, at 1165.

<sup>197</sup> *Id.* at 1166–67.

of the General Agreement on Tariffs and Trades (GATT) sub-agreements.<sup>198</sup> Its purpose was to ensure the effective appropriate enforcement of IP rights worldwide.<sup>199</sup> TRIPS is an important addition to the international agreements that contain provisions on industrial design because it covers the largest number of countries<sup>200</sup> and it is the first agreement to provide some direction on the type of protection. Article 25 of TRIPS provides for “the protection of independently created industrial designs that are new or original.”<sup>201</sup> It requires member countries to protect these “new or original” designs through either industrial design law or copyright law.<sup>202</sup> Once again, the agreement does not clearly mandate a particular standard for protectable subject matter by using both the words “new” and “original.” However, TRIPS is the first treaty to be more specific in terms of minimum standards for the type and duration of protection. It requires designs to be protected from copying for a minimum of ten years.<sup>203</sup> The requirement for protection against copying appears to recognize that copying is the main problem for designers, and a copyright-type approach, focusing on protecting originality rather than novelty, is the most relevant for industrial design. The minimum term requirement is much less than the full copyright term, suggesting a recognition of the industrial application of design and a rejection of the full copyright approach.

However, under TRIPS, members essentially remain free to determine the subject matter and type of design protection—as long as it covers copying—and the method of implementation.<sup>204</sup> When President Clinton signed legislation implementing TRIPS into U.S. law, he stated that existing U.S. law already protected industrial design sufficiently to comply with TRIPS.<sup>205</sup> Design patents do protect some novel designs for fourteen years.<sup>206</sup> The U.S. felt compelled to modify its copyright law in order to protect architecture in compliance with TRIPS, but shied away from a recognition that the current design patent approach does not in fact adequately protect all market-entry industrial design, just a narrow set of the most novel designs at the more creative end of the design spectrum.<sup>207</sup>

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<sup>198</sup> TRIPS, *supra* note 62.

<sup>199</sup> *Id.* at 1197–98.

<sup>200</sup> *Members and Observers*, WTO.org, available at [http://www.wto.org/english/thewto\\_e/whatis\\_e/tif\\_e/org6\\_e.htm](http://www.wto.org/english/thewto_e/whatis_e/tif_e/org6_e.htm) (last visited Mar. 13 2012).

<sup>201</sup> TRIPS, *supra* note 62, art. 25.

<sup>202</sup> *Id.*

<sup>203</sup> *Id.*

<sup>204</sup> *Id.*

<sup>205</sup> Frenkel, *supra* note 18, at 533.

<sup>206</sup> 35 U.S.C. § 173 (2006).

<sup>207</sup> Frenkel, *supra* note 18, at 534.

Although the Paris and Berne treaties mostly serve to illustrate the debate rather than provide assistance in terms of the principles of protection to follow,<sup>208</sup> TRIPS can be viewed as providing a clearer attempt at the international level to enunciate the principles for the protection of industrial design. The TRIPS provisions envisage that design protection should be short (like other industrial property rights) and focused mainly on protecting designs against copying (like copyright law). Thus, the TRIPS provisions are evidence that a modified copyright approach to the protection of design is becoming the international standard. Since TRIPS, further attempts to harmonize industrial design laws have occurred in the European Union. These attempts, reviewed in the next section, also suggest that the emerging consensus on the protection of industrial design is in favor of an approach based on modified copyright principles focusing on short term protection against copying and that the U.S. approach to design protection is increasingly anomalous.

### C. The European Union Attempts to Harmonize Design Protection

#### 1. *The Difficulty of Harmonizing European Design Law*

Until recently, European law was characterized by the confusion and variety of legal schemes of protection that have typified design law. Within Europe, all schools of design protection theory were represented, from the French “unity of art” doctrine to the Italian separability doctrine of *inscindibili*.<sup>209</sup> All of the long-standing members of the European Union were also long-standing members of the Berne Union and the Paris Convention, and thus, were part of the discussions and messy compromises of 1948 and 1958. As a result of the failure of these agreements to require specific standards, the laws of EU member states on design remained varied; and to add to the confusion, the positions of some countries on industrial design changed over time.<sup>210</sup>

In 1977, a subcommittee of the European Community’s Coordinating Committee for Harmonizing the Law of Industrial Property met to consider reforming design protection at the European level; however, no further action was taken on the report produced by the subcommittee for another sixteen years.<sup>211</sup> In the 1990s, the EU once again turned its attention to the process of harmonizing the protection provided to industrial design with more success perhaps because of a growing

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<sup>208</sup> Afori, *supra* note 15, at 1128.

<sup>209</sup> See Mario Franzosi, *Design Protection Italian Style*, 1 J. OF INTELL. PROP. LAW & PRACTICE 599 (2006) (describing *inscindibilita*—the old Italian position denying copyright protection to works of design—as too harsh).

<sup>210</sup> See Afori, *supra* note 15, at 1173 (noting that English law has moved from a patent to a modified copyright approach to the protection of design). See also, Reichman, *supra* note 24, at 388 (discussing how there is a cyclical pattern that swings from over-protection of industrial design to underprotection).

<sup>211</sup> See Proposal for a European Parliament and Council Directive on the legal protection of designs, COM (1993) 344 final (Dec. 3, 1993) (providing a comprehensive framework for the EU to protect design).

recognition of the importance of design-intensive industries to the economy.<sup>212</sup> The first EU action in 1998 was to pass a directive requiring all EU members to provide a registered right to exclusive use of the design renewable in five year increments for up to twenty-five years.<sup>213</sup> More importantly, in 2002 came the passage of a regulation containing two pan-European design protection rights administered at the European level.<sup>214</sup> The first, the registered design right, was essentially the same as the right created by the earlier directive at the level of the member states.<sup>215</sup> The second, the unregistered design right, provided a short-term (three-years) copyright-like right to prevent the copying of a design.<sup>216</sup> This right required no registration, but arose automatically on the first marketing of the design in the EU.<sup>217</sup> The Design Regulation was criticized by some as falling short of a complete harmonization of European law since it left in place most national rights and failed to address some important issues like the position of spare parts.<sup>218</sup>

However, the unregistered design right the Regulation creates is a completely new type of right and it has achieved some measure of standardization of European law. Aspects of the unregistered design right are instructive for U.S. law on design, particularly the standard of originality required for protection, the actions which constitute infringement, and the fact that no formalities are required for its creation.

## 2. *The Community Design Directive*

The Design Directive seeks to “provide[] for the establishment of an internal market characterized by the abolition of obstacles to the free movement of goods and also for the institution of a system ensuring that competition in the internal market is not distorted.”<sup>219</sup> It cleared up several differences in the laws of different European countries by determining that design law should not protect “features dictated solely by a technical function,” thus hampering technological innovation.<sup>220</sup> It defined a protectable design as one that produced on the informed user, “a different overall impression”<sup>221</sup> to other designs, thus providing a guide for the standard of

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<sup>212</sup> See *id.* at pmb1.3 (noting that the differences in design protection regimes across EU member states negatively impacts the market).

<sup>213</sup> Council Directive 98/71, (1), 1998 O.J. (L 289) 28 (EC) [hereinafter Design Directive].

<sup>214</sup> Council Regulation 6/2002, 2002 O.J (L 3/1) [hereinafter Design Regulation].

<sup>215</sup> Compare Design Directive, *supra* note 213, art. 9 & 10 (stipulating that the term of protection is five years, renewable in five year increments “up to a total term of 25 years”), with Design Regulation, *supra* note 214, at L 3/5 (stipulating the same).

<sup>216</sup> See Design Regulation, *supra* note 214, at L3/5 (“A design which meets the requirements under Section 1 shall be protected by an unregistered Community design for a period of three years as from the date on which the design was first made available to the public within the Community.”).

<sup>217</sup> *Id.*

<sup>218</sup> Design Directive, *supra* note 213, at L289/29.

<sup>219</sup> *Id.* at L289/28.

<sup>220</sup> *Id.* at L289/29.

<sup>221</sup> *Id.* at L289/31.

originality required for protection. It established the important principle of cumulation of different IP protections; this meant that countries that had both copyright and specific design protection legislation protecting designs did not have to choose between the different legal regimes for the protection of industrial design.<sup>222</sup> Thus, although the directive still left European countries with several types and levels of design protection, and purposely avoided thorny issues like whether to prohibit the copying of spare parts,<sup>223</sup> it still made several important contributions to the harmonization of design law in Europe. If other EU directives relating to copyright are considered, an even clearer pattern emerges as to the direction the EU is taking with harmonization in this field.<sup>224</sup>

### 3. *The Community Design Regulation*

In 2001, in the Design Regulation, the EU tackled more of the continued, potentially market-distorting, substantial differences between the laws of some EU member states on design.<sup>225</sup> The Design Regulation introduced a scheme of design protection at the European level which allowed European designers to bypass messy and confusing individual national laws, and protect designs either through one Europe-wide registration or an unregistered, short-term, copyright-like right which attached to a design from first marketing in the EU.<sup>226</sup>

The Design Regulation mirrored the standards of originality in the Design Directive, protecting all designs that are “new” and have “individual character.”<sup>227</sup> The standard is similar to, although not as broad as, the U.S. copyright standard of originality. To be protected, a design must not be identical to, or produce the same overall impression as, one already on the market, but it is not required to be new in the patent sense. The EU has clearly chosen a modified copyright approach to the protection of design which is in line with the direction already taken at the international level in TRIPS.

#### a. Unregistered Design Rights

The real innovation of the Design Regulation is the introduction of the unregistered design right. Unregistered designs receive three-years of copyright-like

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<sup>222</sup> *Id.* at L289/28.

<sup>223</sup> *Id.* at L289/29.

<sup>224</sup> See generally Bernt Hugenholtz et al., *The Recasting of Copyright & Related Rights for the Knowledge Economy* (2006), available at [http://ec.europa.eu/internal\\_market/copyright/docs/studies/etd2005imd195recast\\_report\\_2006.pdf](http://ec.europa.eu/internal_market/copyright/docs/studies/etd2005imd195recast_report_2006.pdf) (assessing the inconsistencies in copyright regimes across the EU and the steps it has taken to harmonize the field).

<sup>225</sup> Design Regulation, *supra* note 214, at L3/1.

<sup>226</sup> *Id.* at L 3/7.

<sup>227</sup> *Id.* at L 3/4. A design is considered “new” if no identical design has been made available to the public, and designs are deemed to be identical if their features differ only in immaterial details. A design has ‘individual character’ if the overall impression the design produces on the informed user differs from the overall impression produced on such a user by any design which has been made available to the public.

protection from the date the design was first made public within the EU.<sup>228</sup> This protection is based on the U.K. unregistered design right, introduced by the Copyright Designs and Patents Act 1988,<sup>229</sup> and was clearly a compromise designed to provide some minimal level of protection that does not require registration in those EU countries that do not provide for the protection of design through copyright law. In these countries, if a new design is not registered, then it is unprotected because it will receive no protection from copyright laws.

Designers in countries which required registration for the protection of industrial design were clearly at a disadvantage in protecting their work by comparison with designers from countries like France who can automatically obtain lengthy copyright protection for many of their designs. It can be argued that the unregistered design right simply defers the problem of lack of harmonization of European law for a few years, after which discrepancies in the duration of legal protection provided to different types of design reappear. For example, in France, many designs will be protected by copyright (life plus seventy years), while in the U.K. or Italy, where industrial designs are generally only protectable by registration, protection for the same design will lapse once the three year unregistered design right ends. EU law explicitly makes rights cumulative so it does not shut off the copyright route to protection in countries where it is available. However, the unregistered design rights are still helpful because they provide all designers with the type of short term protection most beneficial to protecting the first-to-market advantage for a short period. In many design-intensive industries, fashions change quickly and the short term of protection provided by the unregistered design right is sufficient to provide a tool to fight counterfeiters, thus encouraging innovation in design.

One major difference between the European unregistered design right and the original U.K. law is that the U.K. right provides for a much longer (up to fifteen years) term of protection<sup>230</sup> during which “[t]he owner of design right in a design has the exclusive right to reproduce the design for commercial purposes”.<sup>231</sup> The British unregistered design right was introduced to deal with the non-cumulation problem in the U.K. British designs could be protected by the patent-like protection of the registered design law, but there was a possible entrance into copyright law for even the most functional of designs because of the ability to claim copyright infringement of two dimensional drawings by a three dimensional object.<sup>232</sup>

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<sup>228</sup> *Id.* at L 3/5.

<sup>229</sup> Copyright Designs and Patents Act, 1988, c. 48, § 220 (Eng.).

<sup>230</sup> *Id.* § 216.

<sup>231</sup> *Id.* § 226.

<sup>232</sup> *British Leyland Motor Corp. v. Armstrong Patents Co.*, [1986] A.C. 577 (U.K.) (allowing copyright protection in a two dimensional drawing to prohibit the creation of a three dimensional design from the drawing).

This enabled designers to obtain full copyright protection for even the most utilitarian and functional designs by claiming copyright infringement of the blueprint drawing.<sup>233</sup> The unregistered design right was introduced to fix this flaw by providing a shorter copyright-like right for all original designs while at the same time shutting the door to derivative copyright protection for drawings of commercially exploited objects.<sup>234</sup> The EU unregistered design right has been introduced to provide some short term protection for all design to blunt the advantage to designers in some countries of full copyright protection for design. In the author's view, the shorter term EU unregistered design right is preferable to the U.K. unregistered design right because it restricts design innovation for a shorter period.

Under current U.S. law, there is no protection similar to the unregistered design right; while designers attempt to use the three main branches of IP law to protect their industrial designs, there are gaps left by all these rights. The problems of attempting to protect industrial design using design patent, copyright, and trademark protection under U.S. law are discussed in the next section.

### III. Legal Protections for Industrial Design under U.S. Law

In contrast to the recent legislative activity in Europe, the state of design law in the U.S. can only be described as stagnant.<sup>235</sup> Although there has been a seemingly relentless expansion of some other types of IP, such as copyrights and patents,<sup>236</sup> Congress has been reluctant to legislate a new type of protection for industrial design.<sup>237</sup> Courts have also been somewhat wary of stretching copyrights, patents, and trademarks too far beyond their intended purposes in order to protect design and so have tended to limit the level of protection available through traditional IP rights for design.<sup>238</sup> As each new type of protection has been tried by designers, it has been closed off by courts wary of blurring the lines between different types of IP and expanding protection into new areas.<sup>239</sup>

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<sup>233</sup> See Afori, *supra* note 15, at 1173 (discussing two cases in which the House of Lords found infringement through the copying of two-dimensional drawings).

<sup>234</sup> *Id.*

<sup>235</sup> See Afori, *supra* note 15, at 1107 (stating that U.S. design law is stagnant).

<sup>236</sup> See, e.g., Dana Beldiman, *Protecting the Form But Not the Function: Is U.S. Law Ready for a New Model?*, 20 SANTA CLARA COMPUTER & HIGH TECH. L.J. 529, 534 (2004) (describing the continuous expansion of IP law in the U.S.).

<sup>237</sup> *Id.* at 532.

<sup>238</sup> See, e.g., Frenkel, *supra* note 18, at 534 (asserting that courts are weary of using trademark and unfair competition law to protect design, which is why there is an increase of copyright law protecting design).

<sup>239</sup> See Beldiman, *supra* note 236, at 540 (stating that because trade dress closely borders both copyright and design patents, over-extending trade dress protection will frustrate the policy rationales of copyright and design patents).



So, although the U.S. has the world's biggest design industry,<sup>240</sup> U.S. intellectual property laws are acknowledged as some of the strongest in the world, and the enforcement of intellectual property laws—particularly those against piracy—is claimed by the DOJ to be a priority,<sup>241</sup> when it comes to the protection of industrial design there is a conceptual void. Part of the reluctance to protect industrial design can be explained by concern that such protection could be anticompetitive and might be used to restrict competition. The argument is, however, losing its force as copying by free riders becomes more and more of an economic burden on designers and the economy in general.<sup>242</sup>

The U.S. is one of the last countries to rely mainly on a patent approach for the protection of industrial design instead of a *sui generis* design law based on modified copyright principles. This has forced designers to look for creative legal strategies to protect designs, which are not or cannot be registered as design patents, or through copyright and trademark law.

#### A. U.S. Copyright, Patent and Trademark Law

##### 1. *Design Patents*

Congress has protected industrial designs through patent law since 1842.<sup>243</sup> Apparently, this came about not for any clear doctrinal reason, but because there was no central registry for copyrights at the time and the request for the protection of industrial designs originated with the Patent Office.<sup>244</sup> During that period, patent law was seen as the stronger branch of intellectual property, which was possibly another reason why it was chosen for design protection.<sup>245</sup> This state of affairs has now more or less completely reversed, with copyright having been significantly extended in terms of both duration and subject matter.<sup>246</sup> There are both conceptual and practical disadvantages with the protection of industrial designs through design patents.

The novelty required to obtain a design patent is a higher standard than copyright originality, requiring something completely new rather than merely an eye-pleasing variation of an existing product. Many designs fail to meet this standard,

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<sup>240</sup> See Moultrie & Livesey, *supra* note 38 (showing that, based on a number of metrics and described in absolute terms, the U.S. has the largest design industry on the planet).

<sup>241</sup> See DOJ REPORT, *supra* note 89, at 2 (using a number of the DOJ's achievements to demonstrate that it has made intellectual property enforcement a priority).

<sup>242</sup> See, e.g., *The Economic Impact of Counterfeiting & Piracy*, *supra* note 75, at 2 (noting generally the significant impacts of piracy and counterfeiting in a variety of areas).

<sup>243</sup> Act of Aug. 29, 1842, ch. 263, §3, 5 Stat. 543, 544 (1842) (codified as 35 U.S.C. §171 (2006)).

<sup>244</sup> See Brean, *supra* note 25, at 326–27 (noting both the difficulty of classifying product design and the fact that the Commissioner of Patents requested that patent law cover designs).

<sup>245</sup> *Id.* at 327.

<sup>246</sup> See *id.* at 330–31 (tracing the development of protection for three-dimensional objects under the Copyright Act).

even those which are arguably creative, distinguishable, and appealing to consumers.<sup>247</sup> The vast majority of new designs are not registered as design patents.<sup>248</sup>

The test for determining whether a design patent has been infringed is also strict and judicial decisions have made the law unclear. The newest iteration of the standard to determine whether a design patent has been infringed is “that a purchaser familiar with the prior art would be deceived by the similarity between the claimed and accused designs.”<sup>249</sup> This test is really quite similar to the test for trade dress infringement, essentially amounting to a customer confusion standard likely to be triggered by direct copying. Possibly, this test might encourage more use of design patents despite the conceptual problems with protecting primarily aesthetic subject matter through patent law.<sup>250</sup> However, design patents also have the practical disadvantages for designers of requiring the time-consuming substantive review of a registration which publicizes the new design proposal to potential infringers.<sup>251</sup>

Some have argued that the disclosure of the new design in the application has considerably more disadvantages for designers than inventors since designers tend to make incremental and aesthetic changes to product design which can easily be communicated to the competition for copying through the design patent application.<sup>252</sup> Minor variations, once disclosed, are easily and cheaply copied or incorporated into another’s new product. Even when design patents are obtained, courts often invalidate them because of the high standard of novelty required for patent protection.<sup>253</sup>

For a limited number of innovative designs, acquiring a design patent can be a useful step in a strategy to obtain long term monopoly protection through trademark law. However, for most designers, the time and expense of applications, together

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<sup>247</sup> *Vessel Hull Design Protection Act of 1997: Hearing on H.R. 2696 Before the H. Subcomm. On Courts and Intellectual Property*, 105th Cong. (1997) (statement of Marybeth Peters, Register of Copyrights).

<sup>248</sup> *Id.* at 556–683 (noting that even when a designer applies for a design patent the Patent and Trademark Office rejects the application roughly half the time).

<sup>249</sup> *Egyptian Goddess v. Swisa, Inc.*, 543 F.3d 665, 683 (Fed. Cir. 2008).

<sup>250</sup> *See generally* Afori, *supra* note 15, at 1122–23; Frenkel, *supra* note 18, at 555–56 (discussing the problems inherent in the fact that design patents protect ornamentation).

<sup>251</sup> William T. Fryer, *The Evolution of Market Entry Design Protection*, 21 (12) EIPR 618, 620 (1999). An application for a design patent is subject to substantive review by a patent examiner to determine if it is eligible for protection; this process takes approximately two years, and protection is not retroactive. For many areas of industrial design this length of time makes an application for a design patent unappealing - the market is often simply too fast-moving for this protection to arrive in time to help a designer fight fakes. The counterfeiters will immediately start copying the design and will in fact, probably be assisted by the details published in the application for registration.

<sup>252</sup> *See id.* (discussing the process of manufacturing ship hulls with molds).

<sup>253</sup> Frenkel, *supra* note 18, at 555.

with the strict requirement of novelty, preclude the use of design patents to protect their designs.

## 2. Copyright Law

For designers, the great benefit of copyright protection over design patent protection is that no registration or other formalities are required to obtain copyright, the protection period is long, and the required level of originality of the design is much lower than the patent law standard. However, the line between copyrightable applied art and non-copyrightable industrial design is the most important and difficult boundary in any system for the protection of industrial design. In the U.S., because of fears of the anticompetitive nature of providing long term copyright protection, the role of copyright in protecting industrial design has been almost eliminated.

### a. *Mazer v. Stein*

The U.S. Supreme Court was given the chance to consider the position of applied art under U.S. copyright law in 1954. The Copyright Office had finally put the provisions of the 1909 Act into practice and started to register copyrights in three-dimensional objects in 1949.<sup>254</sup> The issue of whether to protect three-dimensional objects as applied art when they were used in industry quickly came before the court in the *Mazer v. Stein* case.<sup>255</sup> The court ruled that a lampbase design of a statuette of a Balinese dancer was eligible for copyright protection.<sup>256</sup> Justice Reed said, “[w]e find nothing in the copyright statute to support the argument that the *intended use in industry* of an article eligible for copyright bars or invalidates its registration.”<sup>257</sup>

The *Mazer* ruling potentially put the U.S. squarely into the “unity of art” camp. It appeared to create a general protection for an article of industrial design as part of copyright law. The case explicitly made no distinction between applied and fine art.<sup>258</sup> For a time after this ruling, courts started interpreting what designs could be copyrighted very broadly.<sup>259</sup> However, efforts to revise copyright (which eventually culminated in the 1976 Act) were already under way and the Copyright Office adopted new regulations that introduced the notion of conceptual separability.

<sup>254</sup> See Beldiman *supra* note 236, at 53 (explaining the history of how the Copyright Office came to protect the forms of utilitarian objects).

<sup>255</sup> See *Mazer v. Stein*, 347 U.S. 201, 206 (1954) (“The case requires an answer . . . to an artist’s right to copyright a work of art intended to be reproduced for lamp bases.”).

<sup>256</sup> *Id.* at 217.

<sup>257</sup> *Id.* at 218 (emphasis added).

<sup>258</sup> See Reichman, *supra* note 26, at 1152 (“The Court held that the distinction between ‘fine arts’ and ‘useful works of art’ had ended with the 1909 Act’s deletion of the fine arts clause of the 1870 act.”).

<sup>259</sup> *Id.* at 1174.

b. Copyright Act of 1976

Thanks mainly to the Copyright Office position that design should be dealt with under a separate design law,<sup>260</sup> the *Mazer* rule was codified very narrowly in the Copyright Act of 1976 to take most industrial design out of copyright law. Under section 1302(4) of the 1976 Act, the *Mazer* rule is codified that if the shape of an article is “dictated solely by a utilitarian function of the article that embodies it,” the design element cannot be protected under copyright law.<sup>261</sup> This means that designs per se are not protected but pictorial, graphic, or sculptural works which are physically or conceptually separable from the design—such as a textile print or ornamental embellishment—are protectable.<sup>262</sup> This has caused much confusion as to what design is protectable, and the law is not a workable guide for designers.<sup>263</sup> Unfortunately, although numerous efforts have been made over the years, the U.S. has never actually passed the *sui generis* design law necessary to complement this narrow treatment of industrial design by copyright.<sup>264</sup>

U.S. legislative and judicial actions have therefore limited copyright law as a means to protect design, while at the same time failing to balance this limitation with a *sui generis* design law. Thus it can be argued that current U.S. law does not protect design by either of the methods (copyright or design law) envisaged by TRIPS.<sup>265</sup> The doctrine of conceptual separability is particularly problematic given the dominance of the design philosophy of functionalism (good design is dictated by the function of the object). If, as is likely given the case law and legislative action since *Mazer*, copyright law is not going to protect the majority of industrial design as applied art, then it is incumbent on Congress to give some thought to the *sui generis* design law that the Copyright Office thought was necessary over fifty years ago.<sup>266</sup>

<sup>260</sup> *Id.* at 1176.

<sup>261</sup> 17 U.S.C. § 1302(4) (2006). Under 17 U.S.C. § 101, “useful articles” are defined as “having an intrinsic utilitarian function that is not merely to portray the appearance of the article or to convey information.”

<sup>262</sup> See *Mazer*, at 218–19 (“The dichotomy of protection for the aesthetic is not beauty and utility but art for the copyright and the invention of original and ornamental design for design patents.”).

<sup>263</sup> See ROBERT C. LIND, COPYRIGHT LAW 40 (3d ed. 2006) (noting the split of authority regarding the test of conceptual separability); *Brandir Int’l, Inc. v. Cascade Pac. Lumber Co.*, 834 F.2d 1142, 1145 (2d Cir. 1987) (holding that the designer must have intended to exercise artistic judgment independent of functional influences); *Poe v. Missing Persons*, 745 F.2d 1238, 1243 (9th Cir.1984) (employing a multifactor test); *Carol Barnhart, Inc. v. Economy Cover Corp.*, 773 F.2d 411, 419 (2d Cir. 1985) (holding artistic features of the article must be superfluous or wholly unnecessary to the performance of the utilitarian function).

<sup>264</sup> Reichman, *supra* note 26, at 1171.

<sup>265</sup> See Frenkel, *supra* note 18, at 533 (disclaiming President Clinton’s assertion that legislation implementing TRIPs adequately protects industrial design).

<sup>266</sup> See Reichman, *supra* note 24, at 390 (lamenting the fact that *sui generis* design law has not been implemented).

### 3. Trademark Law Protections

#### a. Trademarks

Given the problems with design patents and copyright, some designers have turned to trademark protection for industrial design. Commentators have argued that trademark law is not the best place for protection of design: “[t]he problem is this: protection of industrial design, unless kept firmly tied to source recognition as a trademark, easily slides into an unpredictable system of monopoly awards for successful designs, uninhibited by the statutory standards of copyright law or design patent law.”<sup>267</sup> A trademark enjoys potentially perpetual protection without the need for patent novelty, or even originality under copyright law. The courts are afraid that overprotection of design through trademark law would protect functional objects and thus be anticompetitive.<sup>268</sup> The problem is that in their attempts to ensure that trademarks do not provide designers with monopolies over non-distinctive features, the courts have rendered trademarks useless for protecting market-entry designs while in some ways strengthening their use for well-established designers who can use them to monopolize particular design features.<sup>269</sup>

#### b. Trade Dress

Trademark protection is also available where a designer can show that a particular design function is a means to identify the origin of the goods.<sup>270</sup> Only distinctive and non-functional elements of a design are protected. Successive Supreme Court decisions have made clear that the purpose of trademark law is to protect consumers from confusion and not to protect designers from would-be innovators.

In *Wal-Mart v. Samara*, the Supreme Court held that clothing designs that are “inherently source identifying” can ordinarily be protected with design patents (an assertion that is highly debatable because clothing is unlikely to reach the design patent standard of inventiveness).<sup>271</sup> Thus, in order to avoid overlapping protection the court held that a design must acquire some secondary meaning to attract protection as a trademark.<sup>272</sup>

In Justice Scalia’s opinion, competition would be deterred if a product design was entitled to protection without a showing that it had acquired secondary mean-

<sup>267</sup> Ralph S. Brown, *Copyright and Its Upstart Cousins: Privacy, Publicity, Unfair Competition*, 33 J. COPYRIGHT SOC’Y U.S.A. 301, 309 (1986) (transcript of the Sixteenth Donald C. Brace Memorial Lecture).

<sup>268</sup> See Saidman, *supra* note 69, at 304–306 (discussing the Supreme Court’s efforts to roll back trade dress protection in *Wal-Mart* and *TraFFix*).

<sup>269</sup> *Id.* at 305.

<sup>270</sup> See Afori, *supra* note 15, at 1124 (“[T]he design must function as a means to identify the origin of goods.”).

<sup>271</sup> *Wal-Mart Stores, Inc. v. Samara Bros., Inc.*, 529 U.S. 205, 214 (2000).

<sup>272</sup> *Id.* at 216.

ing.<sup>273</sup> In other words, the designer must prove that the primary importance of the clothing design is to identify the source of the product.<sup>274</sup>

Samara alleged that Wal-Mart had copied its seersucker children's clothes designs.<sup>275</sup> The Supreme Court held that the design of the clothing had not acquired the necessary secondary meaning for it to function as a source identifier, such that a consumer could recognize from looking at the clothing where it came from, and thus refrained from providing Samara with a remedy against Wal-Mart for the copying of its line of clothing.<sup>276</sup> Samara would have been better off with some limited type of protection against direct copying of its clothing (which Wal-Mart admitted). It did not really require a perpetual trademark monopoly, but a short-term advantage for its innovative design work before others could copy it would have enabled Samara to prevent Wal-Mart from essentially pirating its designs immediately after it produced them and destroying Samara's first-to-market advantage.

The Samara decision effectively prevents designers from using trade dress to protect new market-entry design because it will not have acquired secondary meaning. Obtaining trade dress protection is also problematic for designers because design aspects that are functional will never qualify for trade dress protection. The purpose of the "functionality doctrine" is to ensure that no one can use trademark law to control useful product features.<sup>277</sup>

#### B. Laws Specific to Design Industries

U.S. designers are left with few options to protect their designs. Congress has failed to pass a *sui generis* design law, while it has also significantly limited the use of copyright to protecting design.<sup>278</sup> Judicial decisions have had the same effect for design patents<sup>279</sup> and trademarks.<sup>280</sup> Instead of a unified approach to make clear where design fits into intellectual property law, over the last twenty years there have been three particular design industries singled out for more specific legal protections.

##### 1. *Architectural Works, Semiconductors and Vessel Hulls*

Congress added "Architectural works" to the list of categories of work protected by copyright law in the Architectural Works Copyright Protection Act, to

<sup>273</sup> *Id.* at 214.

<sup>274</sup> Raustiala & Sprigman, *supra* note 65, at 1703.

<sup>275</sup> *Wal-Mart* at 208.

<sup>276</sup> *Id.* at 216.

<sup>277</sup> *Qualitex Co. v. Jacobson Products Co.*, 514 U.S. 159, 165 (1995).

<sup>278</sup> See Setliff, *supra* note 23, at 55 (discussing changes made to Copyright law industrial design).

<sup>279</sup> See Saidman, *supra* note 69, at 310 (discussing how courts have limited industrial design protection).

<sup>280</sup> *Id.* at 306.

comply with the Berne Convention.<sup>281</sup> This Act provides direct protection to building designs and blueprints. Some have argued that the U.S. also fails to protect industrial design in line with its obligations under the Berne Convention and also under TRIPS.<sup>282</sup> To head off such criticism, President Clinton specifically stated when he signed the law implementing TRIPS that U.S. law protecting design was sufficient to comply with its requirements.<sup>283</sup>

Two other industries lobbied Congress for copyright-like protection with respect to design: the semiconductor and the vessel hull industries. In 1984, Congress adopted the Semiconductor Chip Protection Act which afforded protection for “mask works,” which enable the etching of circuitry onto silicon wafers,<sup>284</sup> and in 1998 it passed The Vessel Hull Design Protection Act (VHDPA).<sup>285</sup> This act came about because the Supreme Court struck down a Florida statute protecting boat hulls on the basis of federal preemption,<sup>286</sup> and once boat designers were prevented from using state unfair competition laws to protect their designs they lobbied Congress for federal protection of boat hull designs.<sup>287</sup> The act gave boat designers copyright-like rights to “useful articles” for a period of ten years, so long as the design of the article is registered within two years of the date it was made public.<sup>288</sup> The use of the term “useful article” (in the act defined as a boat hull) suggests that Congress must have envisaged that the act could be relatively easily extended in the future to cover other articles of industrial design simply by expanding this definition to include all articles of industrial manufacture.

Under the VHDPA, a hull design needs to be “original” in order to be registered and protected by copyright. Original design is defined as providing a “distinguishable variation over prior work pertaining to similar articles which is more than

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<sup>281</sup> Architectural Works Copyright Protection Act of 1990, Pub. L. No. 101-650, §§ 701–06, 104 Stat. 5089 (codified in scattered sections of 17 U.S.C.).

<sup>282</sup> See, e.g., Shelley C. Sackel, *Art is in the Eye of the Beholder: A Recommendation for Tailoring Design Piracy Legislation to Protect Fashion Design and the Public Domain*, 35 AIPLA Q. J. 473, 486–87 (2007) (noting that, unlike other signatories of the Berne Convention and TRIPS, the U.S. has not provided protection for fashion designs).

<sup>283</sup> Message from the President of the United States, Transmitting the Uruguay Round Table Agreements, Texts of Agreements Implementing Bill, Statement of Administrative Action and Required Supporting Statements 1–2 (1994) (noting the “protection currently available under U.S. patent and copyright law meets the requirements of these articles.”).

<sup>284</sup> Semiconductor Chip Protection Act of 1984, § 301, 98 Stat. 3347 (2006) (codified at 17 U.S.C. §§ 901–14).

<sup>285</sup> Vessel Hull Design Protection Act, §§501–02, 112 Stat. 2860 (2006) (codified at 17 U.S.C. §§ 1301–32).

<sup>286</sup> *Bonito Boats v. Thunder Craft Boats Inc.*, 489 U.S. 141, 159 (1989).

<sup>287</sup> Response to Copyright, Trademark and Patent Office Request for Comments on the Vessel Hull Design Protection Act submitted by William T. Fryer III (March 18, 2003).

<sup>288</sup> 17 U.S.C. § 1310.

merely trivial and has not been copied from another source.”<sup>289</sup> There are similarities between the VHDPDA and the European registered design right in terms of originality and infringement requirements. Once the design is registered, the owner has the exclusive right to make or import hulls which incorporate the protected design for a period of ten years.<sup>290</sup> However, there are differences as well. The EU law provides different levels and longer protection (up to a total of twenty-five years), and is not limited to one industry.

## 2. Proposed Legal Protections for Fashion Design

The CFDA started first to actively protect fashion design using litigation.<sup>291</sup> Next, they joined boat designers and pushed for new legislation to protect their rights. This action followed the long U.S. tradition of allowing special interest lobbyists to direct copyright legislation reform.<sup>292</sup>

The fashion lobby has proposed at least three design bills (the fashion bills) over the last few years, most recently with the reintroduction of the IDPPPA as H.R. 2511 in July, 2011.<sup>293</sup> Each bill uses the VHDPDA as a framework to expand protection to fashion designs as well as boat hulls. Under the most recent version of the fashion bill, the protection for boat hulls would be extended to “apparel,” defined as clothing and accessories.<sup>294</sup> This narrow definition allows the CFDA to argue that its extension of current law is modest, and that it seeks only to protect its members from counterfeit goods because the law only protects fashion designs.<sup>295</sup>

The test of originality in the proposed law is similar to the VHDPDA. It requires that the design “provides a distinguishable variation over prior work pertaining to similar articles which is more than merely trivial and has not been copied from another source.”<sup>296</sup> It continues, “[t]he presence or absence of a particular color or colors or of a pictorial or graphic work imprinted on fabric shall not be

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<sup>289</sup> 17 U.S.C. § 1301(b)(1).

<sup>290</sup> 17 U.S.C. § 1305.

<sup>291</sup> See Susan Scafidi, *Presidential Power, Counterfeit Chic* (March 12, 2007, 12:03 EDT), [http://www.counterfeit Chic.com/2007/03/presidential\\_power.php](http://www.counterfeit Chic.com/2007/03/presidential_power.php) (quoting CFDA president Diane Von Furstenburg in an interview with *Women’s Wear Daily* addressing counterfeiters: “Beware . . . [t]here is no money, there is nothing that will stop me from going after you.”).

<sup>292</sup> See JESSICA LITMAN, *DIGITAL COPYRIGHT, THE ART OF MAKING COPYRIGHT LAW*, 23 (2001) (commenting on how what was originally designed to include representation by those affected has turned into a powerful lobby that can block bills that do not go through its approval process).

<sup>293</sup> See *IDPPPA: Hearing on H.R. 2511 Before the Subcomm. On Intellectual Property, Competition, and the Internet of the H. Comm. on the Judiciary*, 112th Cong. (2011) (discussing testimony of the proposed bill).

<sup>294</sup> Blackmon, *supra* note 65, at 134.

<sup>295</sup> See H.R. 5055 Hearings, *supra* note 8 (applauding proponents of the legislation for seeking a modest term of protection that is appropriate for the nature of fashion design).

<sup>296</sup> 17 U.S.C. § 1301 (b)(1) (2006).



considered in determining the originality of a fashion design.”<sup>297</sup> This copyright-like test potentially allows fashion designers to use the law to protect against derivative works as well as identical copies. The defenses to infringement are, that a design “is not substantially identical” to a protected work or is “the result of independent creation.”<sup>298</sup>

A central issue with the copyright-like standard is that it protects designers very broadly, thereby enabling them to prevent more than just identical copies or knock-offs of their work because the exclusive rights of a copyright owner include the right to prohibit reproduction and derivative works.<sup>299</sup> Broad protection is problematic since many legitimate designers borrow substantially from the work of others.<sup>300</sup> In the fashion business, prohibiting designs which are closely and substantially similar to the original may give too much power to well-financed and legally savvy designers who know to register their designs since design borrowing or interpretation is such accepted practice.<sup>301</sup>

The IDPPPA is the first U.S. design bill which drops registration as a prerequisite for protection. Any design fitting the bill’s originality requirement will be protected. The bill’s proponents argue that this feature will ensure the protection of new, as well as established, designers.<sup>302</sup> Removing the registration requirement opens up protection to all designers, although the bill continues to protect designers in only one industry: fashion. This ought to give pause to counterfeiters considering copying any new and original fashion design, not just those designs which have been registered.

#### IV. Redesigning U.S. Law to Properly Protect Industrial Design

##### A. The Issues

##### 1. *Design Piracy Affects All Designers*

Fashion designers have brought their concerns about knock-offs to the attention of Congress and the public.<sup>303</sup> In recent years the amount of design copying has expanded greatly worldwide and in all industries.<sup>304</sup> It is clear that fashion is

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<sup>297</sup> S. 3728, *supra* note 9, § 2(c).

<sup>298</sup> *Id.* § 2(b).

<sup>299</sup> 17 U.S.C. § 106 (2006).

<sup>300</sup> See Raustiala & Sprigman, *supra* note 65, at 1705 (discussing the problem with design patents).

<sup>301</sup> See Myers, *supra* note 68, at 80 (arguing that too wide a protection would hamper the formation of trends and damage the industry).

<sup>302</sup> See Susan Scafidi, *Introducing the Innovative Design Protection and Piracy Prevention Act, a.k.a. Fashion Copyright*, Counterfeit Chic (August 6, 2010), <http://counterfeitichic.com/2010/08/introducing-the-innovative-design-protection-and-piracy-prevention-act.html> (summarizing provisions of the IDPPA).

<sup>303</sup> H.R. 5055 *Hearings*, *supra* note 8 (prepared statement of Jeffrey Banks, Designer).

<sup>304</sup> See, e.g., *The Economic Impact of Counterfeiting and Piracy*, *supra* note 75, at 4 (discussing the expansion of copying worldwide).

not the only industry where design is important and copying is rife. Design copying affects industries from automobiles to apparel.<sup>305</sup> To protect the short-lived advantage of investing in good industrial design, all designers should be protected from direct copying by counterfeiters.

Many studies have found counterfeiting to be a major and growing problem for designers.<sup>306</sup> In their paper contending that the fashion industry does not require legal protection, Raustiala and Sprigman argue that imitation allows the fashion business to thrive.<sup>307</sup> They argue that the “low IP equilibrium” is therefore well-suited for the fashion industry because it speeds the fashion cycle and frees up designers to reinterpret trends or borrow from each other without fear of lawsuits.<sup>308</sup> This argument is specific to the highly derivative and fast-moving fashion industry and it therefore fails to make a distinction between different types of copying – specifically knock-offs or exact copies on the one hand, and substantially similar or derivative work on the other.<sup>309</sup> In many design-intensive industries there is a difference between the slavish copying of a counterfeiter and the more interpretive actions of a follower who may closely copy many elements of an earlier design, perhaps in order to sell it at a lower price point.<sup>310</sup>

## 2. Current U.S. Legal Protections for Design Lack Coherence

In the U.S., the approach to the legal protection of design has tended to be piecemeal, with specific industries lobbying for protection, but no clear general direction to the law.<sup>311</sup> There is clearly no conceptual rationale for providing legal protection for the designers of boat hulls but not for the designers of other goods, and extending the protection boat hull designers enjoy to fashion designers alone also makes little sense. While fashion is hard hit by copyists, the increasingly technologically savvy producers of knock-offs and counterfeits copy good design in all industries and lessen the incentives to invest in developing good industrial design.

Aspects of industrial design can currently be protected in the U.S. under patent, copyright, or trademark law, but none of these legal regimes are really suited

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<sup>305</sup> *Id.* at 12.

<sup>306</sup> See *The Economic Impact of Counterfeiting and Piracy*, *supra* note 75, at 5 (discussing the growing problem for designers).

<sup>307</sup> See Raustiala & Sprigman, *supra* note 65, at 1726–27 (discussing why a copy is advantageous for designers).

<sup>308</sup> *Id.*

<sup>309</sup> See Hemphill & Suk, *supra* note 65, at 1181 (pointing out that Raustiala and Sprigman’s “analysis does not distinguish close copies from other relationships between fashion designs, such as interpretation, adaptation, homage or remixing.”).

<sup>310</sup> *Id.* at 1161.

<sup>311</sup> See, e.g., Goldenberg, *supra* note 4, at 61–62 (noting that the “lack of any solid protection has led to a tangled and complex mess of quasi-protection”).

to the protection of designers from counterfeits as they focus on innovation, creativity and reputation respectively.

Design patents, although they are considered to be the main method for protecting design in the U.S, have numerous disadvantages including the practical (the application process and time and money necessary to achieve protection) and the conceptual (the requirement for an inventive step, and the non-protection of the functional aspects of design). The usefulness of design patents, if any, is limited to innovative design in which there has been substantial financial investment.

Copyright protection provides an artistic work with a very long term of protection—arguably unnecessarily—and is also anti-competitive for industrial products. Copyright also provides a far broader set of exclusive rights than are necessary for designers—or beneficial for their customers—such as the right to object to derivative work. In addition, U.S. legal tradition and the post-*Mazer* line of judicial decisions and Copyright Office policy decisions interpreting “conceptual separability” make it unlikely that copyright law can now be fashioned into a tool to protect functional industrial design.

Trademarks are likewise generally unsuitable for the purpose of protecting design, given that the focus of trademark law is the protection of the consumer from confusion and the protection of the reputation of the trademark owner, rather than the development of new designs for useful articles. Among other problems, the requirement for “secondary meaning” for the protection of trade dress means that using trade dress to protect design is rarely, if ever, going to protect market-entry designs because it takes time to acquire secondary meaning. The designs which are likely to be protected by the long duration of the trademark monopoly will be well-known designs by well-known designers.

Due to the shortcomings of the three main intellectual property rights—the unwillingness of judges to expand the scope of the different intellectual property protections, or consider an overlap of protections, and the lack of legislative action—the protection of industrial design remains a notable gap in U.S. law.

## B. Goals of a Redesign of the Law

### 1. *Balance and Limited Protection*

Since counterfeiting is a problem for society as a whole, the goal for any industrial design protection should be two-fold: to prevent knock-off producers who put no original effort into their products from benefiting from the creativity of others, while avoiding stifling the creativity that goes into advances in design. The law should attempt to achieve this balance by providing designers with as limited a protection in terms of length and breadth, as is consistent with prohibiting free-riders. The aim of the law should be to avoid the protection being used by well-established designers to perpetuate a monopoly position for longer than is necessary to recoup their initial investment.

TRIPS suggests that the law should focus mainly on providing protection from copying.<sup>312</sup> Like TRIPS, the European standard of infringement for design rights follows the approach of protecting originality, rather than novelty. European design laws prohibit exact copies while still permitting derivative work. In order to infringe a prior design, a design must create the same overall impression as the prior design.<sup>313</sup> An unregistered design right is only infringed if copying is proven.<sup>314</sup>

The IDPPPA is an improvement over earlier fashion lobby bills in that it follows the more recent logic of design law internationally by providing a limited protection against copying only. It defines infringement narrowly as a “substantially identical” design and provides an originality standard that protects only designs which “provide a unique, distinguishable, nontrivial and non-utilitarian variation over prior designs.”<sup>315</sup> It appears that fashion lobbyists have listened to the criticisms that their earlier bills overprotected designers and could be used to insulate them from legitimate competition as well as prohibiting counterfeiting. There is a question as to exactly how the new standards of infringement and originality in this bill, which are narrower than the copyright standard and use unfamiliar language, will be interpreted by courts. This short-term uncertainty about what type of designs will be protected and what constitutes counterfeiting is an inconvenience but should not dissuade Congress from protecting design.<sup>316</sup>

Commentators, like Raustiala and Sprigman (who spoke to the Subcommittee on the recent bill),<sup>317</sup> express concerns that any additional legal protections against copying would upset the “low-IP equilibrium” that they argue functions so well in the fashion business. As noted, observation of the more legally protected fashion industry in Europe does not appear to entirely bear out their concern.<sup>318</sup> Although it is obviously hard to measure creativity, it is also noteworthy that the cheap chic fashion retailers in Europe employ designers, unlike similar U.S. chains (like Forever 21).<sup>319</sup> The European retailers seem to have perfected an art in taking a high-end design and “reinterpreting” it for mass-market sale, producing it on a large scale, and having a supply chain that gets the new look into the stores very quickly.

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<sup>312</sup> See TRIPS, *supra* note 62 (establishing that the IP regimes of member states should allow the owner of a protected industrial design “to prevent third parties not having the owner’s consent from making, selling or importing articles bearing or embodying a design which is a copy, or substantially a copy, of the protected design.”).

<sup>313</sup> Council Regulation 6/2002, 10(1) 2002 O.J. (L3/5).

<sup>314</sup> *Id.* art 19 (2).

<sup>315</sup> S. 3728, *supra* note 9, § 2(a)(2).

<sup>316</sup> See Monseau, *supra* note 63, at 51–55 (discussing criticisms of the design bills including S. 3728).

<sup>317</sup> IDPPPA: *Hearing on H.R. 2511 Before the Subcomm. On Intellectual Property, Competition, and the Internet of the H. Comm. on the Judiciary*, 112th Cong. (2011) at 74–78.

<sup>318</sup> See Myers, *supra* note 68, at 78 (“[T]he comparison between the U.S. and the U.K. suggests that IP protection for fashion design is mildly beneficial to the industry and to consumers.”).

<sup>319</sup> *Id.* at 67.

European high-end fashion designers also seem less litigious—perhaps realizing that litigation is not always beneficial to their brand<sup>320</sup>—instead relying on design strategies, like making their work difficult to copy.<sup>321</sup>

The lack of protection provided by current U.S. legislation and the growing problem of counterfeiting have together persuaded many observers that legislation is needed to protect all industrial design.<sup>322</sup> IDPPPA has taken many of the criticisms about the broad reach of earlier fashion bills into account. The addition of a definition of infringement and standard of originality tailored very specifically to prohibiting “substantially identical” copies of “unique, distinguishable, nontrivial and non-utilitarian” designs focuses this bill more clearly on protecting originality in designs rather than limiting competition, but the limited focus on one industry is retained.

### 2. *No Registration Requirement*

IDPPPA is the first U.S. bill to drop the registration requirement for protecting design. Registration is a formal step requiring knowledge of the law and—in all likelihood—the need to retain an attorney. There are significant advantages to avoiding a registration scheme.<sup>323</sup> Most designers keep design drawings. An organized and dated design portfolio would provide sufficient evidence to prove independent creation and ownership of a particular design. IDPPPA is a great improvement over earlier design bills in providing a right that arises automatically on first sale without the need for a formal application because it puts counterfeiters on notice that they risk legal liability if they copy any new industrial design. The bill remains too narrow in that it just protects designers in one industry—fashion.

### 3. *Flexible Types of Protection*

There are different levels of creativity and financial investment in different design industries. This is recognized in the European law by the provision of two different types of protection to be chosen by designers in order to suit the size of their investments in the design. Two levels of legal protection to suit the investment in design could also be achieved quite easily under U.S. law. Under current U.S. law, some more novel industrial designs are able to obtain protection under design patent law, but as pointed out by those opposed to protection for fashion designers,

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<sup>320</sup> *Id.* at 76.

<sup>321</sup> *See id.* (noting that Balenciaga, a high-end couture brand, incorporates design features that “cannot be copied inexpensively and well”).

<sup>322</sup> *See, e.g.,* Blackmon, *supra* note 65 (opining that “with the introduction of the Design Piracy Prohibition Act comes a hope that fashion designers will for once be respected and recognized, like those before them, for their creative contributions to our society”); Hemphill & Suk, *supra* note 65 (proposing a new intellectual property right that would protect industrial designs from close copies); Myers, *supra* note 68 (noting that, un-established designers and labels are especially deserving of protection because “copying stymies their efforts to build a brand”).

<sup>323</sup> *See* Monseau, *supra* note 63, at 70 (discussing why the benefits of registration can be realized without it).

in fast-moving industries long term protection is unnecessary and harmful. Much new industrial design is obsolete within a matter of years or even months of its creation. The differences between the investments of different designers could be dealt with by providing a short term automatic right to supplement the design protection already provided by patent law. Designers could choose which level of protection was best suited to their investments.

For many designs, a short duration of protection against copying that arises automatically on first sale would be the ideal method to safeguard investment and protect the first-to-market advantage against counterfeiters. It would balance the interests of the designer in securing protection for the investment with the interests of consumers in enabling competition among designers. For more novel or highly innovative design, the design patent would continue to be available. It would be supplemented by a short-term modified copyright-like right arising without the need for registration.

The shorter term protection for less innovative, but still original, designs is entirely lacking under U.S. law. The IDPPPA could be the vehicle to provide this protection. The registration requirement, which favored well-established designers with attorneys, has now been dropped from the bill. The standard of both infringement and originality was narrowed to avoid charges of overbroad protection of established designers. The principal remaining problem is that this bill continues the focus of all recently proposed design legislation on one industry—the fashion industry. U.S. law needs to be broadened to cover all market-entry industrial design and avoid the piecemeal approach of allowing lobbyists from one industry to write law to promote only their own interests.

#### 4. *Originality and Remedies*

It is also important to focus on the remedies available for infringement of any design right. Very strong remedies will discourage designers from recycling earlier designs, thus limiting the availability of subsequent copies of these designs to the public. For commonplace designs, this may provide short-term monopoly rights to the first designer. In their article, *Originality*, Gideon Parchomovsky and Alex Stein suggest applying the concept of property and liability rules in the copyright context.<sup>324</sup> Their suggestion is to calibrate the remedies available to copyright holders according to the level of originality in an author's work.<sup>325</sup> Parchomovsky and Stein maintain that judges already make determinations in copyright cases about the level of creativity in an author's work.<sup>326</sup>

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<sup>324</sup> Gideon Parchomovsky & Alex Stein, *Originality*, 95 VA. L. REV. 1505, 1508 (2008).

<sup>325</sup> *Id.* at 1507. A very inventive piece would be protected by a strong property right, an injunction would be available for breach, while a less creative piece would be protectable by a liability right.

<sup>326</sup> *Id.* at 1523.

I have argued that this remedy model could also be used for the protection of industrial design.<sup>327</sup> This would increase customer choice by allowing the public access, in certain cases, to several versions of a design. Designers would be able to decide whether it was worth suing to prohibit the use of their earlier design—a very inventive design would obtain injunctive relief, but where the earlier design was itself the result of copying then a damages award would be the main form of relief. This would enable designers to make decisions about whether to sue. Creativity among designers would not be stifled and designers could make informed decisions about the use of earlier designs in subsequent work.

### V. Conclusion

Design is increasingly important to global competitiveness and counterfeiting is a growing problem which harms designers and consumers all over the world. International design laws provide some evidence of a developing consensus that all original design should be protected against copying on modified copyright principles. U.S. law does not protect most design adequately with its reliance on patent law principles. The U.S. should join the majority of other jurisdictions and protect market entry design against copying for a period long enough for the designer to recoup the investment in the design. This would benefit designers of new industrial products and the consumers that use them, as well as enabling the U.S. to live up to its obligations under international treaties, particularly TRIPS. The current *sui generis* law protecting boat hull design—the VHDP—clearly envisions the possibility of protecting all industrial design by defining original designs of “useful articles.” In that act, “useful articles” are currently limited to boat hulls,<sup>328</sup> but the law could easily be applied to all new design with an expansion of the definition of “useful article.” Congress should resist the short-sighted proposals by fashion designers to merely expand the law to protect clothing and accessories, and ensure that any new law protects *all* industrial design. Congress should also avoid the inclusion of any registration requirement for short-term design protection. Design patent law already provides a longer term protection for truly inventive design. Although not without flaws, this law can be used by designers who have invested significant time and money in a novel design. Congress should now concentrate on passing a law which automatically provides a short term of protection to all market-entry design without the need for application. This would give U.S. designers two levels of protection to choose from based upon the level of their investment and the

<sup>327</sup> See Monseau, *supra* note 63, at 72. Only the most inventive design would be eligible for injunctive relief, and the infringement of more commonplace designs would result in damages awards only. This would assist design right holders, copyists and the public. It would protect creative designs more strongly than commonplace designs. Designs with a low level of creativity would still be protected but designers would not be able to prohibit others entirely from using their designs. This would enable an infringer to determine if it was financially worthwhile to copy a particular design.

<sup>328</sup> 17 U.S.C. §§ 1301–32 (2006).

originality and longevity of the design. The law could be further tempered to avoid overprotecting commonplace designs by the use of remedies calibrated to the amount of creativity in the design.

The only problem with advocating for the inclusion of all industrial design in any new design legislation is the awkward fact that, while the fashion industry in the U.S. has long argued for more protection, there appears to be no major lobbying for protection from other design industries. Does this mean that they believe that current legal protections for industrial designers in the U.S. through copyright, design patents and trademarks are, in fact, adequate?



# State Bar Section News



## Letter from the Chair

By Scott Breedlove

The 2012-2013 year is just getting underway for the Intellectual Property Law Section of the State Bar of Texas. So this is a chance to recap the last year and preview the next before you dive into this issue of the *Texas Intellectual Property Law Journal*.

Under the leadership of Past Chair Shannon Bates, we enjoyed a successful and well attended Advanced Patent Litigation Program in the Dallas area in early August. This followed another productive State Bar of Texas Annual Meeting Intellectual Property CLE program in Houston in June.

The Annual Meeting IP Section CLE was highlighted by our business lunch, which included the election of our new officers and Council members: Chair-elect Paul Morico; Vice Chair Kristin Jordan Harkins; Secretary Herb Hammond; Treasurer Marcella Watkins; Newsletter Officer Neil Chowdhury; Website Officer Matthew Jennings; and new Council members John Cone, Dyan House, and Bert Jennings.

With Steve Malin at the helm of the Section last year and pushing a website initiative, Website Officer Matt Jennings made great progress to enhance the Section's site to provide a better service to our members. (Surf the website at <http://texasbariplaw.org>.) And our Section newsletter continued its tradition of excellence under Newsletter Officer Kristin Jordan Harkins. Both the website and the newsletter provide excellent opportunities to contribute to the Section and to stay informed about Section activities, current substantive topics, and practice points.

Kristin Jordan Harkins and Paul Morico have already begun planning our Section's Advanced Intellectual Property CLE program in February 2013, and our Section's Intellectual Property CLE program at the State Bar's 2013 Annual Meeting. The planning committee members assisting Ms. Harkins and Mr. Morico

have diverse experience and in-depth knowledge of leading intellectual property issues. No doubt the selection of topics and speakers will reflect that fact.

Committees are the foundation of our Section and represent the best vehicle to get involved. Our committees include Alternative Dispute Resolution, Antitrust and Standardization, Copyright, Diversity, Electronic & Computer Law, Ethics and Unauthorized Practice, International Law, Inventors' Recognition, Litigation, Membership, Newsletter, Opinions, Patent Legislation/PTO Practice, Pro Bono Task Force, Public Relations, Section Website, Trademark Legislation/PTO Practice, Unfair Competition and Trade Secrets, and Women in IP.

I encourage you to join a committee or two and get involved. Please contact any of the committee chairs or me to join a committee.

On behalf of our Council, we invite you to join us at an upcoming CLE event and enjoy the other benefits of membership of the Section, including this outstanding *Texas Intellectual Property Law Journal*. If you have any suggestions for improving the Section or better serving our members, please contact me or any other officer or Council member.



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